Notice to Hong Kong investors: The Issuer confirms that the Notes (as defined below) are intended for purchase by Professional Investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

PUBLICATION OF OFFERING CIRCULAR AND PRICING SUPPLEMENT ON THE STOCK EXCHANGE OF HONG KONG LIMITED

交通銀行
BANK OF COMMUNICATIONS

交通銀行股份有限公司

Bank of Communications Co., Ltd.

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

(Stock Code: 03328, 4605 (Preference Share))

交通銀行股份有限公司香港分行

Bank of Communications Co., Ltd. Hong Kong Branch

(the "Issuer")

Issue of U.S.$500,000,000 Floating Rate Notes due 2026 (the "Notes") (Stock Code: 5837)

under its

U.S.$12,000,000,000 Medium Term Note Programme (the "Programme")

This announcement is issued pursuant to Rule 37.39A of the Listing Rules.

Reference is made to the notice of listing of the Notes on the Hong Kong Stock Exchange dated 30 August 2023 published by the Issuer.

The offering circular dated 7 June 2023 in relation to the Programme, the supplemental offering circular dated 23 August 2023 and the pricing supplement dated 23 August 2023 in relation to the Notes are appended to this announcement.

Hong Kong, 31 August 2023

As at the date of this announcement, the directors of the Bank are Mr. Ren Deqi, Mr. Liu Jun, Mr. Li Longcheng, Mr. Wang Linping*, Mr. Chang Baosheng*, Mr. Liao, Yi Chien David*, Mr. Chan Siu Chung*, Mr. Mu Guoxin*, Mr. Chen Junkui*, Mr. Luo Xiaopeng*, Mr. Woo Chin Wan, Raymond#, Mr. Cai Haoyi#, Mr. Shi Lei#, Mr. Zhang Xiangdong#, Ms. Li Xiaohui# and Mr. Ma Jun#.*

* *Non-executive directors*

\# *Independent non-executive directors*

Appendix 1
Offering Circular dated 7 June 2023

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OR IN CONTRAVENTION OF SUCH OTHER RESTRICTIONS AS MAY BE SPECIFIED IN THE APPLICABLE PRICING SUPPLEMENT.

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to Bank of Communications Co., Ltd. Hong Kong Branch (the "**Arranger**" and a "**Dealer**") and any additional Dealer appointed under the Programme from time to time by an Issuer (together with the Arranger, the "**Dealers**") and Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of Bank of Communications Co., Ltd. located outside the PRC that (i) accedes to the Programme (as defined in the Offering Circular) in accordance with the relevant terms of the Dealer Agreement (as defined in the Offering Circular) and (ii) is specified as an issuer in the applicable Pricing Supplement (each an "**Issuer**") (1) that you and any customers you represent are and that the electronic mail address that you gave the relevant Issuer and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of the Offering Circular and any amendments or supplements thereto by electronic transmission.

Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors: Prospective investors should be aware that certain intermediaries in the context of certain offerings of Notes (as defined in the Offering Circular) pursuant to this Programme, each such offering, a "**CMI Offering**", including certain Dealers, may be "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the relevant Issuer, a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with such Issuer, the CMI or the relevant group company. Prospective investors associated with the relevant Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the relevant Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50% interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the relevant Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

This Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the relevant Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the relevant Issuer, the Arranger, the Dealers or the Agents (as defined in the Offering Circular), nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Bank of Communications Co., Ltd. Hong Kong Branch

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

U.S.$12,000,000,000

Medium Term Note Programme

Under the U.S.$12,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of Bank of Communications Co., Ltd. (the "**Bank**") located outside the PRC that (i) accedes to the Programme in accordance with the relevant terms of the Dealer Agreement (as defined below) and (ii) is specified as an issuer in the applicable Pricing Supplement (each an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Notes (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$12,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of amended and restated dealer agreement dated 7 June 2023 (the "**Dealer Agreement**").

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the relevant Issuer (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 22.

Application has been made to The Stock Exchange of Hong Kong Limited ("**HKSE**") for the listing of the Programme under which Notes may be issued by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only on the HKSE during the 12-month period after the date of this Offering Circular. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuers and the Bank confirm that the Notes are intended for purchase by Professional Investors only and the Programme and the Notes, to the extent such Notes are to be listed on HKSE, will be listed on HKSE on that basis. Accordingly, the Issuers and the Bank confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

HKSE has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme or the Notes on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Bank, the Group or any Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Each Series (as defined in "*Summary of the Programme*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**" together with the temporary Global Note, (the "**Global Notes**")). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series or in dematerialised form where no Certificates will be issued but a deed poll will be executed in respect of the relevant Series. The Notes of each Series in certificated registered form will initially be represented by a permanent global certificate (each a "**Global Certificate**") without interest coupons. The Global Notes and the Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**CMU**") and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream or the CMU, or delivered outside a clearing system, as agreed between the relevant Issuer and the relevant Dealer.

This Offering Circular is for distribution to Professional Investors only. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S of the Securities Act, to, or for the account or the benefit of U.S. persons unless an exemption from the registration requirement of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale*".

Any Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein (the "**Conditions**"), in which event a supplemental Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Programme is rated "A2" by Moody's Investors Service, Inc. ("**Moody's**") and "A" by Fitch Ratings Ltd. ("**Fitch**"). These ratings are only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arranger and Dealer for the Programme

Bank of Communications Co., Ltd. Hong Kong Branch

Offering Circular dated 7 June 2023

IMPORTANT NOTICE

IMPORTANT - EEA RETAIL INVESTORS – If the applicable Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

IMPORTANT – UK RETAIL INVESTORS – If the applicable Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (as amended, the "**UK Prospectus Regulation**"). Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance/target market — The applicable Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MIFIR product governance / target market – The applicable Pricing Supplement in respect of any Notes may include a legend entitled "UK MIFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the relevant Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and 'Excluded Investment Products' (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purposes of giving information with regard to the Issuers, the Bank and the Group. The Issuers and the Bank accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading. This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the relevant Issuer, the Arranger or the Dealers (as defined in "*Summary of the Programme*") or the Agents (as defined in "*Terms and Conditions of the Notes*"). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by the relevant Issuer, the Arranger, the Dealers or the Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of any Issuer, the Arranger, the Dealers or the Agents to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the relevant Issuer or the Bank and its subsidiaries (together, the "**Group**") since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the relevant Issuer or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuers, the Arranger and the Dealers to inform themselves about and to observe any such restriction.

The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see "*Subscription and Sale*".

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Issuers, the Arranger, the Dealers or the Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the Issuers, the Arranger, the Dealers or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the relevant Issuer, the Arranger, the Dealers or the Agents which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the EEA, the UK, Hong Kong, Singapore, the PRC, Taiwan and Japan. See "*Subscription and Sale*".

To the fullest extent permitted by law, none of the Arranger, the Dealers or the Agents accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by an Arranger or a Dealer or any Agent or on its behalf in connection with the relevant Issuer, the Bank, the Group or the issue and offering of the Notes. Each Arranger, each Dealer and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the relevant Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the relevant Issuer, the Arranger, the Dealers or the Agents that any recipient of this Offering Circular or any financial statements of the relevant Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arranger or the Dealers or the Agents undertakes to review the financial condition or affairs of any of the Issuers or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger, the Dealers or the Agents.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuers, the Group and their respective affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuers, the Group and their respective affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the relevant Issuer and the terms of the Notes being offered, including the merits and risks involved. The relevant Issuer does not and the Arranger, the Dealers and the Agents do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with any Tranche of Notes, one or more of the Dealers (or persons acting on their behalf) may act as the stabilisation manager(s) (the "Stabilisation Manager(s)"). The identity of the Stabilisation Manager(s) (if any) will be disclosed in the applicable Pricing Supplement. In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s) in accordance with all applicable laws and regulations.

In the Offering Circular, unless otherwise specified, references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "PRC" or "China" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, references to "U.S.$", "USD" or "U.S. dollars" are to the lawful currency of the United States of America, references to "Renminbi", "RMB" or "CNY" are to the lawful currency of the PRC, and references to "Hong Kong dollar", "HKD" or "HK$" are to the lawful currency of Hong Kong.

In this Offering Circular, unless otherwise specified, references to:

- the "Bank" and the "Group" refer to Bank of Communications Co., Ltd. and, in the case of the "Bank" except as the context otherwise requires, the subsidiaries of Bank of Communications Co., Ltd.;
- the "branch outlets" include the head office, branches and outlets and other establishments of the Bank;

- a "business day" is a day that is not Saturday, Sunday or a public holiday in Hong Kong; and the terms "associate", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, in this Offering Circular, unless otherwise indicated, the terms "loans and advances to customers", "loans" and "loans to customers" are used synonymously.

In this Offering Circular, unless otherwise indicated, the discussions on loans are based on the Bank's gross loans and advances to customers, before taking into account the related allowance for impairment losses, rather than its net loans to customers. The Bank's loans and advances to customers are reported net of the allowance for impairment losses on its consolidated balance sheet.

The growth rates with respect to the business and financial data of the Bank presented in this Offering Circular are calculated based on amounts in millions of Renminbi.

Presentation of financial information

Certain financial information in this Offering Circular has been derived from the audited consolidated financial statements of the Group as at and for the year ended 31 December 2021 (the "**2021 Historical Financial Statements**"), which were published on 21 April 2022, on the website of the HKSE and the audited consolidated financial statements of the Group as at and for the year ended 31 December 2022 (the "**2022 Historical Financial Statements**"), which were published on 25 April 2023, on the website of the HKSE. The 2021 Historical Financial Statements were prepared and presented in accordance with the International Financial Reporting Standards (the "**IFRS**") and have been audited by PricewaterhouseCoopers, Certificated Public Accountant, Hong Kong, in accordance with International Standards on Auditing ("**ISA**"). The 2022 Historical Financial Statements were prepared and presented in accordance with the IFRS and have been audited by KPMG, Certificated Public Accountant, Hong Kong, in accordance with ISA.

Certain financial information in this Offering Circular has been derived from the unaudited condensed consolidated first quarter financial statements of the Group as at and for the three months ended 31 March 2023 (the "**2023 First Quarter Financial Information**"), which were published on 28 April 2023, on the website of the HKSE.

The 2023 First Quarter Financial Information have not been audited by KPMG or PricewaterhouseCoopers. Consequently, the 2023 First Quarter Financial Information should not be relied upon by you to provide the same quality of information associated with information that has been subject to an audit, as appropriate. Investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. The 2023 First Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Group as at and for the full financial year ending 31 December 2023.

The Group implemented the *International Financial Reporting Standard 17—Insurance Contracts* and its amendments ("**IFRS 17**") issued by the International Accounting Standards Board in May 2017 and June 2020 from 1 January 2023. The main amendments of the IFRS 17 include: adjusting the recognition principles for insurance revenue; and revising the measurement of insurance contract liabilities. Changes in the accounting policies have not had a significant impact on the Group's financial position and operating results. According to the transitional provisions of the new standards, the Group has made retrospective adjustments to the financial reports and reorganised the financial reports for each period in 2022 in accordance with the requirements of the IFRS 17. The comparative data has been restated based on the retrospectively adjusted financial reports.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Bank are referring to the consolidated data of the Group.

In this Offering Circular, because certain amounts have been rounded, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

Solely for the sake of convenience, this Offering Circular contains translations of certain Renminbi amounts into US dollar amounts. Unless indicated otherwise, the translation of Renminbi amounts into US dollar amounts has been made at the rate of RMB6.8972 to U.S.$1.00, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 December 2022. These translations should not be construed as representations that the Renminbi amounts could actually be converted into any US dollar amounts at the rates indicated or at all.

Documents Incorporated by Reference

The relevant Issuer hereby incorporates by reference (i) each Pricing Supplement, (ii) the most recently published audited consolidated annual financial statements and the most recently published unaudited but reviewed interim consolidated financial statements of the Bank published from time to time after the date of this Offering Circular in each case together with any audit or review reports prepared in connection therewith, (iii) the most recently published unaudited consolidated quarterly interim reports, published subsequent to the most recently published consolidated financial statements of the Bank, and (iv) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and the nine months ended 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the HKSE. The quarterly interim reports have not been and will not be audited by the Bank's auditors and were and will be prepared under International Accounting Standards 34 "Interim Financial Reporting" ("**IAS 34**"). The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the relevant Issuer and of the Fiscal Agent (as defined below).

Supplemental Offering Circular

The relevant Issuer has given or will give an undertaking to the Arranger and Dealer that if it has notified the Arranger and Dealer in writing that it intends to issue Notes under the Programme for the time being, and if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the relevant Issuer, the Group and/or of the rights attaching to the Notes, it shall (i) prepare and publish an amendment or supplement to the Offering Circular, (ii) advise the Arranger and Dealer promptly of any proposal to amend or replace the Offering Circular, (iii) advise the Arranger and Dealer promptly of any proposal to supplement the Offering Circular and (iv) provide the Arranger and Dealer with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

Forward-looking statements

Certain statements under "*Risk Factors*", "*Business*" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or the negative thereof, or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The relevant Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the relevant Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the relevant Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

Accountholder	each person who is for the time being shown in the records of the CMU operator as the holder of a particular principal amount of the Notes.
Additional Tier 1 Capital	has the meaning given to Additional Tier 1 Capital (其他一級資本) (or any equivalent or successor term) in the Capital Management Rules.
AUM	assets under management.
Bank and the Group	Bank of Communications Co., Ltd. and its subsidiaries.
Bank of Communications (Hong Kong)	Bank of Communications (Hong Kong) Limited.
Basel Committee	the Basel Committee on Banking Supervision.
Basel II	the revised Basel Capital Framework promulgated in June 2004.
Basel III	the newest Basel Capital Accord promulgated in December 2010 and 13 January 2011.
Board	the board of directors.
BOCOM Financial Asset Investment	BOCOM Financial Asset Investment Co., Ltd.
BoCom Insurance	China BOCOM Insurance Co., Ltd.
BoCom International Holdings	BOCOM International Holdings Company Limited.
BoCom International Trust	Bank of Communications International Trust Co., Ltd.
BoCom Leasing	Bank of Communications Financial Leasing Co., Ltd.
BoCommLife	BOCOM MSIG Life Insurance Company Limited
BoCom Schroder Fund	Bank of Communications Schroder Fund Management Co., Ltd.
BOCOM Wealth	BOCOM Wealth Management Co., Ltd.
Capital Adequacy Measures	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), which was promulgated by the CBRC on 23 February 2004, became effective on 1 March 2004 and was repealed on 1 January 2013.
Capital Management Rules	the Measures on Capital Management of Commercial Banks (Trial) (商業銀行資本管理辦法(試行)) issued by the CBRC on 7 June 2012, which became effective on 1 January 2013 (as amended from time to time).
CBIRC	China Banking and Insurance Regulatory Commission. (中國銀行保險監督管理委員會).
CBRC	China Banking Regulatory Commission (中國銀行業監督管理委員會).

China or **PRC**	the People's Republic of China, but for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to "China" and the "PRC" do not include Hong Kong, Macau and Taiwan.
Clearstream	Clearstream Banking S.A.
CMU	Central Moneymarkets Unit Service.
CNH HIBOR	Offshore Renminbi Hong Kong Interbank Offered Rate, a daily reference rate published by the Hong Kong Association of Banks.
Core Tier 1 Capital	has the meaning given to Core Tier 1 Capital (核心一級資本) (or any equivalent or successor term) in the Capital Management Rules.
CSRC	China Securities Regulatory Commission (中國證券監督管理委員會).
EURIBOR	Euro Interbank Offered Rate, a daily reference rate published by Thomson Reuters.
Euroclear	Euroclear Bank SA/NV.
FDI	Foreign Direct Investment.
Fitch	Fitch Ratings Ltd.
FSMA	the Financial Services and Market Act 2000 of the United Kingdom.
GDP	gross domestic product.
HIBOR	Hong Kong Interbank Offered Rate, a daily reference rate published by the Hong Kong Association of Banks.
Hong Kong or **HK**	the Hong Kong Special Administrative Region of the People's Republic of China.
HKMA	Hong Kong Monetary Authority.
HKSE	The Stock Exchange of Hong Kong Limited.
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).
Macau	the Macau Special Administrative Region of the PRC.
MOF	Ministry of Finance of the PRC (中華人民共和國財政部).
MOFCOM	Ministry of Commerce of the PRC (中華人民共和國商務部).
Moody's	Moody's Investors Service Limited.
NDRC	National Development and Reform Commission (中華人民共和國國家發展和改革委員會).
Notes	Notes issued under the U.S.$12,000,000,000 Medium Note Programme.
Offering Circular	this offering circular.

PBOC	People's Bank of China (中國人民銀行).
PricewaterhouseCoopers	PricewaterhouseCoopers, Certified Public Accountants, Hong Kong and Registered Public Interest Entity Auditor.
Regulation S	Regulation S under the U.S. Securities Act.
S&P	S&P Global Ratings.
SAFE	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局).
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time).
State Council	the PRC State Council (中華人民共和國國務院).
United States or **U.S.**	the United States of America, its territories, its possessions and all areas subject to its jurisdiction.
U.S. Securities Act or **Securities Act**	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.
WTO	World Trade Organisation.

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meaning in this summary.

The Issuer	Bank of Communications Co., Ltd. Hong Kong Branch and, in relation to any issue of Notes under the Programme, Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of the Bank located outside the PRC that (i) accedes to the Programme in accordance with the relevant terms of the Dealer Agreement and (ii) is specified as an issuer in the applicable Pricing Supplement.
Description	U.S.$12,000,000,000 Medium Term Note Programme.
Size	Up to U.S.$12,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. Bank of Communications Co., Ltd. Hong Kong Branch may increase the amount of the Programme in accordance with the terms of the Dealer Agreement. The Dealer Agreement provides for the U.S.$ equivalent of any Note denominated in another currency to be determined on or around the date agreement is reached to issue those Notes or, if the agreement date is not a date that commercial banks and foreign exchange markets are open for general business in London, on the preceding day on which commercial banks and foreign exchange markets are open for general business in London.
Risk Factors	There are certain factors that may affect the relevant Issuer's ability to fulfill its obligations under Notes issued under the Programme. These are set out under "*Risk Factors*" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk Factors*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Arranger	Bank of Communications Co., Ltd. Hong Kong Branch.
Dealers	Bank of Communications Co., Ltd. Hong Kong Branch. Bank of Communications Co., Ltd. Hong Kong Branch may from time to time terminate the appointment of any dealer under the Programme and may from time to time appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "**Permanent Dealers**" are to the persons listed above as a Dealer and to such additional persons that are appointed as dealers in respect of the whole Programme (and

	whose appointment has not been terminated) and to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent and Paying Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Transfer Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Calculation Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Registrar	Bank of Communications Co., Ltd. Hong Kong Branch.
CMU Lodging and Paying Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Method of Issue	The Notes may be issued on a syndicated or non-syndicated basis. The Notes may be issued in series (each a "**Series**") having one or more issue dates (each tranche within such Series a "**Tranche**") and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a "**Pricing Supplement**").
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a temporary Global Note or a permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream and/or as the case may be, the CMU and/or any other relevant clearing system. Each temporary Global Note will be exchangeable for a permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a temporary Global Note or receipt of any payment of interest in respect of a temporary Global Note. Each permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes

	will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will either be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series or in dematerialised form. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". Where Notes are issued in dematerialised form, a deed poll will be executed by the Issuer in respect of such Series. Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate.
Clearing Systems	Clearstream, Euroclear, the CMU and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Fiscal Agent and the relevant Dealers.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the HKMA as operator of the CMU or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the relevant Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity, including for the avoidance of doubt, undated perpetual Notes with no fixed maturity.
Benchmark Discontinuation	See Condition 5(b)(iii)(C) (*Benchmark Replacement*).
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum

	denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**"), as amended and updated as at the Issue Date of the first Tranche of the Notes) or the 2021 ISDA Definitions (the latest version of the 2021 ISDA Interest Rate Derivatives Definitions, including any Matrices referred to therein, as published by ISDA as at the Issue Date of the first Tranche of the Notes), plus or minus (as specified in the relevant Pricing Supplement) the Margin, if any; (ii) by reference to EURIBOR or HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. Interest periods will be specified in the relevant Pricing Supplement. The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.

Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the relevant Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of the Notes	The Notes issued by the relevant Issuer will constitute direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and will rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the relevant Issuer other than any such obligations as are preferred by law, all as further described in Condition 4.
Events of Default	See "*Terms and Conditions of the Notes — Events of Default*".
Cross Default	See the relevant sub-condition under "*Terms and Conditions of the Notes — Events of Default*".
Ratings	The Programme is rated "A2" by Moody's and "A" by Fitch. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Early Redemption	Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the Issuer prior to maturity

	only for tax reasons. See "*Terms and Conditions of the Notes — Redemption, Purchase and Options*".
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the relevant jurisdiction of Hong Kong, the PRC, or any other jurisdiction to which the Issuer becomes subject to tax in respect of payments made by it of principal and interest on the Notes, subject to customary exceptions, all as described in "*Terms and Conditions of the Notes — Taxation*".
Governing Law	English law.
Listing	Application has been made to the HKSE for the listing of the Programme under which Notes may be issued during the 12-month period after the date of this Offering Circular on the HKSE by way of debt issues to Professional Investors only. Separate application will be made for the listing of the relevant Notes on the HKSE. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s). Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies).
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Taiwan and Japan, see "*Subscription and Sale*" below.
Legal Entity Identifier of the Bank	549300AX1UM10U30HK09.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Group as at and for the periods indicated.

The summary consolidated financial information as at and for the years ended 31 December 2020, 2021 and 2022 set forth below is derived from the 2021 Historical Financial Statements and the 2022 Historical Financial Statements, which are prepared and presented in accordance with IFRS. The summary consolidated financial information as at and for the three months ended 31 March 2022 and 2023 set forth below are derived from the 2022 First Quarter Financial Information, which is prepared and presented in accordance with IFRS.

The 2021 Historical Financial Statements and the 2022 Historical Financial Statements have been audited by PricewaterhouseCoopers and KPMG, respectively, in accordance with ISA. The 2023 First Quarter Financial Information have not been audited by PricewaterhouseCoopers or KPMG. Investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. Such summary consolidated financial information should be read in conjunction with such published audited consolidated financial statements and the unaudited consolidated first quarter financial statements and the notes thereto.

The 2023 First Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Group as at and for the full financial year ending 31 December 2023.

With effect from 1 January 2023, the Group adopted IFRS 17 under which the Group was required to adjust certain amounts recognised in the Group's audited consolidated financial statements. Please refer to Note II (*Financial Highlights*) of the Group's unaudited consolidated first quarter financial statements for three months ended 31 March 2023 for the effects of the adoption of IFRS 17. According to the transitional provisions of the new standards, the Group has made retrospective adjustments to the financial reports and reorganised the financial reports for each period in 2022 in accordance with the requirements of the IFRS 17. The comparative data has been restated based on the retrospectively adjusted financial reports. The Group's unaudited consolidated first quarter financial statements as of and for three months ended 31 March 2023 may not be directly comparable against the audited consolidated financial statements prior to 1 January 2023. Investors must therefore exercise caution when making comparisons of any financial figures prior to 1 January 2023 against the unaudited consolidated first quarter financial figures on or after 1 January 2023 and when evaluating the Group's financial position and results of operations. The 2023 First Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Group as at and for the full financial year ending 31 December 2023.

Consolidated Statement of Financial Position as at 31 December 2020, 2021 and 2022

The consolidated statements of financial position of the Group as at 31 December 2020 and 2021 as set forth below is extracted from the 2021 Historical Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with ISA.

	As at 31 December	
	2020	**2021**
	(RMB in million)	
	(audited)	
Assets		
Cash and balances with central banks	817,561	734,728
Due from and placements with banks and other financial institutions	571,130	632,708
Derivative financial assets	54,212	39,220
Financial investments at fair value through profit or loss	482,588	638,483
Financial investments at amortised cost	2,019,529	2,203,037
Financial investments at fair value through other comprehensive income	735,220	681,729
Loans and advances to customers	5,720,568	6,412,201
Investment in associates and joint ventures	4,681	5,779
Property and equipment	169,471	171,194
Deferred income tax assets	27,991	32,061
Other assets	94,665	114,617
Total assets	10,697,616	11,665,757
Liabilities		
Due to and placements from banks and other financial institutions	1,787,491	1,947,768
Financial liabilities at fair value through profit or loss	29,279	50,048
Derivative financial liabilities	55,942	36,074
Due to customers	6,607,330	7,039,777
Certificates of deposits issued	634,297	892,020
Current income tax liabilities	3,786	4,725
Deferred income tax liabilities	1,286	1,889
Debt securities issued	497,755	503,525
Other liabilities	201,822	212,695
Total liabilities	9,818,988	10,688,521
Equity		
Share capital	74,263	74,263
Other equity Instruments	133,292	174,790
Including: Preference shares	44,952	44,952
Perpetual bonds	88,340	129,838
Capital surplus	111,428	111,428
Other reserves	333,176	346,092
Retained earnings	214,448	258,074
Equity attributable to shareholders of the parent company	866,607	964,647

	As at 31 December	
	2020	2021
	(RMB in million)	
	(audited)	
Equity attributable to non-controlling interests of ordinary shares	8,763	9,424
Equity attributable to non-controlling interests of other equity instruments	3,258	3,165
Non-controlling interests	12,021	12,589
Total equity	878,628	977,236
Total equity and liabilities	10,697,616	11,665,757

The consolidated statements of financial position of the Group as at 31 December 2021 and 2022 as set forth below is extracted from the 2022 Historical Financial Statements prepared in accordance with IFRS and have been audited by KPMG in accordance with ISA.

	As at 31 December	
	2021	2022
	(RMB in million)	
	(audited)	
Assets		
Cash and balances with central banks	734,728	806,102
Due from and placements with banks and other financial institutions	632,708	690,421
Derivative financial assets	39,220	69,687
Financial investments at fair value through profit or loss	638,483	705,357
Financial investments at amortised cost	2,203,037	2,450,775
Financial investments at fair value through other comprehensive income	681,729	799,075
Loans and advances to customers	6,412,201	7,136,677
Investment in associates and joint ventures	5,779	8,750
Property and equipment	171,194	194,169
Deferred income tax assets	32,061	38,771
Other assets	114,617	92,635
Total assets	11,665,757	12,992,419
Liabilities		
Due to and placements from banks and other financial institutions	1,947,768	2,034,894
Financial liabilities at fair value through profit or loss	50,048	47,949
Derivative financial liabilities	36,074	46,804
Due to customers	7,039,777	7,949,072
Certificates of deposits issued	892,020	1,092,366
Current income tax liabilities	4,725	3,937

	As at 31 December	
	2021	**2022**
	(RMB in million)	
	(audited)	
Deferred income tax liabilities	1,889	1,786
Debt securities issued	503,525	530,861
Other liabilities	212,695	249,010
Total liabilities	10,688,521	11,956,679
Equity		
Share capital	74,263	74,263
Other equity Instruments	174,790	174,790
Including: Preference shares	44,952	44,952
Perpetual bonds	129,838	129,838
Capital surplus	111,428	111,429
Other reserves	346,092	369,259
Retained earnings	258,074	293,668
Equity attributable to shareholders of the parent company	964,647	1,023,409
Equity attributable to non-controlling interests of ordinary shares	9,424	8,873
Equity attributable to non-controlling interests of other equity instruments	3,165	3,458
Non-controlling interests	12,589	12,331
Total equity	977,236	1,035,740
Total equity and liabilities	11,665,757	12,992,419

Consolidated Statement of Comprehensive Income for the Years Ended 31 December 2020, 2021 and 2022

The consolidated statements of comprehensive income of the Group for the years ended 31 December 2020 and 2021 as set forth below is extracted from the 2021 Historical Financial Statements prepared in accordance with IFRS and have been audited by PricewaterhouseCoopers in accordance with ISA.

	Year ended 31 December	
	2020	**2021**
	(RMB in million unless otherwise stated)	
	(audited)	
Interest income	369,101	377,646
Interest expense	(215,765)	(215,953)
Net interest income	153,336	161,693
Fee and commission income	49,298	52,285
Fee and commission expense	(4,212)	(4,712)
Net fee and commission income	45,086	47,573
Net gains arising from trading activities	13,844	23,344
Net gains arising from financial investments	1,177	1,311
Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost	27	46
Share of profits of associates and joint venture	222	277
Insurance business income	15,170	16,515
Other operating income	17,889	19,035
Net operating income	246,724	269,748
Credit impairment losses	(62,059)	(66,371)
Other assets impairment losses	(484)	(2,320)
Insurance business expense	(15,729)	(17,054)
Other operating expense	(82,027)	(90,044)
Profit before tax	86,425	93,959
Income tax	(6,855)	(5,020)
Net profit for the period	79,570	88,939
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Loans and advances to customers carried at FVOCI		
Amount recognised in equity	19	459
Amount reclassified to profit or loss	(183)	(428)
Debt instruments at fair value through other comprehensive income		
Amount recognised in equity	(920)	2,796
Amount reclassified to profit or loss	(825)	(442)

	Year ended 31 December	
	2020	2021
	(RMB in million unless otherwise stated)	
	(audited)	
Effective portion of gains or losses on hedging instruments in a cash flow hedges		
Amount recognised in equity	(1,362)	891
Amount reclassified to profit or loss	815	(463)
Others	(8)	14
Translation difference on foreign operations	(4,776)	(3,450)
Subtotal	(7,240)	(623)
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of equity investments designated at fair value through other comprehensive income	(1,204)	(1,555)
Actuarial gains/(losses) on pension benefits	(132)	55
Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL	7	(36)
Others	20	2
Subtotal	(1,309)	(1,534)
Other comprehensive income, net of tax	(8,549)	(2,157)
Total Comprehensive income for the year	71,021	86,782
Net profit attributable to:		
Shareholders of the parent company	78,274	87,581
Non-controlling interests	1,296	1,358
Total comprehensive income attributable to:		
Shareholders of the parent company	69,960	85,696
Non-controlling interests	1,061	1,086
Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)	0.99	1.10

The consolidated statements of comprehensive income of the Group for the years ended 31 December 2021 and 2022 as set forth below is extracted from the 2022 Historical Financial Statements prepared in accordance with IFRS and been audited by KPMG in accordance with ISA.

	Year ended 31 December	
	2021	**2022**
	(RMB in million unless otherwise stated)	
	(audited)	
Interest income	377,646	418,122
Interest expense	(215,953)	(248,185)
Net interest income	161,693	169,937
Fee and commission income	52,285	49,339
Fee and commission expense	(4,712)	(4,700)
Net fee and commission income	47,573	44,639
Net gains arising from trading activities	23,344	17,607
Net gains arising from financial investments	1,311	494
Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost	46	64
Share of profits of associates and joint venture	277	292
Insurance business income	16,515	18,100
Other operating income	19,035	22,459
Net operating income	269,748	273,528
Credit impairment losses	(66,371)	(60,411)
Other assets impairment losses	(2,320)	(1,897)
Insurance business expense	(17,054)	(19,380)
Other operating expense	(90,044)	(93,625)
Profit before tax	93,959	98,215
Income tax	(5,020)	(6,185)
Net profit for the period	88,939	92,030
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of debt instruments measured at FVOCI		
Amount recognised in equity	3,649	(7,745)
Amount reclassified to profit or loss	(870)	(669)
Expected credit losses of debt instruments measured at FVOCI		
Amount recognised in equity	(394)	1,219
Amount reclassified to profit or loss	-	-
Effective portion of gains or losses on hedging instruments in a cash flow hedges		
Amount recognised in equity	891	2,004
Amount reclassified to profit or loss	(463)	(1,204)
Others	14	136
Translation difference on foreign operations	(3,450)	8,562

	Year ended 31 December	
	2021	2022
	(RMB in million unless otherwise stated)	
	(audited)	
Subtotal	(623)	2,303
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on pension benefits	55	(34)
Changes in fair value of equity investments designated at fair value through other comprehensive income	(1,555)	(1,301)
Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL	(36)	(133)
Others	2	(1)
Subtotal	(1,534)	(1,469)
Other comprehensive income, net of tax	(2,157)	834
Total Comprehensive income for the year	86,782	92,864
Net profit attributable to:		
Shareholders of the parent company	87,581	92,149
Non-controlling interests	1,358	(119)
Total comprehensive income attributable to:		
Shareholders of the parent company	85,696	92,607
Non-controlling interests	1,086	257
Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)	1.10	1.14

Consolidated Statement of Financial Position as at 31 December 2022 and 31 March 2023

The consolidated statements of financial position of the Group as at 31 December 2022 and 31 March 2023, as set forth below is extracted from the 2023 First Quarter Financial Statements prepared and presented in accordance with IFRS.

With effect from 1 January 2023, the Group adopted IFRS 17 under which the Group was required to adjust certain amounts recognised in the Group's audited consolidated financial statements. Please refer to Note II (Financial Highlights) of the Group's unaudited consolidated first quarter financial statements for three months ended 31 March 2023 for the effects of the adoption of IFRS 17. According to the transitional provisions of the new standards, the Group has made retrospective adjustments to the financial reports and reorganised the financial reports for each period in 2022 in accordance with the requirements of the IFRS 17. The comparative data has been restated based on the retrospectively adjusted financial reports. The Group's unaudited consolidated first quarter financial statements as of and for three months ended 31 March 2023 may not be directly comparable against the audited consolidated financial statements prior to 1 January 2023. Investors must therefore exercise caution when making comparisons of any financial figures prior to 1 January 2023 against the unaudited consolidated first quarter financial figures on or after 1 January 2023 and when evaluating the Group's financial position and results of operations. The 2023 First Quarter Financial

Information should not be taken as an indication of the expected financial condition and results of operations of the Group as at and for the full financial year ending 31 December 2023.

	As at 31 December	As at 31 March
	2022	2023
	(RMB in million)	*(RMB in million)*
	(restated)	*(unaudited)*
Assets		
Cash and balances with central banks	806,102	822,695
Due from and placements with banks and other financial institutions	690,421	843,103
Derivative financial assets	69,687	57,294
Financial investments at fair value through profit or loss	705,357	664,965
Financial investments at amortised cost	2,450,775	2,538,334
Financial investments at fair value through other comprehensive income	799,075	824,165
Loans and advances to customers	7,135,454	7,512,901
Investment in associates and joint ventures	8,750	8,803
Property and equipment	194,169	198,705
Deferred tax assets	39,512	40,854
Other assets	92,269	142,454
Total assets	12,991,571	13,654,273
Liabilities		
Due to and placements from banks and other financial institutions	2,034,894	2,000,615
Financial liabilities at fair value through profit or loss	47,949	37,079
Derivative financial liabilities	46,804	36,125
Deposit from customers	7,949,072	8,498,740
Certificates of deposits issued	1,092,366	1,225,749
Income tax liabilities	3,937	5,161
Debt securities issued	530,861	554,761
Deferred tax liabilities	1,786	2,110
Other liabilities	250,380	236,347
Total liabilities	11,958,049	12,596,687
Equity		
Share capital	74,263	74,263
Other equity Instruments	174,790	174,790
Including: Preference shares	44,952	44,952
Perpetual bonds	129,838	129,838
Capital surplus	111,429	111,429
Other reserves	368,808	368,039

	As at 31 December	As at 31 March
	2022	2023
	(RMB in million)	(RMB in million)
Retained earnings	292,734	317,399
Equity attributable to shareholders of the parent company	1,022,024	1,045,920
Equity attributable to non-controlling interests of ordinary shares	8,040	8,277
Equity attributable to non-controlling interests of other equity instruments	3,458	3,389
Non-controlling interests	11,498	11,666
Total equity	1,033,522	1,057,586
Total equity and liabilities	12,991,571	13,654,273

Condensed Consolidated Statement of Comprehensive Income for the Three Months Ended 31 March 2022 and 2023

The condensed consolidated statements of comprehensive income of the Group for the three months ended 31 March 2022 and 2023 as set forth below is extracted from the 2023 First Quarter Financial Statements prepared and presented in accordance with IFRS.

	Three months ended 31 March	
	2022	2023
	(RMB in million unless otherwise stated)	
	(unaudited)	
Interest income	99,665	112,010
Interest expense	(57,146)	(71,362)
Net interest income	42,519	40,648
Fee and commission income	14,940	13,774
Fee and commission expense	(1,201)	(1,089)
Net fee and commission income	13,739	12,685
Net gains arising from trading activities	2,170	8,304
Net gains arising from financial investments	44	(132)
Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost	–	15
Share of profits of associates and joint ventures	22	53
Other operating income	5,193	5,611
Net operating income	63,687	67,169
Credit impairment losses	(15,419)	(15,398)

	Three months ended 31 March	
	2022	2023
	(RMB in million unless otherwise stated)	
	(unaudited)	
Other assets impairment (losses)/reversal	2	(72)
Other operating expense	(23,136)	(25,297)
Profit before tax	25,134	26,402
Income tax	(1,821)	(1,451)
Net profit for the period	23,313	24,951
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of debt instruments measured at FVOCI		
Amount recognised in equity	(4,047)	733
Amount reclassified to profit or loss	(240)	6
Expected credit losses of debt instruments measured at FVOCI		
Amount recognised in equity	196	(115)
Amount reclassified to profit or loss	–	–
Effective portion of gains or losses on hedging instruments in a cash flow hedges		
Amount recognised in equity	646	305
Amount reclassified to profit or loss	(67)	(424)
Translation difference on foreign operations	(675)	(1,788)
Others	87	(61)
Subtotal	(4,100)	(1,344)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on pension benefits	(10)	(1)
Changes in fair value of equity investments designated at fair value through other comprehensive income	354	665
Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL	12	(114)
Others	28	(17)
Subtotal	384	533
Other comprehensive income for the year	(3,716)	(811)
Total Comprehensive income for the period	19,597	24,140
Net profit attributable to:		
Shareholders of the parent company	23,320	24,633
Non-controlling interests	(7)	318

	Three months ended 31 March	
	2022	2023
	(RMB in million unless otherwise stated)	
	(unaudited)	
	23,313	24,951
Total comprehensive income attributable to:		
Shareholders of the parent company	19,557	23,578
Non-controlling interests	40	562
	19,597	24,140
Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)	0.31	0.33

Financial Indicators

	As at/ for the years ended 31 December			As at/for the three months ended 31 March
	2020	2021	2022	2023
	(%)			
Return on average assets[(1)]	0.77	0.80	0.75	0.75
Cost-to-income ratio[(2)]	26.81	27.67	28.14	-
Non-performing loan ratio	1.67	1.48	1.35	1.34
Provision coverage ratio	143.87	166.50	180.68	183.25
Tier 1 capital adequacy ratio[(3)]	12.88	13.01	12.18	12.07
Core Tier 1 capital adequacy ratio[(3)]	10.87	10.62	10.06	10.03
Capital adequacy ratio[(3)]	15.25	15.45	14.97	14.79

Notes:

(1) Calculated by dividing annualised net profit of the periods indicated by the average of total assets at the beginning and the end of the periods indicated.

(2) Calculated as business and management fees divided by operating income, consistent with the financial report under China Accounting Standards.

(3) Calculated pursuant to the Capital Management Rules by the China Banking and Insurance Regulatory Commission.

RISK FACTORS

This Offering Circular contains forward-looking statements relating to events that involve risks and uncertainties. Investors should carefully consider the risk factors set forth below, as well as the other information contained elsewhere in this Offering Circular. The risks described below are not the only ones that may affect the Bank or the Notes. Additional risks and uncertainties of which the Bank is not aware or that the Bank currently believes are immaterial may also adversely affect the Bank's financial condition or results of operations. If any of the possible events described below occur, the Bank's financial condition or results of operations could be materially and adversely affected. In such case, the Bank may not be able to satisfy its obligations under the Notes, and investors could lose all or part of their investment.

Risks Relating to the Bank's Business

Uncertainties and instability in global market conditions could adversely affect the Group's business, financial condition and results of operations.

The Group has been, and in the future will continue to be, materially affected by geo-political, economic and market conditions, including factors such as the liquidity of the global financial markets, any Sino-U.S. trade friction, recent conflicts between Russian and Ukraine, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, investor sentiment, inflation, and the availability and cost of capital and credit. International Monetary Fund revised global GDP growth forecasts downward for 2023 in response to the economic slowdown caused by Russia's war in Ukraine, tighter global financing costs and the financial market conditions.

Since 2017, there has been a more inward-looking policy agenda in the U.S. aimed at encouraging U.S. companies to bring back jobs, renegotiating trade pacts and stimulating the domestic economy via infrastructure spending and tax reforms. In Europe, the exit of the United Kingdom from the European Union, and any prolonged period of uncertainty which results, could have a significant negative impact on international markets. These could include further falls in stock exchange indices, a fall in the value of the Pound, an increase in exchange rates between the Pound and the Euro and/or greater volatility of markets in general due to the increased uncertainty.

The implications of these developments for the world and the Group are significant. First, a rise in global trade protectionism may negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and ongoing quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, financial market volatility and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Group's business, financial condition and results of operations.

Inflationary pressures have also started to increase as the rebound in global commodity prices and weak domestic currencies have led businesses to pass on their increased input costs to consumers through higher selling prices. This adds to the uncertain global economic outlook.

To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Group's business, financial condition and results of operations could be significantly and adversely affected.

Investors should be aware that there are recent historical financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Group. In addition, the Group remains subject to the risks posed by the indirect economic effect of the global credit crisis, some of which cannot be anticipated and the vast majority of which are not under its control. The Group also remains subject to counterparty risk arising from financial institutions that can fail or are otherwise unable to meet their obligations under their contractual commitment to the Group. If there is another global or regional financial crisis or a downturn in the economic condition of the Group's primary markets, this would likely have a material adverse effect on the Group's business, financial condition and results of operations.

If the Bank is unable to effectively maintain the quality of its loan portfolio or to manage its off balance sheet statement exposures, its financial condition and results of operations will be materially and adversely affected.

Results of the Bank's operations may be negatively impacted by its non-performing loans. Under IFRS, the accounting standards that are applicable to the Bank, loans are impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. In this regard, the Bank seeks to continue to improve its credit risk management policies, procedures and systems, and has been able to effectively control the level of its non-performing loans in recent years, despite the ongoing weak macroeconomic environment. As at 31 December 2020, 2021 and 2022, the Bank's total non-performing loan balance were RMB97,698 million, RMB96,796 million and RMB98,526 million, respectively, and its non-performing loan ratios were 1.67 per cent., 1.48 per cent. and 1.35 per cent., respectively. However, there can be no assurance that the Bank's credit risk management policies, procedures and systems are free from any deficiency. The occurrence of any deficiencies in the Bank's credit risk management policies, procedures and systems may result in an increase in the level of its non-performing loans and adversely affect the quality of its loan portfolio. As a result, there can be no assurance that the Bank will be able to continue to effectively control the level of non-performing loans in its loan portfolio. In particular, the amount of the Bank's reported non-performing loans and the ratio of its non-performing loans to its loans and advances to customers may increase in the future as a result of deterioration in the quality of its loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond the Bank's control, such as a recent slowdown in economic growth and other adverse macroeconomic trends in China, the significant decline in market liquidity of China's interbank market or a deterioration in the financial condition or results of operations of the Bank's borrowers, which could impair the ability of the Bank's borrowers to service their debt. These include the Bank's corporate and individual loan borrowers, as well as the domestic and overseas commercial banks and non-bank financial institutions with whom the Bank engages in interbank lending activities. If such a deterioration occurs, it could materially and adversely affect the Bank's financial condition and results of operations.

In addition, the Bank has issued credit related commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. As a result, these instruments carry similar credit risk as loans and in the event of default by the relevant customers, the Bank's financial condition and results of operations will be materially and adversely affected.

The Bank has a concentration of loans to certain industries and borrowers, and any significant or extended downturn in any of these industries or deterioration in the financial condition of the Bank's major borrowers may adversely affect its financial condition and results of operations.

As at 31 December 2022, approximately 11.28 per cent., 11.46 per cent., 10.00 per cent., 7.13 per cent., 5.88 per cent. and 4.70 per cent. of the Bank's loans were concentrated in the transportation, storage and postal services sector, the manufacturing sector, the leasing and commercial services sector, the real estate sector, the water conservancy, environmental and other public facilities sector and the production and supply of electric power, heat, gas and water sector, respectively. Although the Bank follows credit risk management policies with respect to extensions of credit to different industry sectors, including credit extension guidelines for different industry sectors, closely monitors its credit risks in different industries and has recently enhanced its guidelines in extending credit, any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, increase the level of the Bank's non-performing loans, impaired loans and related provision for impaired loans, reduce the Bank's net profit and adversely affect its financial condition and results of operations.

In accordance with PRC national policies aimed at restricting the over-development of certain industries with excess capacity, including wind power equipment, steel, cement, coal, chemical and flat glass, among other industries, the Bank adopts a strict policy towards making loans to these industries. In order to reduce its loan exposure and strictly control risks associated with loans to these high-risk industries, the Bank carefully manages the size of its loans to these industries. If the PRC government introduces policies which further restrict these industries and/or these industries otherwise experience deterioration in their operations, such changes may adversely affect the quality of the Bank's loans to these industries.

Governmental financing platforms primarily comprise state-owned or state-run investment or financing institutions whose financing activities are primarily applied to infrastructure construction or governmental investment projects of a quasi-social welfare nature and whose financing activities are fully or partially indemnified or guaranteed by local financial authorities. In recent years, the Bank made continuous improvement in the monitoring and management of its loans, by ways of raising standards and introducing stricter requirements for guarantees. Similar measures in disbursement control and with respect to new projects were implemented on loans made to local government financing platforms. The default of any portion of such loans for any reason, including macroeconomic volatility or policy changes, may adversely affect the quality of the Bank's loans to these entities.

As at 31 December 2022, 20.73 per cent. of the Bank's loans were mortgage loans and 7.13 per cent. of its loans were lent to the real estate sector, which together accounted for 27.86 per cent. of the Bank's gross amount of loans and advances before impairment allowance. The PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market and certain other industries from over-heating. Such measures may adversely affect the growth and quality of the Bank's loans related to real estate and such other industries. In accordance with the PRC government's macroeconomic policy and the guidance and compliance requirements of the CBIRC, the Bank aims to maintain a cautious approach to real estate development loans, and has further adopted industry-specific risk management procedures with respect to the real estate sector. The Bank has also adopted a rigorous mortgage evaluation system to ensure the quality of its mortgage customers. In addition, the Bank regularly subjects its assets to multi-factor stress tests, including movements in housing prices, which the Bank's loans have been able to withstand without significant deterioration.

According to Measures for the Administration of the Large Exposures of Commercial Banks (商業銀行大額風險暴露管理辦法) issued by the CBIRC, the total outstanding credit exposure to a single group customer may not exceed 15 per cent. of the net capital base of a bank and the total outstanding loans to the same borrower shall not exceed 10 per cent. of the net capital base of a bank. The Bank is currently in compliance with these regulatory requirements.

If any of the sectors in which the Bank's loans are highly concentrated significantly deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these sectors may adversely affect the Bank's asset quality, financial condition and results of operations.

The Bank is subject to risks associated with real estate related loans.

The Bank's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans. The Bank's loans issued to real estate companies include, among others, loans for real estate development, land reservation loans and asset-backed loans.

With respect to its real estate loans, the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strict enforcement of repayment schedules. In addition, the Bank has established a regional risk alert system and loan policy adjustment mechanism applicable to the real estate sector. The Bank has instructed its branches to strengthen research of regional and local real estate market conditions, adjust credit guidelines applicable to real estate loans and implement different credit limits to reflect different levels of risk for these loans. However, the real estate market may be affected by factors beyond the Bank's control, including cyclical economic volatility and downturns. In addition, the PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating. Such factors may adversely affect the growth and quality of the Bank's loans to the real estate industry and its financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles to which the Bank extends loans may adversely affect its asset quality, financial condition and results of operations.

The Bank's loans to local government financing platforms are mainly made to the investment and financing platforms of various development zones, state-owned asset management companies, land reserve companies and urban construction investment companies, covering a number of industries including the production and supply of electric power, heat, gas and water, water conservancy, environmental and other public facilities, transportation, storage and postal services, leasing and commercial services, real estate and manufacturing.

Recently, with the aim of reinforcing the risk management of loans to local government financing platforms, the PRC State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing platforms. The Bank has consistently focused on the risks associated with loans to the local government financing platforms through a series of measures such as imposing stringent regional controls on disbursing loans to local government financing platforms, establishing a list of approved cities and lending limits and establishing credit and credit product related policies. Through such measures, the risks associated with loans to local government financing platforms, the aggregate volume of loans and their investment direction are subject to control with the goal of ensuring that the Bank's loans are primarily disbursed to key construction and development areas of the state and projects of high quality. While the Bank has taken various measures to reduce the risks of default, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayments of these financing platforms, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The Bank's outstanding loans are heavily concentrated in certain regions, and any significant downturn in any of these regions may adversely affect the Bank's financial condition and results of operations.

As at 31 December 2022, approximately 27.42 per cent., 13.41 per cent. and 15.59 per cent. of the Bank's loans and advances were concentrated in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim Economic Zone, respectively. In addition, a substantial portion of the Bank's corporate customers and the majority of its branches, sub-branches and self-service centres are located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. The Bank currently expects that the future growth of its corporate and personal finance businesses, especially its corporate and individual loan businesses, will continue to be concentrated in these areas. Any significant economic downturn in any of these regions may adversely affect the Bank's financial condition and results of operations. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these regions may adversely affect the Bank's asset quality, financial condition and results of operations.

A substantial portion of the Bank's loans are secured by collateral or pledge (the "security") or guarantees. Any significant decline in the value of the collateral or deterioration of the financial condition of the guarantors or any failure by the Bank to enforce its rights as a creditor may adversely affect its financial condition and results of operations.

A substantial portion of the Bank's loans is secured by collateral or pledge or guarantees. The loans secured by collateral and pledge are collectively referred to as the loans secured by security. The Bank's loan security primarily includes real estate and other assets that are located in the PRC, the value of which may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy. An economic slowdown in the PRC may lead to a downturn in the PRC real estate markets, which may in turn result in declines in the value of the security securing many of the Bank's loans to levels below the outstanding principal balance of such loans. Any decline in the value of the security securing the Bank's loans may result in a reduction in the amount the Bank can recover from security realisation and an increase in its impairment losses.

The Bank conducts internal re-evaluations of security regularly, and it hires independent appraisers to re-evaluate certain security from time to time. However, the Bank may not have current information on the value of such security, which may adversely affect the accurate assessment of its loans secured by such security. Losses might also result from the Bank's failure to conduct property preservation in a timely or proper manner while the borrowers' financial and credit conditions deteriorate. In addition, in certain circumstances, the Bank's rights to the security securing its loans may have lower priority than certain other rights.

In China, the procedures for liquidating or otherwise realising the value of security in the form of tangible assets may be protracted and it may be difficult to enforce claims in respect of such security. As a result, it may be difficult and time-consuming for the Bank to take control of and liquidate the security securing the impaired loans.

With respect to guarantees of the Bank's loans provided by third parties, the Bank is subject to the risk that the financial condition of the guarantors of these loans may deteriorate significantly, or that a court or other judicial or government authorities may declare such guarantees to be invalid. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amount of these guarantees in respect of its loans.

As a result, any significant decline in the value of the security or deterioration of the financial condition of the guarantors or any failure by the Bank to enforce its rights as a secured creditor may adversely affect the Bank's financial condition and results of operations.

The Bank may not be able to manage the various risks it will face as the Bank expands the range of its products and services, which also include non-commercial banking financial products and services.

Part of the Bank's strategy is to expand the range of products and services that the Bank offers to its customers in the PRC and overseas, including non-commercial banking financial products and services. For example, the Bank has recently introduced and sought to strengthen new products and services in the areas of wealth management (such as its "Win to Fortune" accounts), mobile banking (such as its e-Mobile BOCOM product), insurance, finance leasing, asset management, trust services, offshore financial services, custodian and investment banking services. The Bank operates its non-commercial banking financial products and services through separate subsidiaries. In 2000, the Bank established BoCom Insurance, formerly China Communications Insurance Co., Ltd. prior to the change in its name in 2007) to provide different types of general insurance products and services to its customers. BoCom Schroder Fund, which was established in 2005 as a joint venture with Schroder Investment Management Limited and the China International Marine Containers (Group) Co., Ltd., offers wealth management products and services. In 2007, the Bank established BoCom International Holdings through the restructuring and integration of its wholly owned subsidiary BOCOM International Securities Limited (registered and established in June 1998) to provide investment banking, securities trading and asset management services. In January 2010, the Bank acquired a controlling interest in China Life CMG Life Assurance Co., Ltd. from China Life Insurance Company Limited. The company, which the Bank renamed BoComm Life Insurance Company Limited following the acquisition, offers life insurance products and services. With the acquisition, the Bank became the first of the domestic banks in the PRC to acquire a controlling interest in a domestic insurance company and receive an insurance license. In 2019, the Bank established BOCOM Wealth to continuously enrich and optimise the wealth management product service system. In August 2020, the Bank incorporated BOCOM Financial Technology Company Limited (交銀金融科技有限公司) to explore innovations of FinTech talent management technology introduction, and research and development mechanism of application system and promote the digital and intelligent transformation of the Bank. In 2022, the Bank steadily pursued digital transformation by achieving breakthroughs in retail transformation, supply chain finance and the financial ecosystem. The Bank has also entered into a cooperation arrangement with HSBC with respect to credit card and other financial products and services. As the Bank expands the range of its products and services, it will be exposed to new and potentially increasingly complex risks, including, but not limited to, the following:

- the Bank may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;
- the Bank's new products and services may not be accepted by its customers or meet its expectations for profitability;
- the Bank may need to hire additional qualified personnel who may not be available on commercially viable terms;
- the Bank may not have sufficient financial, operational, management and other human resources to support the expanded range of its products and services;
- the Bank may have disagreements with the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, and they may be unable or unwilling to continue their arrangements with the Bank due to financial difficulties or other reasons;
- the Bank may be faced with risks in integrating the acquired businesses with which the Bank offers certain of these new products and services;
- the Bank may fail to obtain regulatory approval for its new products or services;
- a slowdown in China's economic development could adversely affect the ability of personal borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for personal loans and credit cards; and
- the Bank may not be successful in enhancing its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

Any or all of these types of risks could have an adverse effect on the Bank's financial condition and results of operations.

The Bank may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation.

The Bank is required to comply with applicable anti-money-laundering, anti-terrorism laws and other regulations in the PRC, Hong Kong and other jurisdictions where the Bank has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which could harm its business and reputation, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Any failure or ineffectiveness in implementing its centralised management may adversely affect the Bank's business operations, financial condition and reputation.

The Bank's efforts to centralise its management and initiatives it has undertaken and continues to undertake to improve management of its branches may not be sufficient to prevent all irregular transactions or incidents. Furthermore, in the event that any irregular transactions or incidents occur, the Bank may not be able to timely detect and take appropriate measures to resolve them. If incidents or other irregular transactions do occur, relevant PRC regulatory authorities may take disciplinary actions or impose fines or other types of penalties against the Bank, and the Bank's business and reputation as a result may be materially and adversely affected.

The Bank is subject to a number of risks inherent in the Bank's business, including credit risk, market risk, liquidity risk and operational risk, and there can be no assurance that the Bank's risk management and internal control policies and procedures can protect the Bank against all such risks.

In its operations as a commercial bank, the Bank is subject to a number of risks inherent in the Bank's business, including credit risk, liquidity risk and operational risk. One of the principal risks inherent in the Bank's business is credit risk. The Bank may not be able to effectively implement its credit risk management system or continue to improve it so that it can function effectively. The Bank's credit rating system process involves detailed analysis of the borrower's credit risk, taking into account both quantitative and qualitative factors. The qualitative factors are, by their nature, subject to the individual judgment of the Bank's employees. In exercising their judgment, if the Bank's employees are not able to assign an accurate credit rating to a borrower, the Bank may be exposed to risks associated with the inaccurate assessment. In addition, the Bank may not be able to timely detect potential risks associated with particular industries or types of customers, such as affiliated entities or groups of customers, or, due to limited resources or tools available to the Bank, its employees may not be able to effectively implement them. With respect to market risk, the Bank's methods to manage market risks, including observing historical market behaviour, may not be able to timely or precisely predict future market risk exposures, which could be significantly greater than those indicated by historical measures. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including changes in credit ratings or market-wide phenomena such as financial market instability. While it is the Bank's policy to manage its liquidity prudently, exceptional market events may materially and adversely affect its financial condition and results of operations. The Bank may also be exposed to the risk of unexpected increases in the cost of funding its asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price. With respect to operational risk, the Bank's internal control system is the essential means to maintain the integrity of its business, financial condition and results of operation. Although the Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhances its internal control, including its internal audit function, there can be no assurance that the Bank's staff will be able to consistently follow these policies and guidelines at all times.

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit, market, liquidity and other risks. Further, the Bank's risk management capabilities are limited by the information, tools or technologies available to it. Information, including information provided by third parties, may not be accurate, complete, up-to-date or properly evaluated in all cases. There can be no assurance that the Bank will be able to continue to upgrade its risk management tools and information technology systems, or operate such tools and systems and monitor and analyse the effectiveness of such tools and systems. To the extent that the Bank cannot effectively enhance its risk management and internal controls or its risk management and internal control system are not effectively implemented or consistently applied, the Bank's business operations, financial results and reputation may be materially and adversely affected.

The Bank's business, reputation and prospects may be adversely affected if the Bank is not able to timely detect and prevent fraud or other misconduct committed by its employees, customers or other third parties.

The Bank is subject to fraud and other misconduct committed by its employees, customers or other third parties, which could adversely affect the Bank's business, reputation or prospects. Such misconduct could take a variety of forms including, among other things:

- hiding unauthorised or illegal activities that may result in unknown and unmanaged risks or losses;
- engaging in unauthorised transactions to the Bank's detriment, breaching applicable laws or its internal control procedures or violating financial accounting rules;
- improper extensions of credit;
- misapplying or failing to apply the loan classification standards thereby resulting in misclassifications within the Bank's loan portfolio;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products to the Bank's customers;
- improperly using or disclosing confidential information;
- falsifying or concealing information, including illegal or unlawful activities or credit information, during the credit application or loan classification process;
- binding the Bank to transactions that exceed authorised limits; and
- accepting bribes, soliciting illegal commission payments and embezzling the Bank's money.

The Bank has in the past experienced incidents of fraud and other misconduct committed by employees, customers and other third parties. Although these incidents have not materially adversely affected the Bank's financial condition or results of operations, the Bank has enhanced its risk management and internal controls to avoid future occurrences of similar incidents. Specifically, the Bank has strengthened its auditing efforts over key business processes and key personnel as well as strengthened its efforts in identifying illegal dealings between its employees and customers. While the Bank seeks to continue improving its risk management and internal control systems, including internal audit, management information systems, reporting procedures and staff awareness, to help prevent and detect such fraud or misconduct, the Bank cannot predict whether or when such fraud or misconduct will happen and in what form, and there can be no assurance that the Bank will be able to timely detect or prevent such fraud or misconduct. As a result, the Bank's business, reputation and prospects may be adversely affected if the Bank is not able to timely detect and prevent fraud or other misconduct committed by its employees, customers or other third parties.

The Bank's banking business may be adversely affected by inflationary pressure.

China has continued to experience high inflationary pressure in recent years due to, among other things, improvement of liquidity in the global financial system, rises in asset prices and cost. The Bank believes that under the PRC government's macroeconomic control, inflation is for the moment kept under control.

Meanwhile, the spread between bank deposit and bank loans is effectively under government control and protection, and so the Bank believes that so long as such control continues, the Bank's business will be sheltered from inflation to some extent. Nonetheless, if the inflationary pressure intensifies and if the Bank's interest margin narrows as a result of government action, the Bank's business and operation results may be materially and adversely affected.

The growth rate of the Bank's loan portfolio may slow down, and the Bank may not be successful in implementing its strategies to grow its business.

The Bank's total loans and advances to customers have grown significantly in recent years, increasing from RMB5,848,424 million as at 31 December 2020 to RMB6,560,400 million as at 31 December 2021, representing an increase of 12.17 per cent. and increased further to RMB7,296,155 million as at 31 December 2022, representing an increase of 11.22 per cent. The growth of the Bank's loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow down, or the Bank's loan portfolio may not grow or may even decline. In addition, due to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio or expand its activities in other lower risk businesses that have relatively lower capital requirements. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby adversely affect the Bank's business and future prospects.

In addition, the Bank has implemented a variety of strategies to grow its business, including continuing to expand its domestic and overseas branch network and introducing new products and services, such as mobile banking services, additional fee based services, such as wealth management services, additional credit card products and services and insurance products and services. The Bank may not be successful in implementing its strategies to grow its business, and the Bank's efforts to provide new products and services may strain its resources and divert management attention from its core lending business.

The Bank may need additional capital in the future, and it may not be able to obtain such capital on acceptable terms, or at all, which may result in a lower capital adequacy ratio.

The Basel Committee on Banking Supervision formally promulgated Basel III in December 2010. The CBRC promulgated the CBIRC Capital Regulations on 7 June 2012 based on the reform of the banking industry and the existing regulatory framework of the PRC, taking into account the effect of and requirements set out in Basel II and Basel III. The CBIRC Capital Regulations came into effect as of 1 January 2013; and on the same date the Capital Adequacy Measures, which was promulgated by the CBRC on 23 February 2004 and amended on 3 July 2007, was revoked. The CBIRC Capital Regulations establish a unified regulatory system in respect of the capital adequacy ratio, clarify the definition of capital, expand the range of capital risk coverage, raise the bottom line for the capital adequacy ratio and set a six-year transition period (from 2013 to 2018) for banks to comply with capital adequacy ratio requirements. On 30 November 2012, the CBRC issued the Notice on Matters in relation to the Implementation of Transition Period Arrangements in the (Trial) Measures on the Administration of the Capital of Commercial Banks, which provides the regulatory standards and implementation course for the transition period. As a result, the Bank is required to maintain a minimum core tier one capital adequacy of 5 per cent., a minimum tier one capital adequacy of 6 per cent. and a minimum capital adequacy of 8 per cent. The capital conservation buffer requirement for the Bank is 2.5 per cent., which should be satisfied through core tier one capital. In addition, pursuant to the Provisions on Additional Regulation of Systemically Important Banks (for Trial Implementation) and the list of systemically important banks jointly announced by the PBOC and the CBIRC, the Bank is designated as a domestic systemically important bank and is required to maintain additional capital. The relevant regulatory authorities are also able to impose countercyclical capital buffer requirements on an individual bank from time to time. As at 31 December 2022, the Group's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.06 per cent., 12.18 per cent. and 14.97 per cent., respectively, which satisfy the regulation requirements. Although the Bank was in compliance with the regulatory requirements as at 31 December 2022, future developments could affect the Bank's ability to continue to satisfy applicable capital adequacy requirements, including:

- changes in PRC accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of commercial banks;
- increases in the minimum capital adequacy requirements by the banking regulators;
- increases in the Bank's risk-weighted assets as a result of the rapid expansion of its business;
- decreases in the value of the Bank's investment assets;
- losses resulting from deterioration in the Bank's asset quality; and
- decreases in the Bank's net profits and thus decreases in its retained earnings.

In order for the Bank to grow, remain competitive, enter into new businesses, expand its base of operations or meet regulatory capital adequacy requirements, the Bank may require new funding in the future. Moreover, the Bank may need to raise additional capital in the event of any increase in the minimum regulatory capital adequacy requirements by the CBIRC or large losses in its loan portfolio that result in a reduction of its shareholders' equity. The Bank's ability to obtain additional capital in the future is subject to a variety of factors, including:

- its future financial condition, results of operations and cash flows;
- any necessary government regulatory approvals;
- its credit rating;
- general market conditions, especially conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions both within and outside the PRC.

If the Bank is unable to obtain sufficient additional capital in a timely and cost effective manner, its business, financial condition and results of operations may be adversely affected.

If the Bank fails to meet the capital adequacy requirements, the CBIRC may require it to take corrective actions, including, for example, restricting the growth of its loans and other assets or restricting its declaration or distribution of dividends. These measures could adversely affect the Bank's reputation, financial condition and results of operations.

The Bank's liabilities mainly comprise short-term funding, principally in the form of deposits, and the Bank's liquidity may be materially and adversely affected if a substantial portion of its short-term deposits fails to roll over upon maturity or if the Bank's banking business is not able to attract sufficient deposits to fund its loan activities.

The Bank regularly monitors the maturity gap between assets and liabilities and assesses liquidity risk of different periods. Most of the funding requirements of the Bank's banking business are met through short-term funding, principally in the form of deposits, including customer deposits and interbank deposits. In the past, the Bank's customer deposits have been a stable source of funding for its banking business since the short-term deposits are normally not withdrawn until the maturities of them. There can be no assurance, however, that this practice will continue. If a substantial portion of the Bank's depositors take out their demand deposits or do not roll over deposited funds upon maturity, the Bank's liquidity could be materially and adversely affected, and the Bank may be required to seek more expensive sources of short-term or long-term funding to finance its operations. There can be no assurance that the Bank will be able to obtain finance on normal commercial terms when necessary. Besides, the Bank's ability to obtain additional funding is subject to other factors of which may not be under the Bank's control such as the deterioration in overall market conditions, severe disruptions in financial markets or the poor prospects of Bank's industries with significant credit exposure. These factors could adversely affect the liquidity, business, financial conditions and operation performance of the Bank and have further adverse effect on the market value of the Notes and the Bank's ability of performing obligations under the Notes.

The Bank's loan classification may be different in certain respects from those applicable to banks in certain other countries or regions.

The Bank classifies its loans as "normal", "special-mention", "substandard", "doubtful" and "loss" by using the five-category classification system according to PRC regulations. The Bank's five-category classification system may be different in certain respects from those of banks incorporated in other countries or regions. As a result, it may reflect a different degree of risk than would be reported if the Bank were incorporated in those countries or regions.

The Bank may be exposed to risks relating to labour and employment.

The Bank faces intense competition in recruiting and retaining employees as other banks are competing for the same pool of talent. Given that PRC labour laws and regulations allow employees to freely choose their jobs, the Bank's employees may choose to resign at any time to pursue other opportunities and may seek to take with them customer relationships that they have developed while working for the Bank. Consequently, the Bank has entered into confidentiality agreements with all of its employees and non-compete agreements with its senior management and other staff members owing a special duty of confidentiality which specify the scope, territory and duration of non-competition. There can be no assurance that such confidentiality agreements and non-compete agreements will enable the Bank to retain its employees effectively or at all.

The Bank may not be able to hire, train or retain a sufficient number of qualified staff.

Most aspects of the Bank's business are dependent on the quality of its staff. The Bank devotes considerable resources to recruiting, training and compensating these personnel. However, the Bank faces increased competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, the Bank's employees may choose to resign at any time to pursue other opportunities and may seek to divert customer relationships that they have developed while working for the Bank. The majority of the Bank's employees are not subject to non-compete agreements.

The Bank's corporate finance operations depend to a significant extent on qualified relationship managers to distribute the Bank's products, and the Bank plans to increase the number and efficiency of these relationship managers. In addition, the Bank intends to increase the number of financial advisers employed by its personal finance operations and enhance their training. However, these plans may not be implemented successfully, if at all.

The Bank's largest shareholders may individually or collectively take actions that are not in, and may conflict with, the best interests of the Bank or the Noteholders.

As at 31 December 2022, the Bank's top three shareholders, MOF, The Hongkong and Shanghai Banking Corporation Limited and the National Council for Social Security Fund, collectively own, directly and indirectly, 58.45 per cent. of the Bank's outstanding shares. Accordingly, the Bank's largest shareholders may have the ability to individually or collectively exercise significant influence over the Bank's business, including matters relating to:

- the issuance of new securities;
- the election of the Bank's directors and supervisors;

- the Bank's management, especially the composition of its senior management, due to their significant influence over the Bank's Board;
- the Bank's business strategies and policies;
- the timing and amount of the distribution of dividends;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Bank's articles of association (the "**Articles of Association**").

The Bank's largest shareholders may individually or collectively take actions that investors may not agree with or that are not in the best interests of the Bank or the Noteholders.

The Bank's operations management is dependent on the proper functioning and improvement of its information technology systems. Inability to maintain an effective technology system may have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank's business is highly dependent on the ability of its information technology systems to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches and subsidiaries, at a time when transaction processes and volumes have become increasingly complex and large. The proper functioning of the Bank's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting the Bank's various branches and its main data processing centre, is critical to the Bank's businesses and to its ability to compete effectively. Although the Bank has backup systems that could be used in the event of catastrophe or failure of the primary systems, a partial or complete failure of any of these primary systems or communication networks could adversely affect the decision-making process, the risk management and internal controls of the Bank as well as its timely response to changing market conditions. If the Bank cannot maintain an effective data collection and management system, the Bank's business operations, financial condition and results of operations could be materially and adversely affected.

In addition, the Bank must continually make significant investments, upgrades and improvements in its information technology infrastructure in order to remain competitive. The quality and timing of information available to and received by the Bank's management through its existing information systems may not be sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in the Bank's operations. The Bank may experience difficulties in upgrading, developing and expanding its information technology systems quickly enough to accommodate its growing customer base.

The Bank may be affected by the Financial Institutions (Resolution) Ordinance.

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions (as defined in FIRO) (including the holding company of a within scope financial institution) in Hong Kong which may be designated by the relevant resolution authorities, which may include the Bank to the extent it conducts licensed activities in Hong Kong. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution (including the holding company of a within scope financial institution) in Hong Kong. In particular, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

Certain PRC regulations limit the Bank's ability to diversify its investments, and as a result, a decrease in the value of a particular type of investment may have a material adverse effect on the Bank's financial condition and results of operations.

As a result of current PRC regulatory restrictions, substantially all of the Bank's Renminbi-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as debt securities issued by central governments and central banks, public sector entities, banks and other financial institutions. The Bank is only permitted to a limited degree to invest in debt and equity securities of eligible corporate entities. These restrictions on the Bank's ability to diversify its investment portfolio limit the Bank's ability to seek an optimal return. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of its Renminbi-denominated investment securities. For example, any deterioration of the financial condition of commercial banks in China would increase the risks associated with holding their debt securities. Consequently, a decrease in the value of any of these types of investments could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank may be subject to administrative sanctions, fines and other penalties for violations, particularly for using its funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth in the PRC Commercial Banking Law.

The PRC Commercial Banking Law, which became effective in July 1995 and last amended in 2015, prohibits any investment by a PRC financial institution in a non-financial institution. The Bank's holdings or investments were completed prior to the enactment of the 1995 PRC Commercial Banking Law. The Bank has been unable to completely dispose of these investments primarily because: (1) certain of these institutions are undergoing bankruptcy or liquidation; (2) the Bank's investments in certain institutions is small, making it difficult to find a buyer for these investments; and (3) the Bank is unable to find buyers for some of the investments due to their poor market liquidity and low rates of return. The Bank has been active in its efforts to terminate these investments, including making provisions for impairment; writing off or disposing of these investments in accordance with relevant rules and policy changes; actively seeking purchasers for its shareholdings in these institutions; and otherwise disposing of these investments in accordance with reasonable market terms. While the Bank has not been subject to any material administrative sanctions, fines or other penalties for such investments, there can be no assurance that the relevant regulatory authorities would not take additional actions against the Bank in the future. Any future administrative sanctions, fines or other penalties, including those discussed above, may have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank is subject to various PRC and overseas regulatory requirements, and the Bank's failure to fully comply with such requirements, if any, could materially and adversely affect its business, financial condition, results of operations and reputation.

The Bank is subject to various PRC and overseas regulatory requirements, and the PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. On occasion the Bank fails to comply with certain requirements and guidelines set by the relevant regulatory authorities. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the Bank's business, financial condition, results of operations and its reputation may be materially and adversely affected.

Notwithstanding that such business activities may not themselves be subject to sanctions, the Group may face secondary sanctions if it is determined to be providing material support to countries or entities that are the subject of sanctions. If the Group engages in any prohibited transactions by any means, or if it is otherwise determined that any of its transactions violated sanctions regulations administered by the U.S. State Department, any other agency of the U.S. government, the United Kingdom, the European Union or any other relevant governmental entity, the Group could be subject to penalties, and the Group's reputation and ability to conduct future business in the United States or with U.S. entities, or in other relevant jurisdictions, could be affected, which may materially and adversely affect the Group's business, financial condition and results of operations and the Issuer's ability to make payments, and satisfy the Group's other obligations, under the Notes may also be adversely affected.

The Bank is subject to counterparty risks in its derivative transactions.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. The Bank also has interest rate swap arrangements. The Bank does not typically enter into foreign currency or interest rate derivative arrangements for its own account but are subject to credit risk from its various counterparties. As at 31 December 2022, the Bank's derivative financial assets and liabilities amounted to RMB69,687 million and RMB46,804 million, respectively. Although the Bank believes that the overall credit quality of its counterparties is adequate, there can be no assurances that parties which the Bank has significant exposures to will not face difficulty in paying amounts on derivative contracts when due.

The Bank has expanded its business in jurisdictions other than China, which has increased the complexity of the risks that the Bank faces.

In recent years, the Bank has continued to expand its international operations. As at 31 December 2022, the Bank had overseas subsidiaries branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague and Johannesburg (including the representative office). As at 31 December 2022, the Bank had established 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, with 69 overseas operating outlets. The Bank's international expansion into multiple jurisdictions exposes it to a variety of regulatory and business challenges and risks and has increased the complexity of the Bank's risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. The loan portfolio of the Bank's international branches includes foreign currency-denominated loans to PRC companies engaged in international trade. This exposes the Bank to additional risks including default risk resulting from the failure in the performance of the import or export agreements by any party, trade protectionist measures or other factors, and the Bank's inexperience in various aspects of the economic and legal framework in overseas markets. Adverse market conditions in these international jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank's overseas branches and subsidiaries and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which the Bank operates, there may be incidents of its failure to comply with the regulations in certain jurisdictions. Regulators have the power to bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of the Bank's licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the recent global financial crisis is expected to lead to significant regulatory changes in various jurisdictions, including those in which the Bank has operations. These changes may include changes with respect to capital and liquidity ratios, cross-border capital flows and consumer protection.

The extent and impact of such changes is difficult to anticipate and estimate and such changes could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its international expansion, its business, reputation, results of operations and financial condition may be adversely affected.

The Bank may not possess the relevant land use right certificates or building ownership certificates in respect of some of the properties held by it, and the Bank may be required to seek alternative premises for some of its offices due to its landlords' lack of relevant land use right certificates or building ownership certificates.

The Bank may not hold the land use right certificates or building ownership certificates of some land or buildings it occupies. The Bank will apply for relevant land use right certificates and building ownership certificates that it does not yet hold. Upon obtaining the relevant certificates for these properties, the Bank will have the legal right to occupy, let, transfer and mortgage such property. The Bank may not be able to obtain all of the title deeds for the defective properties and the Bank is uncertain how the Bank's rights as owner/occupier of these defective properties would be adversely affected as a result of the absence of the title deeds as described above.

The Bank leases multiple properties as its operating offices for its branches in China. There can be no assurance that the lessors of all these properties possess the relevant land use right certificates or building ownership certificates and third parties may therefore challenge the validity of the Bank's lease. If any of the Bank's leases were terminated as a result of being challenged by third parties, the Bank may be forced to seek alternative premises for these offices. If the Bank fails to find alternatives of these offices with acceptable terms, the Bank's business, financial conditions and operation performance may be adversely affected.

The Bank has increased its allowance for impairment losses to cover future actual losses and estimated losses to its loan portfolio in accordance with the implementation of IFRS 9.

The Bank determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under IFRS 9. The Bank's provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions which do not assess loans under IFRS 9. As a result, the Bank's allowance for impairment losses, as determined under the provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

As at 31 December 2020, 2021 and 2022, the Bank's allowance for impairment losses were RMB139,274 million, RMB160,089 million and RMB176,178 million, respectively. As at 31 December 2020, 2021 and 2022, the Bank's provision coverage ratio, calculated by dividing the outstanding balance of its impairment allowances by the outstanding balance of impaired loans, was 143.87 per cent., 166.50 per cent. and 180.68 per cent., respectively. The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning. If the Bank's approach to provisioning policies proves not to be adequate, the Bank's business, financial position and results of operations may be negatively affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Historical financial information of the Group may not be indicative of its current or future results of operations.

The historical financial information of the Group included in this Offering Circular may not be indicative of its current or future financial results. With effect from 1 January 2023, the Group adopted IFRS 17 under which the Group was required to adjust certain amounts recognised in the Group's audited consolidated financial statements. According to the transitional provisions of the new standards, the Group has made retrospective adjustments to the financial reports and reorganised the financial reports for each period in 2022 in accordance with the requirements of the IFRS 17. The comparative data has been restated based on the retrospectively adjusted financial reports. For further details regarding the restatement, please refer to the relevant notes to the 2023 First Quarter Financial Statements on page F-318 in this Offering Circular.

Investors should note that the Group's financial information is not intended to represent or predict the results of operations of any future periods. The Group's future results of operations may change materially if its future growth does not follow the historical trends for various reasons, including factors beyond the Group's control, such as changes in economic environment, changes in laws and regulations applicable to the Group's business, and the competitive landscape of the industries in which the Group operates its business. Furthermore, the future results of operations of the Group may also fluctuate or change materially as a result of the business model of the Group and the accounting treatments applied thereto. Since the historical financial information of the Group may not be indicative of its current or future results of operations, there is no assurance that the Group will not record an operating loss in the future, which may have a negative effect on the Group's payment capabilities.

Risks Relating to the PRC Banking Industry

The highly competitive nature of the PRC banking industry could adversely affect the Bank's profitability.

The PRC banking industry is intensely competitive. The Bank competes primarily with the other four largest PRC commercial banks (including Industrial & Commercial Bank of China, Agricultural Bank of China, China Construction Bank and Bank of China), as well as to a lesser extent with other national commercial banks and foreign financial institutions. Certain of the other largest PRC commercial banks may have greater financial and other resources than the Bank does, and may be able to provide more access to customers due to their geographical coverage. In addition, the expansion of joint stock commercial banks in the PRC has intensified competition. In particular, some of these commercial banks may have less impaired loans due to their shorter operating history or better credit management. Furthermore, many other PRC commercial banks compete with the Bank for substantially the same loan, deposit and fee customers.

Following the removal of regulatory restrictions on foreign-invested commercial banks' geographical presence, customer base and operating license in China in December 2006 as part of WTO accession commitments, the Bank has experienced increased competition from such banks. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement, which permits smaller Hong Kong banks to operate in China, has also increased competition in China's banking industry.

The increased competitive pressures resulting from these and other factors may materially and adversely affect the Bank's business and prospects, as well as have a material adverse effect on the Bank's financial condition and results of operations by, among other things:

- reducing the Bank's market share in its principal products and services;
- affecting the growth of the Bank's loan or deposit portfolios and other products and services;
- decreasing the Bank's interest income or increasing its interest expense, thereby decreasing its net interest margin;
- reducing the Bank's fee and commission income;
- increasing the Bank's non-interest expenses, such as marketing expenses;
- deteriorating the Bank's asset quality; and
- increasing competition for senior management and qualified professional personnel.

The Bank's businesses are highly regulated and the Bank may be materially and adversely affected by future regulatory changes.

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which the Bank can engage in specific businesses, as well as changes in other governmental policies. The principal regulators of the PRC banking industry include the CBIRC, the PBOC and the National Audit Office.

In exercising their authority, these regulators are given wide discretion. The bank regulatory regime in China has been undergoing significant changes, some of which are applicable to the Bank and may result in additional costs or restrictions on the Bank's activities. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations nor can there be any assurance that the Bank will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant adverse impact on the Bank's business.

The rate of growth of the PRC banking market may not be sustainable.

The Bank expects the banking market in the PRC to expand as a result of anticipated growth in the PRC economy, increases in household wealth, continued social welfare reform, demographic changes and the opening of the PRC banking market to foreign participants. The prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC, the PRC's implementation of its commitment to WTO accession and the ongoing reform of the social welfare system is currently not clear. Consequently, there can be no assurance that the growth and development of the PRC banking market will be sustainable.

Fluctuations in interest rates as well as the Bank's limited ability to adjust the interest rates the Bank charge on its assets or pay on its liabilities may adversely affect the Bank's lending operations and its financial condition.

As with most commercial banks, results of the Bank's operations depend to a great extent on its net interest income. Fluctuations in interest rates could affect the Bank's financial condition and results of operations and profitability in different ways. For example, a decrease in interest rates may reduce the Bank's interest income as well as yields from interest-earning investments. An increase in interest rates may decrease the value of the Bank's investment debt securities portfolio and raise its funding costs. In addition, an increase in interest rates may reduce overall demand for loans, and, accordingly, reduce the Bank's origination of new loans, as well as increase the risk of customer default. Interest rate fluctuations will also affect the market value of and return on derivative financial instruments. Volatility in interest rates may also result in a gap between the Bank's interest rate sensitive assets and interest rate sensitive liabilities. As a result, the Bank may be required to incur additional costs to adjust its interest rate sensitive assets and liabilities, and its net interest income may decrease.

In addition, increasing competition in the banking industry and further liberalisation of the interest rate regime may result in more volatility in market interest rates. If the interest rates the Bank pays for its deposits increase to a greater extent than the interest rates the Bank receives for its loans, the Bank's net interest margin will narrow, leading to a reduction in the Bank's net interest income. Increases in interest rates might also affect borrowers' financial condition and hence their ability to repay loans.

As a result, fluctuations in interest rates may adversely affect the Bank's deposit taking and lending operations and its financial condition.

Results of the Bank's operations may be materially and adversely affected if the PBOC further liberalises the regulation of interest rates.

In recent years, the PBOC has adopted reform measures to liberalise China's interest rate regime. For example in 2002, the PBOC substantially liberalised interest rates for foreign currency-denominated loans and deposits. In October 2004, the PBOC eliminated restrictions in respect of the maximum interest rate for Renminbi-denominated loans and the minimum interest rate for Renminbi-denominated deposits. In June 2012, the PBOC adjusted the upper limit for the floating range of interest rates on deposits and the lower limit for such floating range of interest rates on loans.

On 19 July 2013, the PBOC published the "Notice on Furthering Market-based Interest Rate Reform" pursuant to which, other than the restriction that commercial banks in China cannot set interest rates for Renminbi-denominated residential mortgage loans below 70 per cent. of the relevant PBOC benchmark rate applicable (since 27 October 2008), restrictions on the loan interest rates were fully liberalised. According to existing PBOC regulations, Renminbi-denominated deposits in commercial banks in China remain subject to restrictions and the interest rate for Renminbi-denominated deposits cannot be set above 150 per cent. of the relevant PBOC benchmark rate. On 25 October 2013, the PBOC introduced a new prime lending rate, officially known as the "loan prime rate", which is based on a weighted average of lending rates from nine commercial banks. In recent years, the PBOC has adjusted the benchmark interest rates several times. The PBOC released the Announcement No. 15 [2019] - Announcement of the People's Bank of China on the Decision to Reform and Improve the Formation Mechanism of Loan Prime Rate (LPR) on 16 August 2019, for the purposes of deepening the market-oriented reform of interest rate, improving the transmission efficiency of interest rate, and promoting the reduction of the financing cost of the real economy. Considering the status and trends of China's reform on interest rates, the PBOC may further promote the market-orientation reform in respect of the interest rates actively and steadily and liberalise the restrictions on the interest rates. If the existing regulations were substantially liberalised or eliminated, competition in China's banking industry would likely intensify as China's commercial banks seek to offer more attractive rates to customers. Further adjustments by the PBOC to the benchmark interest rates or liberalisation by the PBOC would result in the narrowing of the spread in the average interest rates between Renminbi-denominated loans and Renminbi-denominated deposits, thereby materially and adversely affecting the Banks's business, financial conditions and results of operations, and further affecting the Bank's ability to perform its obligations under the Notes.

The effectiveness of the Bank's credit risk management system is affected by the quality and scope of information available in the PRC.

National credit information databases developed by the PBOC have been operational for a few years. In addition, due to limitations on the availability of information and the developing information infrastructure in China, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Bank's credit applicants. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. As a result, the Bank's ability to effectively manage its credit risk may be materially and adversely affected.

The Bank cannot guarantee the accuracy of facts and statistics contained in this Offering Circular with respect to the PRC, its economy or its banking industry or its leasing industry.

Some of the facts and statistics in this Offering Circular relating to the PRC, its economy and its banking industry are derived from various official and other publicly available sources generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts and statistics have not been independently verified by the Bank and therefore the Bank makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.

Risk Relating to Hong Kong

Civil unrest could have an adverse impact on the Bank's business, financial condition or operating results.

Civil unrest, protests, demonstrations or rioting causing mass disruption to businesses and transportation may result in a decrease in consumer spending and reduced usage of the services that the Bank provides. Consumers may avoid areas affected by social upheaval or are unable to reach these areas due to a disruption in transportation. There is no assurance that any unforeseeable interruptions to the business and operations of the Bank's stores and wider business can be mitigated or avoided. Moreover, prolonged civil unrest and an uncertain political environment, including any declaration by the Chief Executive of Hong Kong of a state of emergency pursuant to the Emergency Regulations Ordinance (Cap. 241 of the laws of Hong Kong) (the "**ERO**") which confers on the Chief Executive power to make any regulations whatsoever which he/she may consider desirable in the public interest in an occasion of emergency or public danger, may impact the Hong Kong economy and result in an economic slowdown. With fewer tourists travelling to Hong Kong, inbound tourism may be affected which in turn may negatively affect the Hong Kong retail and hospitality industries. Civil unrest and instability may also dampen market confidence and sentiments. Political or economic instability, or a sustained slowdown in domestic economic activities may adversely affect the Bank's investments in the retail, transport and finance sectors as well as the return of the Bank's other strategic investments. Civil unrest is outside the control of the Bank. Any demonstrations, protests or riots causing disruption to the city, the authorities' reaction to any such protests or riots if they recur, the Chief Executive's decision to make any declaration of a state of emergency and the instability of the political and economic conditions in the region, could adversely impact the Bank's business, financial condition and results of operations and the price of the Notes traded in the secondary market.

Risks Relating to the PRC

Substantially all of the Bank's assets are located in the PRC, and substantially all of the Bank's revenues are derived from its operations in the PRC. Accordingly, the Bank's financial condition, results of operations and prospects will be affected to a significant extent by economic, political and legal developments in the PRC.

PRC economic, political and social conditions and government policies could affect the Bank's financial condition and results of operation.

A substantial majority of the Bank's businesses, assets and operations are located in China. Accordingly, the Bank's financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in China. China's economic development model differs from that of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

China's economy has historically been subject to macro-control by the government. A substantial portion of productive assets in China is still state-owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary or fiscal policy and providing preferential treatment to particular industries or companies. These measures are aimed to benefit the overall economy of the PRC, but some of them may have a negative effect on certain industries, including the commercial banking industry. For example, the Bank's operating results may be adversely affected by government control over capital investments or changes in, interpretation of, and application of applicable tax regulations.

The PRC government has the power to implement macroeconomic control measures affecting China's economy. The PRC economy has grown significantly in recent years. However, since the global financial crisis, China's

GDP experienced slower growth than that of previous years. In response to the global financial crisis and market volatility, the PRC government, began to implement a series of macroeconomic measures and moderately loose monetary policies, which included announcing an economic stimulus package and reducing benchmark interest rates. Certain of such macroeconomic measures had an adverse effect on the Bank's financial condition, results of operations and asset quality. The PRC government had previously implemented a series of measures to slow the pace of economic growth of the PRC economy by raising interest rates and the required reserve ratio and issuing administrative guidelines to control lending to certain industries. There is evidence that the PRC government may again be taking measures to slow the pace of growth following the success of the economic stimulus package, including a reduction in bank lending quotas, an increase in the proportion of banks' assets required to be held in the form of reserves, a reduction in maximum loan-to-valuation ratios for property investment lending and a marginal increase in the short-term interest rate. Additionally, the risk exists that the global economy, including the PRC economy, may suffer a "double dip" recession and the PRC government may have to readjust its macroeconomic control measures accordingly.

Furthermore, the sustained tension between China and the United States over trade policies could undermine the stability of the global economy. China and the United States have recently been involved in disputes over trade barriers that have created trade tensions between the two countries. Both countries have implemented tariffs on certain imported products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. There are uncertainties as to when and whether the trade disputes will be resolved and trade barriers lifted. All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact to the Group's business, prospects, financial conditions and results of operations.

Interpretation and implementation of PRC laws and regulations may involve uncertainties.

The Bank is incorporated and exist under the laws of PRC. The PRC legal system is based on written statutes. Since the late 1970s, China has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and continue to evolve, especially with respect to the PRC banking regulatory regime, these laws and regulations may be subject to different interpretations and inconsistently enforced. In addition, there is only a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value. These uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Bank in its operations.

It may be difficult to effect service of process or to enforce any judgments obtained from non-PRC courts against the Bank and its management residing in the PRC.

The Terms and Conditions of the Notes and the transaction documents are governed by English law and the Bank has submitted to the exclusive jurisdiction of the Hong Kong courts. However, the Bank is a company incorporated under the laws of the PRC, and substantially all of the Bank's business, assets and operations are located in the PRC. In addition, a majority of the Bank's directors, supervisors and executive officers reside in the PRC, and substantially all of the assets of such directors, supervisors and executive officers are located in the PRC. Therefore, it may be difficult for investors to effect service of process from outside of the PRC upon the Bank or those persons residing in the PRC.

Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which the Group is subject are also relatively undeveloped and untested. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts in most other jurisdictions. Therefore, it may not be possible for investors to effect service of process upon the Bank or its management in the PRC.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**Arrangement**"), which is still in full force and effect as of the date of this Offering Circular and will be replaced by and become invalid when the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and Hong Kong (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**New Arrangement**"), which was signed on 18 January 2019, comes into effect. Pursuant to the New Arrangement, if the parties have already signed the choice of court agreement in writing under the Arrangement before the New Arrangement enter into force, the Arrangement shall still apply. Under the Arrangement, where any designated People's Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing entered into by the parties, any party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, the rights under the Arrangement are limited and the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Unlike other notes issued in the international capital markets where holders of such notes would typically not be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts. Thus, the Noteholders' ability to initiate a claim outside Hong Kong will be limited.

In addition, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by a Hong Kong court and governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in Asia and globally may have a material adverse effect on the Bank's business operations, financial condition and results of operations.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in Asia and globally, such as the COVID-19 outbreak, all variants of the avian influenza, severe acute respiratory syndrome ("**SARS**"), Middle East Respiratory Syndrome ("**MERS**"), Ebola virus, and swine flu caused by H1N1 virus ("**H1N1 Flu**"), may have a material adverse effect on the Bank's business operations, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Bank and have adverse effects on the quality of the Bank's assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business operations, financial condition and results of operations.

In particular, the COVID-19 pandemic has been one of the most significant global health crises in recent times. Since 2020, the COVID-19 pandemic has spread around the world, becoming the most severe shock to hit the global economy after the 2008 global financial crisis. The COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time.

In 2022, many countries have cancelled a number of containment measures which they imposed before, including mandatory business closures, travel restrictions, quarantines, lockdowns, limitations on public gatherings and the suspension of major events. Since December 2022, the PRC government has relaxed a number of restrictions which it imposed before in response to the COVID-19 pandemic, including travel restrictions, quarantines, lockdowns, limitations on public gatherings and suspension of major events. While various measures have been relaxed and many aspects of daily life gradually returned to normal in China, it is difficult to predict how long the COVID-19 pandemic will continue to develop and the extent to which the Group may be affected. There is no assurance that the outbreak will not lead to decreased demand for services the Bank provides. The outbreak may also adversely affect the Group's abilities to maintain normal operations and provide uninterrupted services to its customers. The COVID-19 pandemic may further create negative economic impact and increase volatility in China and global market and continue to cause increasing concerns over the prospects of the financial market in China.

Any occurrence of a similar epidemic with a severe domestic or global impact, such as avian influenza, SARS, MERS, Ebola virus, and H1N1 Flu, could restrict the level of economic activities generally and/or slow down or disrupt the Bank's business activities including, but not limited to, a decline in demand for residential mortgage advances, a reduction in the number of customers visiting the Bank's branches and an adverse impact on asset quality due to a weakened economy and higher unemployment rate which could in turn adversely affect the Bank's business or financial condition or results of operations.

Moreover, China has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business. The Bank will continue to pay close attention to the progression of the epidemic and actively assess and respond to its impacts on the Bank's financial position and operating results. There can be no assurance that the Bank's business operation, financial condition and result of operations would not be adversely affected if an outbreak of a similar pandemic such as COVID-19, avian influenza, SARS, MERS, Ebola virus, H1N1 Flu or another highly contagious disease, or the measures taken by the PRC government or other countries in response to such future outbreak of epidemics. There can be no assurance that the Bank's business operation, financial condition and result of operations would not be adversely affected if another outbreak of a natural disaster occurs.

Risk Relating to the Notes issued under the Programme

Potential investors should not place undue reliance on the financial information incorporated by reference that is not audited.

This Offering Circular incorporates the most recently published unaudited but reviewed interim condensed consolidated financial statements of the Bank published from time to time after the date of this Offering Circular in each case together with any review reports prepared in connection therewith, as well as the most recently published unaudited consolidated quarterly interim reports, published subsequent to the most recently published condensed consolidated financial statements of the Bank. The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the HKSE.

The quarterly interim reports have not been and will not be audited by the Bank's auditors and were and will be prepared under IFRS. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such series.

The Terms and Conditions of the Notes also provide that the Fiscal Agent may, without the consent of Noteholders, agree to (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement (as defined in the "*Terms and Conditions of the Notes*") which is not prejudicial to the interests of the Noteholders; or (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law as described in Condition 11(b).

A change in English law which governs the Notes may adversely affect Noteholders.

The Terms and Conditions of the Notes are governed by English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.

The Terms and Conditions of the Notes and the Programme documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Hong Kong and the PRC have entered into the Arrangement which allows for a final court judgment (relating to the payment of money or other civil or commercial proceedings) rendered by a Hong Kong court or PRC court (as the case may be) to be recognised and enforced in the PRC or Hong Kong (as the case may be), provided certain conditions are met. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Arrangement. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder’s ability to initiate a claim outside of Hong Kong will be limited.

The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream, or lodged with the CMU (each of Euroclear, Clearstream, and the CMU, a “**Clearing System**”). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

Risks Relating to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

The relevant Issuer may redeem outstanding notes for tax reasons.

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the relevant Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, PRC, or any other jurisdiction to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

Notes subject to optional redemption by the relevant Issuer may have a lower market value than Notes that cannot be redeemed.

An optional redemption feature is likely to limit the market value of Notes. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The relevant Issuer may be expected to exercise its right to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index linked Notes and dual currency Notes.

Notes may be issued with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, Notes may be issued with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;

- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any index linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any index linked Notes and the suitability of such Notes in light of its particular circumstances.

Failure by an investor to pay a subsequent instalment of partly-paid Notes may result in an investor losing all of its investment.

Notes may be issued where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse floating rate Notes are typically more volatile than conventional floating rate debt.

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

Fixed or floating rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since such Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on the fixed or floating rate Notes may be less favourable than the then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its Notes.

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be or used as "benchmarks" (including the Euro Interbank Offered Rate ("**EURIBOR**")), have been the subject of national, international regulatory guidance and proposals for reform. Some of these reforms are already effective while others have yet to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Note linked to or referencing such a benchmark.

Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the UK Financial Conduct Authority ("**FCA**") or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to or referencing a benchmark in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

The euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates.

Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

The Conditions provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if an inter-bank offered rate (such as EURIBOR) or other relevant reference rate (which could include, without limitation, any mid-swap rate), and/or any page on which such benchmark may be published (or any successor service) becomes unavailable, or if any Paying Agent, Calculation Agent, the Issuer or other party is no longer permitted lawfully to calculate interest on any Notes by reference to such benchmark. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Reference Rate (both as defined in the Conditions), with or without the application of an Adjustment

Spread (as defined in the Conditions). Adjustment Spread is (i) the spread or a formula or methodology for calculating a spread which is formally recommended in relation to the replacement of the Reference Rate (as defined in the Conditions) with the Successor Rate by any Relevant Nominating Body (as defined in the Conditions); (ii) if no such recommendation has been made or in the case of an Alternative Reference Rate, the spread, formula or methodology which the Independent Adviser (as defined in the Conditions) (in consultation with the relevant Issuer) or the relevant Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or (iii) if the Independent Adviser (in consultation with the relevant Issuer) or the relevant Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the spread, formula or methodology which the Independent Adviser (in consultation with the relevant Issuer) or the relevant Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders. There is no guarantee that any Adjustment Spread will be determined or applied. If no Adjustment Spread is determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Rate of Interest.

The use of any such Successor Rate or Alternative Reference Rate or, if applied, Adjustment Spread to determine the Rate of Interest may result in Notes linked to or referencing the initial inter-bank offered rate or other relevant reference rate performing differently (including paying a lower Rate of Interest) than they would do if the initial inter-bank offered rate or other relevant reference rate (as applicable) were to continue to apply in its current form.

Under these fallback arrangements, the Issuer will use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser (as defined in the Terms and Conditions of the Notes) to determine the Successor Rate or Alternative Reference Rate (as applicable) no later than five Business Days (as defined in the Terms and Conditions of the Notes) prior to the relevant Interest Determination Date (the "**IA Determination Cut-off Date**"), but in the event that the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or such Independent Adviser fails to determine the Successor Rate or Alternative Reference Rate (as applicable) prior to the relevant IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) will have discretion to, amongst other things, determine the relevant Successor Rate or Alternative Reference Rate (as applicable). There can be no assurance that such Successor Rate or Alternative Reference Rate (as applicable) determined by the Issuer will be set at a level which is on terms commercially acceptable to all Noteholders.

In certain circumstances, the ultimate fallback for the purposes of calculation of Rate of Interest for a particular Interest Accrual Period may result in the Rate of Interest for the last preceding Interest Accrual Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates, any determinations that may need to be made by the Issuer with the involvement of an Independent Adviser entails a risk that the relevant fallback provisions may not operate as intended at the relevant time. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation, the UK Benchmarks Regulation or any other international or national reforms, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index-Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

Perpetual Notes may be issued for which investors have no right to require redemption.

Any perpetual Notes issued under the Programme are perpetual and have no fixed final maturity date. Holders of perpetual Notes have no right to require the Issuer to redeem perpetual Notes at any time, and an investor who acquires perpetual Notes may only dispose of such perpetual Notes by sale.

Holders of perpetual Notes who wish to sell their perpetual Notes may be unable to do so at a price at or above the amount they have paid for them, or at all. Therefore, holders of perpetual Notes should be aware that they may be required to bear the financial risks of an investment in perpetual Notes for an indefinite period of time.

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risks Relating to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). There can be no assurance as to the liquidity of the Notes or that an active trading market will develop. The liquidity of the Notes could be affected by various factors, and in particular, if a limited number of investors subscribes for a significant portion of the Notes. Such investors may include the Issuer and entities affiliated with the Issuer. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able as receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application will be made for the Notes issued under the Programme to be admitted to listing on the HKSE, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes that may be issued under the Programme. Accordingly, there can be no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

The relevant Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Inventor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of fixed rate Notes.

Investment in fixed rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate Notes.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Risks Relating to Renminbi-denominated Notes

Notes denominated in RMB ("**RMB Notes**") may be issued under the Programme. RMB Notes contain particular risks for potential investors.

Renminbi is not completely freely convertible; there are significant restrictions on remittance of Renminbi into or out of the PRC.

Renminbi is not completely freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving the import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. However, remittance of Renminbi by foreign investors into the PRC for settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from or completing specific registrations or filing with the relevant authorities on a case-by-case basis and subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC government.

Although the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016, and the PBOC and the Ministry of Commerce of the PRC have implemented policies for further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies, there is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC Government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that any regulatory restrictions inhibit the ability of the relevant Issuer to repatriate funds outside the PRC to meet its obligations under Notes denominated in Renminbi, the relevant Issuer will need to source Renminbi offshore to finance such obligations under the relevant Notes denominated in Renminbi, and its ability to do so will be subject to overall availability of Renminbi outside of the PRC.

In addition, holders of beneficial interest of the RMB Notes may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the RMB Notes and the relevant Issuer's ability to source Renminbi outside the PRC to service RMB Notes.

As a result of the restrictions imposed by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBOC has entered into agreements on the clearing of Renminbi business (the "**Settlement Arrangements**") with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong, London, Frankfurt and Singapore, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC remains limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from the offshore market to square such open positions.

The offshore Renminbi market is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the RMB Notes.

To the extent the relevant Issuer is required to source Renminbi outside the PRC to service the RMB Notes, there is no assurance that the relevant Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Remittance of proceeds into or outside of the PRC in Renminbi may be difficult.

In the event that the relevant Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

In the event that the relevant Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer or subsequently is not able to repatriate funds outside the PRC in Renminbi, the relevant Issuer will need to source Renminbi outside the PRC to finance its obligations under the RMB Notes, and their ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Investment in RMB Notes is subject to exchange rate risks.

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as other factors. In August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. In May 2017, the PBOC further decided to introduce counter-cyclical factors to offset the market pro-cyclicality, so that the midpoint quotes could adequately reflect China's actual economic performance. However, the volatility in the value of the Renminbi against other currencies still exists. The relevant Issuer will make all payments of interest and principal with respect to the RMB Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the RMB Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of Renminbi against such currency could cause a decrease in the effective yield of the RMB Notes below their stated coupon rates and could result in a loss when the return on the RMB Notes is translated into such currency. Accordingly, the value of the investment made by a holder of the RMB Notes in that foreign currency will decline.

Payments with respect to the RMB Notes may be made only in the manner designated in the RMB Notes.

All payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by a temporary Global Note or a permanent Global Note (as defined in the Conditions) held with the common depositary, for Euroclear and Clearstream or with a sub-custodian for the CMU or any alternative clearing system by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the Notes are in definitive form, by transfer to a Renminbi bank account maintained by or on behalf of the holder with a bank in Hong Kong in accordance with the prevailing rules and regulations. The relevant Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

There may be PRC tax consequences with respect to investment in the RMB Notes

In considering whether to invest in the RMB Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situation as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the holder's investment in the RMB Notes may be materially and adversely affected if the holder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those RMB Notes. In addition, there may be tax consequences for the investor, as a result of any foreign currency gains resulting from any investment in the RMB Notes.

Investment in the RMB Notes is subject to interest rate risks

The value of Renminbi payments under RMB Notes may be susceptible to interest rate fluctuations occurring within and outside the PRC, including PRC Renminbi repo rates and/or the Shanghai inter-bank offered rate. The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

The RMB Notes may carry a fixed interest rate. Consequently, the trading price of such Notes will vary with the fluctuations in the Renminbi interest rates. If holders of RMB Notes propose to sell their Notes before their maturity, they may receive an offer lower than the amount they have invested.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are part of a Series (as defined below) of Notes issued by Bank of Communications Co., Ltd. Hong Kong Branch (the "**Issuer**") and are issued pursuant to an amended and restated agency agreement dated 7 June 2023 (as may be further amended, restated or supplemented as at the Issue Date, the "**Agency Agreement**") between the Issuer, Bank of Communications Co., Ltd. Hong Kong Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended, restated or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 7 June 2023 executed by the Issuer in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrars, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" and the "Calculation Agent(s)". For the purposes of these terms and conditions (the "**Conditions**"), all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note (together with an Index Linked Interest Note, an "**Index Linked Note**"), an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes**: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes**: One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes**: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Conditions 2 (b) or (c) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfer Free of Charge**: Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of 15 days ending on (and including) any due date for any payment of principal or interest.

3 Covenant related to NDRC

The Issuer undertakes to report or cause to be reported the relevant information in connection with each Tranche of Notes, to the National Development and Reform Commission of the PRC ("**NDRC**"), within the prescribed period and in accordance with the Administrative Measures for the Review and Registration of Medium- and Long-Term Foreign Debts of Enterprises (企业中长期外债审核登记管理办法(中华人民共和国国家发展和改革委员会令（第 56 号）)) as issued by the NDRC and effective from 10 February 2023 and as amended, supplemented or replaced from time to time.

4 Status

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

5 Interest and other Calculations

(a) **Interest on Fixed Rate Notes**: Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes**:

(i) *Interest Payment Dates*: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as specified in the relevant Pricing Supplement) the Margin, if any. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon

(y) the Designated Maturity is a period specified hereon and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time) (in the case of CNH HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than EURIBOR, HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Benchmark Replacement

In addition, notwithstanding the provisions above in Condition 5(b), if the Issuer determines that a Benchmark Event has occurred in relation to the relevant Reference Rate specified in the relevant Pricing Supplement when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:

(i) the Issuer shall use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in a reasonable manner), no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**"), a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate for the purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;

(ii) if the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;

(iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C); provided, however, that if sub-paragraph (ii) applies and the Issuer (acting in a reasonable manner) is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the initial Rate of Interest) (subject, where applicable, to substituting the Margin, Maximum Rate of Interest or Minimum Rate Interest that applied to such preceding Interest Period for the Margin, Maximum Rate of Interest or Minimum Rate Interest that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (iii) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C);

(iv) if the Independent Adviser or the Issuer (acting in a reasonable manner) determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, business days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, if such changes are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/ or Adjustment Spread (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable), determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Fiscal Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(iii)(C). Noteholder or Couponholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Fiscal Agent (if required); and

(v) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Fiscal Agent, Noteholders and Couponholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions,

provided that the determination of any Successor Rate or Alternative Reference Rate, and any other related changes to the Notes, shall be made in accordance with applicable law.

In these Conditions:

"**Adjustment Spread**" means (a) a spread (which may be positive or negative or zero) or (b) a formula or methodology for calculating a spread, in each case required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(1) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or;

(2) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(3) (if the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances and solely for the purposes of this sub-paragraph (iii) only, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders and Couponholders.

"**Alternative Reference Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in a reasonable manner) is most comparable to the relevant Reference Rate.

"**Benchmark Event**" means, in respect of a Reference Rate:

(1) such Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;

(2) a public statement by the administrator of such Reference Rate that it has ceased or will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate);

(3) a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued;

(4) a public statement by the supervisor of the administrator of such Reference Rate that means such Reference Rate will be prohibited from being used either generally or in respect of the Notes or that its use will be subject to restrictions or adverse consequences;

(5) a public statement by the supervisor of the administrator of such Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of an underlying market or the methodology to calculate such Reference Rate has materially changed; or

(6) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder or Couponholder using such Reference Rate,

provided that in the case of sub-paragraphs (2), (3) and (4) of this definition, the Benchmark Event shall occur on the date of the cessation of publication of such Reference Rate, the discontinuation of such Reference Rate, or the prohibition of use of such Reference Rate, as the case may be, and not the date of the relevant public statement;

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser of recognised standing and with appropriate expertise, in each case appointed by the Issuer at its own expense;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(1) the central bank for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; or

(2) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

(iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes**: Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes**: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes**: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding**:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph.

(ii) If any Maximum Rate of Interest, Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) **Calculations**: The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**: The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest

Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Definitions**: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Notes denominated in euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of Notes denominated in a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "Actual/Actual" or "Actual/Actual — ISDA" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)

(ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365

(iii) if "Actual/365 (Sterling)" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366

(iv) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360

(v) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30.

(vi) if "30E/360" or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30.

(vii) if "30E/360 (ISDA)" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(viii) if "Actual/Actual-ICMA" is specified hereon,

(ix) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(a) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR.

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless specified hereon.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

"**ISDA Definitions**" means (i) if "2006 ISDA Definitions" is specified in the relevant Pricing Supplement, the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**"), as amended and updated as at the Issue Date of the first Tranche of the Notes; or (ii) if "2021 ISDA Definitions" is specified in the relevant Pricing Supplement, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions, including any Matrices referred to therein, as published by ISDA as at the Issue Date of the first Tranche of the Notes.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Chinese Yuan in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"**Reference Rate**" means the rate specified as such hereon.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-time Gross Settlement Express Transfer System or any successor or replacement for that system (known as T2).

(k) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption**:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption**:

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or, at any time, (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any of the Relevant Jurisdictions (as defined in Condition 8), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) **Redemption at the Option of the Issuer**: If Call Option is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders**: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 30 nor more than 60 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes**: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(g) **Purchases**: The Issuer and its Subsidiaries (as defined in Condition 10) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) **Cancellation**: All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank; and

(ii) in the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a Bank in Hong Kong.

In this Condition 7(a), "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(b) **Registered Notes**:

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Notes denominated in Renminbi) and fifteenth (in the case of Notes denominated in a currency other than Renminbi) day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:

(x) in the case of Notes denominated in a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and

(y) in the case of Notes denominated in Renminbi, by transfer to the registered account of the Noteholder.

In Condition 7(b)(ii), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Fiscal Laws**: All payments are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents**: The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons**:

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), those Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days**: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in Hong Kong, in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any of the Relevant Jurisdictions, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed levied, collected, withheld or assessed other than the mere holding of the Note, Receipt or Coupon; or,

(b) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Certificate on the last day of such period of 30 days; or

(c) held by or on behalf of a holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority.

As used in these Conditions:

(a) "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation; and

(b) "**Relevant Jurisdiction**" means Hong Kong, the PRC (as defined in Condition 10) or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts that may be payable under this Condition 8.

9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the

Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

(a) **Non-Payment**: the Issuer fails to pay the principal of or any premium (if any) or interest on any of the Notes when due and such failure continues for a period of 30 days; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations in the Notes, the Deed of Covenant or the Agency Agreement which default continues for a period of 45 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Default**: (A) any other present or future Public External Indebtedness of the Issuer or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described) in respect of the terms thereof, or (B) any such Public External Indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent; or

(d) **Insolvency**: the Issuer or any of its Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Material Subsidiaries; or

(e) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Material Subsidiaries, or the Issuer ceases to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another of its Material Subsidiaries; or

(f) **Illegality**: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Deed of Covenant or the Agency Agreement.

In these Conditions:

"**Material Subsidiary**" means a Subsidiary of the Issuer whose total assets or total revenue as of the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which such audited financial statements relate, account for five per cent. or more of the consolidated assets or consolidated revenue of the Issuer as of such date or for such period. If a Material Subsidiary transfers all of its assets and business to another Subsidiary of the Issuer the transferee shall become a Material Subsidiary and the transferor shall cease to be a Material Subsidiary on completion of such transfer;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Public External Indebtedness**" means any indebtedness of the Issuer or any of its Subsidiaries, or any guarantee or indemnity by such entity of indebtedness, for money borrowed which, (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administration Regions or Taiwan) ("**PRC**") (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days, which, for the avoidance of doubt, shall exclude any asset-backed securities offered or issued by the Issuer or any of its Subsidiaries to investors where payments made under such securities are serviced primarily by the cash flows of certain assets of the Issuer; and

"**Subsidiary**" means in relation to any Person (the "**first Person**"), any other Person whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the first Person.

11 Meeting of Noteholders and Modifications

(a) **Meetings of Noteholders**: The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, or (vi) to vary the currency or currencies of payment or denomination of the Notes, in which case the necessary quorum shall be two or more persons holding or representing not less than three-quarters or at any adjourned meeting not less than one quarter of the nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification of Agency Agreement**: The parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

12 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes or the same in all respects save for the principal amount, the Issue Date and the first payment of interest thereon and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to “Notes” shall be construed accordingly.

14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong. So long as the Notes are listed on The Stock Exchange of Hong Kong Limited and the rules of that Exchange so require, notices to holders of the Notes shall also be published in a daily newspaper with general circulation in Hong Kong (which is expected to be the South China Morning Post in Hong Kong). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16 Governing Law and Jurisdiction

(a) **Governing Law**: The Notes, the Receipts, the Coupons and the Talons and any non— contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons and any non-contractual obligations arising out of or in connection with them ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) **Waiver of immunity**: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES OR THE GLOBAL CERTIFICATE

Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream (the "**Common Depositary**") or a sub-custodian for the HKMA as operator of the CMU.

Upon the initial deposit of a Global Note with the Common Depositary or with a sub-custodian for the HKMA as operator of the CMU or registration of Registered Notes in the name of (i) any nominee for Euroclear and Clearstream or (ii) the HKMA and delivery of the relevant Global Certificate to the Common Depositary or the sub-custodian for the HKMA as operator of the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

Relationship of Accountholders with Clearing Systems

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for, or registered with, the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled (in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the*

Programme — Selling Restrictions"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Issue Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Notes*" below, in part for Definitive Notes or, in the case of (i) below, Registered Notes:

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream or the CMU or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

If the relevant Pricing Supplement states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream or the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2 may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the prior consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Installment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; or (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which the relevant clearing systems are located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the relevant Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate representing Notes held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in the records of the CMU) at the close of business on the Clearing System Business Day immediately prior to the date for payment and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose. For the purposes of this paragraph, "**Clearing System Business Day**" means a day on which the CMU is operating and open for business.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

Cancellation

Cancellation of any Note represented by a permanent Global Note or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate.

Purchase

Notes represented by a permanent Global Note or Global Certificate may only be purchased by the Issuer or any of its respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Installment Amounts (if any) thereon.

The Option of the Issuer

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note or Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes drawn or, in the case of Registered Notes, the holder of the Notes in respect of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held by or on behalf of a clearing system, may be exercised by (i) the holder giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits in respect of which the option is exercised and presenting the Global Note or Global Certificate for endorsement or exercise (if required) or (ii) a holder of a book-entry interest in the Notes represented by the Global Note or Global Certificate delivering to the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) the relevant exercise notice, duly completed by or on behalf of such holder (on appropriate proof of its identity and interest), in each case within the time limits specified in the Conditions and otherwise in accordance with the rules and procedures of the relevant clearing system. In the case of (ii) above, deposit of the Global Note or Global Certificate with the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) together with such exercise notice shall not be required.

Notices

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to Euroclear, Clearstream or such other clearing system; or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to the CMU.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note or Global Certificate representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

[**PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes (as defined below) are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[.]/[; or] [(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**").][1] Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**UK PRIIPs REGULATION — PROHIBITION OF SALES TO UK RETAIL INVESTORS** — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the [European Union (Withdrawal) Act 2018 ("**EUWA**")/EUWA]; (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA[.]/[; or] [(iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**")].[2] Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.]

[**MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**UK MiFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market

1 Paragraph (iii) is not required where the Notes have a denomination of at least €100,000 or equivalent.

2 Paragraph (iii) is not required where the Notes have a denomination of at least €100,000 or equivalent.

assessment in respect of the Notes [(as defined below)] has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**") ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures Act (Capital Market Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products] / [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).][1]

Pricing Supplement dated [●]

Bank of Communications Co., Ltd. [Hong Kong/[●]] Branch

Legal entity identifier (LEI): 549300AX1UM10U30HK09

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*] (the "**Notes**")
under the U.S.$12,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [*original date*] [and the supplemental Offering Circular dated [*date*]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [date]] and this Pricing Supplement.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date*.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [date]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [date]] and this Pricing Supplement.]

1 For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") ("**Professional Investors**") only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

The Managers and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Managers or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Pricing Supplement or for any other statement, made or purported to be made by the Managers or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the Programme. The Managers and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Pricing Supplement or any such statement.

This Pricing Supplement, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.][1]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement*.]

1		Issuer:	Bank of Communications Co., Ltd. [Hong Kong/[●]] Branch
2	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number:]	[●]
	[(iii)	Date on which the Notes will be consolidated and form a single Series:]	The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/the date that is 40 days after the

[1] Applicable for Notes to be listed on the Hong Kong Stock Exchange only.

		Issue Date/exchange of the temporary Global Note for interests in the permanent Global Note, as referred to in paragraph 27 below, which is expected to occur on or about [*date*]][Not Applicable][(1)]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount:	[●]
	[(i)] Series:	[●]
	[(ii) Tranche:	[●]]
5	[(i)] Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	[(ii) Net proceeds:	[●] (*Required only for listed issues*)]
6	Use of Proceeds	[●] (*If applicable, include relevant disclosure if proceeds are used to repay indebtedness of relevant Dealer(s)*)
7	(i) Specified Denominations:	[●][(2)]
	(ii) Calculation Amount[(5)]:	[●]
8	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[Specify/Issue date/Not Applicable]
9	Maturity Date:	[specify date (*for Fixed Rate Notes*) or (*for Floating Rate Notes*) *Interest Payment Date falling in or nearest to the relevant month and year*][(3)]
10	Interest Basis:	[[●] per cent. Fixed Rate] [[specify reference rate] +/– [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
11	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)]
12	Change of Interest or Redemption/ Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
13	Put/Call Options:	[Put] [Call] [(further particulars specified below)]

14	(i)	Status of the Notes:	Senior Notes
	(ii)	Regulatory approval for issuance of Notes obtained(6):	[[●]/None required] (6)
15		Listing:	[[●]/Other (*specify*)/None]
16		Method of distribution:	[Syndicated/Non-syndicated]
17		Private Bank Rebate/Commission:	[Not Applicable / [Applicable] A rebate of [●] basis points is being offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors.]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18		Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Rate [(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year(4) [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount(5)
	(iv)	Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate*]
	(v)	Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual (ICMA/ISDA)/Other] (*Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise*)
	(vi)	Determination Date(s) (Condition 5(j)):	[●] in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*](7)

	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
19		Floating Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	Interest Period Date(s):	[Not Applicable/specify dates] (*Not applicable unless different from Interest Payment Date*)
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(v)	Business Centre(s) (Condition 5(j)):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
		— Reference Rate:	[●]
		— Interest Determination Date:	[[●] [TARGET] Business Days in [*specify city*] for [*specify currency*] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]
		— Relevant Screen Page:	[●]
	(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	
		— Floating Rate Option:	[●]
		— Designated Maturity:	[●]
		— Reset Date:	[●]
		— ISDA Definitions: (if different from those set out in the Conditions)	[2006/2021]
	(x)	Margin(s):	[+/–] [●] per cent. per annum
	(xi)	Minimum Rate of Interest:	[●] per cent. per annum
	(xii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiii)	Day Count Fraction (Condition 5(j)):	[●]
	(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating	[●]

		to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	
20	Zero Coupon Note Provisions		[Applicable/Not Applicable] (If *not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Amortisation Yield (Condition 6(b)):	[●] per cent. per annum
	(ii)	Day Count Fraction (Condition 5(j)):	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
21	Index Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula:	[*Give or annex details*]
	(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv)	Interest Period(s):	[●]
	(v)	Specified Interest Payment Dates:	[●]
	(vi)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vii)	Business Centre(s) (Condition 5(j)):	[●]
	(viii)	Minimum Rate of Interest:	[●] per cent. per annum
	(ix)	Maximum Rate of Interest:	[●] per cent. per annum
	(x)	Day Count Fraction (Condition 5(j)):	[●]
22	Dual Currency Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate of Exchange/Method of calculating Rate of Exchange:	[*Give details*]
	(ii)	Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]

	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]
	(v) Day Count Fraction (Condition 5(j)):	[●]

PROVISIONS RELATING TO REDEMPTION

23	Call Option	[Applicable/Not Applicable] (If *not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
24	Put Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
25	Final Redemption Amount of each Note	[●] per Calculation Amount
26	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27	Form of Notes:	[Bearer Notes/Registered Notes/ Dematerialised Registered Notes] [*Delete as appropriate*] [temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent

		Global Note] [temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/Certificate][8]
28	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	[Not Applicable/Give details. *Note that this item relates to the date and place of payment, and not interest period end dates, to which item 17(ii), 18(iv) and 20(vii) relate*]
29	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, *give details*]
30	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
31	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
32	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
33	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
34	Other terms or special conditions:	[Not Applicable/*give details*][9] [The definition of the "Relevant Jurisdiction" as set out in Condition 8 shall be deemed to be deleted in its entirety and replaced with the following: ""Relevant Jurisdiction" means [jurisdiction where the relevant branch is located], the PRC (as defined in Condition 10) or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes."] [10]

		[Condition 1 (*Form, Denomination and Title*) and Condition 2 (*No Exchange of Notes and Transfers of Registered Notes*) – no definitive Certificates shall be issued, and all references to "Noteholders" shall mean the accountholders at [the relevant clearing system] as from time to time certified by [the relevant clearing system] (the "**[the relevant clearing system] Accountholders**"). Condition 7 (*Payments and Talon*s) – all payments shall be made to [the relevant clearing system] Accountholders. Condition 11 (*Meeting of Noteholders and Modifications*) – the persons entitled to attend and vote at a meeting shall be [the relevant clearing system] Accountholders. Condition 14 (*Notices*) – notices shall be given to [the relevant clearing system] for communications purposes in accordance with rules and procedures of [the relevant clearing system] for the time being. All Conditions requiring presentation or surrender of Certificate are not applicable. A deed poll dated the Issue Date has been executed by the Issuer and delivered to the Fiscal Agent.] (11)

DISTRIBUTION

35	If syndicated, names of Managers:	[Not Applicable/*give names*]
	Stabilisation Manager (if any):	[Not Applicable/*give name*]
36	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
37	U.S. Selling Restrictions	[Reg. S Category 1/2; TEFRA D/TEFRA C/TEFRA Not Applicable]
38	Additional selling restrictions:	[Not Applicable/*give details*]
39	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified*.)
40	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable]

		(*If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no Key Information Document (as provided for under the UK PRIIPs Regulation) will be prepared, "Applicable" should be specified.*)

OPERATIONAL INFORMATION

41	ISIN Code:	[●]
42	Common Code:	[●]
43	CMU Instrument Number:	[●]
44	Any clearing system(s) other than Euroclear, Clearstream and the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
45	Delivery:	Delivery [against/free of] payment
46	Additional Paying Agents (if any):	[●]

GENERAL

47	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of [●], producing a sum of (for Notes not denominated in US dollars):	[Not Applicable/US$[●]]
48	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
49	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]

HONG KONG SFC CODE OF CONDUCT

50	Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	[*Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – Overall Coordinators to provide*] / [Not Applicable]
51	[Marketing and Investor Targeting Strategy:	[*Provide details if different from the programme Offering Circular*]]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US$12,000,000,000 Medium Term Note Programme of Bank of Communications Co., Ltd. Hong Kong Branch.]

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[STABILISATION

In connection with the issue of the Notes, [any of the Managers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s))] in this Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot and effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and regulations.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There](12) has been no significant change in the financial or trading position of the Issuer or of the Group since [*insert date of last audited accounts or interim accounts (if later)*] and no material adverse change in the financial position or prospects of the Issuer or of the Group since [*insert date of last published annual accounts*].]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: ________________________________

Duly authorised

Notes:

(1) For a tap of a Reg S Cat 2 issue and where notes are in registered form or go straight into permanent global form (TEFRA C) (such that there is not a TEFRA D temporary global note), consider whether a temporary ISIN may still be necessary to comply with the distribution compliance period. If so, the following wording may be considered "The Notes will be consolidated and form a single Series with the [identify earlier Tranches] (the "Original Notes") on the date that is 40 days after the Issue Date (the "Exchange Date"). Until the Exchange Date the Notes will have a temporary ISIN and temporary Common Code ("Temporary ISIN" and "Temporary Common Code", respectively). After the Exchange Date the Notes will have the same ISIN and Common Code ("Permanent ISIN" and "Permanent Common Code" respectively) as the Original Notes".

(2) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000".

(3) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

(4) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day."

(5) For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.05 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.01, HK$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

(6) State either the date of the Pre-Issuance NDRC Registration or that the annual quota from NDRC has been obtained.

(7) Only to be completed for an issue where the Day Count Fraction is Actual/Actual-ICMA.

(8) If the temporary Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.

(9) If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(10) Required only for an Issuer other than Bank of Communications Co., Ltd. Hong Kong Branch.

(11) Required only for dematerialised Registered Notes.

(12) If any change is disclosed in the Pricing Supplement, it may require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Bank

The following table sets forth the actual consolidated debt and capitalisation of the Bank as at 31 December 2022. Investors should read this table in conjunction with the Bank's audited consolidated financial statements as at and for the year ended 31 December 2022 and the notes thereto included in this Offering Circular.

Except for the translation amount shown in U.S.$, the Bank's audited consolidated financial statements as at 31 December 2022 set forth below are derived from the published audited consolidated financial statements as at and for the year ended 31 December 2022.

	As at 31 December 2022	
	(RMB in million) *(audited)*	*(U.S.$ in million)*
Debt		
Debt securities issued	530,861	3,661,454.49
Other borrowings(1)	9,983,966	68,861,410.30
Total debt	10,514,827	72,522,864.78
Equity		
Share capital	74,263	512,206.76
Other equity instruments	174,790	1,205,561.59
Capital surplus	111,429	768,548.10
Other reserves	369,259	2,546,853.17
Retained earnings	293,668	2,025,486.93
Non-controlling interests	12,331	85,049.37
Total equity	1,035,740	7,143,705.93
Total capitalisation(2)	11,550,567	79,666,570.71

Notes:

(1) Other borrowings include amounts due to and placements from banks and other financial institutions and amounts due to customers.

(2) Total capitalisation equals the sum of total debt and total equity.

Unless otherwise disclosed in this Offering Circular, there has not been any material change in the capitalisation of the Bank since 31 December 2022.

USE OF PROCEEDS

The net proceeds of any Notes issued under the Programme shall be used for the relevant Issuer's working capital and general corporate purposes.

DESCRIPTION OF THE HONG KONG BRANCH

Business Activities

Established in 1934, the Hong Kong branch of the Bank is the largest overseas branch of the Bank. As at 31 December 2022, it had 45 outlets in Hong Kong.

The Hong Kong branch of the Bank has placed an increasing emphasis on serving personal banking customers. For corporate finance operations, it targets, among others, listed companies and large PRC state-owned enterprises. Apart from generating interest income, it continues to focus on generating fee income. It provides a variety of fee-based products and services.

On 14 July 2017, the Bank announced to invest in the establishment of Bank of Communications (Hong Kong) for a total amount of HK$7.9 billion, which amounted to 100 per cent. of the share capital of Bank of Communication (Hong Kong). The establishment of Bank of Communications (Hong Kong) was approved by the China Banking Regulatory Commission on 20 January 2014. Bank of Communications (Hong Kong) also obtained a full banking licence under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (the "**Ordinance**") from the Hong Kong Monetary Authority on 29 September 2015 to operate banking business and specialised in retail banking business and private banking business. On 29 January 2018, the Bank further announced the existing activities, assets and liabilities which constituted the retail and private banking businesses of the Hong Kong branch of the Bank on that day was transferred to the Bank of Communications (Hong Kong) in accordance with section 4(1) of the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the Laws of Hong Kong).

Bank of Communications (Hong Kong) was a wholly-owned subsidiary of the Bank through establishing a complete corporate governance structure in accordance with the Ordinance and other relevant regulatory requirements. The establishment of Bank of Communications (Hong Kong) aimed to expand and intensify the Bank's retail and private banking business by building on its strong foundation in Hong Kong. The establishment demonstrated the Bank's long-term commitment to Hong Kong customers, employees and business partners and signifies a clearer and more focused separation in the serving of different customer groups. The Hong Kong branch of the Bank continues to exist and hold a full banking licence under the Ordinance to operate its banking business as a licensed bank in Hong Kong. As at 31 December 2022, the Hong Kong branch of the Bank had 954 employees and Bank of Communications (Hong Kong) had 872 employees.

Hong Kong Banking Industry Regulatory Regime

The banking industry in Hong Kong is regulated under the provisions of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (the "**Banking Ordinance**") and subject to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks which have been granted a banking license ("**license**") by the HKMA may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks ("**licensed banks**").

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, unless the HKMA permits returns to be made at less frequent intervals;

- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by a licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;
- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;
- licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations;
- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require; and
- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.

In addition, the Hong Kong branch of the Bank is also subject to the FIRO. Please refer to the risk factor "*Risk Factors – Risks Relating to the Bank's Business – The Bank may be affected by the Financial Institutions (Resolution) Ordinance*" for further information.

DESCRIPTION OF THE BANK

OVERVIEW

Founded in 1908, the Bank is one of the note-issuing banks with the longest history in modern China. In 1986, the State Council of the PRC decided to reorganise the Bank. The Bank reopened after reorganisation on 1 April 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with the head office located in Shanghai. The Bank made its first public offering of its H shares and listing on the HKSE in June 2005, and its first public offering of its A shares and listing on the Shanghai Stock Exchange in May 2007. The Bank was the sixth largest commercial bank in the PRC based on total assets as at 31 December 2022. The Group was ranked in Fortune 500 for fourteen consecutive years, and ranked No. 155 in 2022. The Group ranked No.10 among the Global Top 1000 World Banks 2022 rated by *The Banker*.

Substantially all of the Bank's operations are located in the PRC and the Bank is headquartered in Shanghai. As at 31 December 2022, the Group had 252 domestic branches, including 38 provincial branches and directly-managed branches and 214 branches managed by provincial branches, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. Through this network and other distribution channels, the Group provides a broad range of financial products and services to its corporate and personal finance customers. As at 31 December 2022, in addition to its PRC operations, the Bank had branches or subsidiaries which are located in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

For the years ended 31 December 2020, 2021 and 2022, the Group's profit before tax were RMB86,425 million, RMB93,959 million and RMB98,215 million, respectively. As at 31 December 2020, 2021 and 2022, the Group had total assets of RMB10,697,616 million, RMB11,665,757 million and RMB12,992,419 million, respectively, gross amount of loans and advances to customers before impairment allowance of RMB5,848,424 million, RMB6,560,400 million and RMB7,296,155 million, respectively, total amounts due to customers of RMB6,607,330 million, RMB7,039,777 million and RMB7,949,072 million, respectively, and total equity attributable to equity holders of the parent company of RMB866,607 million, RMB964,647 million and RMB1,023,409 million, respectively. As at 31 December 2020, 2021 and 2022, the Group's non-performing loan ratios were 1.67 per cent., 1.48 per cent. and 1.35 per cent., respectively. As at 31 December 2020, 2021 and 2022, the Group's provision coverage ratios were 143.87 per cent., 166.50 per cent. and 180.68 per cent., respectively.

RECENT DEVELOPMENTS

Highlights of first quarter 2023 results

The 2023 First Quarter Financial Information was published on 28 April 2023 on the website of the HKSE. During the first quarter of 2023, in response to the numerous internal and external risks and challenges, the Group deeply carried out the underlying principles from the 20th CPC National Congress and the guidelines of the Central Economic Work Conference, increased the support for the real economy, promoted the implementation of the “14th Five-Year Plan” of the Group, the performance of the main indicators met expectations, the foundation of business development was continuously strengthened, resulting in a generally stable opening.

As at 31 March 2023, the total assets of the Group increased by 5.10 per cent. over the end of the previous year to RMB13,654.273 billion. The total liabilities increased by 5.34 per cent. over the end of the previous year to RMB12,596.687 billion. Shareholders’ equity (attributable to shareholders of the Bank) increased by 2.34 per cent. over the end of the previous year to RMB1,045.920 billion. For the three months ended 31 March 2023, the net operating income increased by 5.47 per cent. on a year-on-year basis to RMB67.169 billion. For the three months ended 31 March 2023, the net profit (attributable to shareholders of the Bank) increased by 5.63 per cent. on a year-on-year basis to RMB24.633 billion. For the three months ended 31 March 2023, the annualised return on average assets and the annualised return on weighted average net assets were 0.75 per cent. and 11.47 per cent., representing year-on-year decreases of 0.03 percentage point and 0.21 percentage point, respectively.

Proposed appointments of executive directors and independent director

As at the date of this Offering Circular, the Board of the Bank comprises 16 members being two executive directors, eight non-executive directors and six independent non-executive directors. Each director of the Bank is elected at a shareholder meeting for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by a simple majority of the Board. The Board of the Bank has resolved to propose to appoint Mr. Yin Jiuyong as an Executive Director and a member of Risk Management and Related Party Transactions Control Committee and to appoint Mr. Zhou Wanfu as an Executive Director and a member of Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee on 13 January 2023. The Board of the Bank has also resolved to propose to appoint Mr. Wang Tianze as an Independent Director and a member of Audit Committee and Risk Management and Related Party Transaction Control Committee on 28 April 2023.

On 1 March 2023, the appointment of Mr. Yin and Mr. Zhou as Executive Directors of the Board of the Bank was approved by the shareholders at the Bank’s 2023 first extraordinary general meeting.

In accordance with the laws, regulations and the Articles of Association, the appointments of Mr. Yin and Mr. Zhou as Executive Directors and members of the special committees under the Board are subject to the approval of the CBIRC on their qualification as the Executive Directors and the appointment of Mr. Wang as an Independent Director and a member of the special committees under the Board is subject to the approval of the shareholders on his appointment as an Independent Director at the general meeting as well as the approval of the CBIRC on his qualification as the Independent Director. Please refer to details in “*Management of the Bank – Directors – Executive Directors*” and “*Management of the Bank – Directors – Independent Non-executive Director*”, respectively.

Proposed appointments of company secretary

The Board of the Bank resolved on 30 March 2023 to appoint Mr. He Zhaobin as Secretary of the Board, Company Secretary and Authorised Representative of the Bank. The appointment of Mr. He will be effective upon the approval by the regulatory authority of the banking industry of the State Council on his qualification as secretary of the Board.

Since Mr. He does not possess the qualifications to fulfil the requirements under Rule 3.28 of the Listing Rules on the HKSE, the Bank has applied for, and the HKSE has granted, a waiver from strict compliance with the requirements under Rule 3.28 of the Listing Rules for a period of three years in respect of the appointment of Mr. He as Company Secretary of the Bank, on the condition that (i) Mr. He must be assisted by Mr. Ng Ping

Kwong during the waiver period, and (ii) the waiver could be revoked if there are material breaches of the Listing Rules by the Bank. Please refer to details in "*Management of the Bank – Senior Management*".

THE BANK'S AWARDS

The Bank believes the brand of "Bank of Communications" is one of the most recognised financial service brand names in China. The Bank ranked No. 10 among the Top 1000 World Banks 2022 by *The Banker*. The Bank was honoured in Fortune 500 for fourteen consecutive years and was ranked No. 155 in 2022. In 2022, the Bank was awarded "Best Cash Management Bank, China" by *The Asset*, "Top 10 Transaction Banking Innovation Award" by *The Banker*, "First prize of FinTech Development Award" by the PBOC, "Innovation Achievement award" by Ministry of Industry and Information Technology of the PRC, "Digital Pioneer Enterprise Award" by Tencent, "Best Custodian, Pension, China" by *The Asset*, "The 17th People's Enterprise Social Responsibility Award – Annual Enterprise Award The 19th People's Ingenuity Award – Ingenuity Service Award" by *People. cn*, "MSCI ESG Rating Grade A" by Morgan Stanley Capital International. In 2021, the Bank was awarded "Advanced Unit in National Poverty Alleviation" by the CPC Central Committee, the State Council, "First prize of FinTech Development Award in 2020" and "Assessment A+ on Protecting Financial Consumers' Rights and Interests of the People's Bank of China in 2020" by the PBOC, "First prize of Shanghai Financial Innovation Achievement Award in 2020" by Shanghai Municipal People's Government, "Best Open Bank Award, Best Corporate Mobile Banking Award and Best Personal Mobile Banking Award" by China Financial Certification Authority ("**CFCA**"), "Best Bank for Payment and Settlement Solution (Project of Intelligent Financial Services Platform of Jiangsu Financial Leasing)" by *The Asset*, "Best Bank for International Business" by *Trade Finance,* "Best Innovative Investment Bank in 2021" and "Best Bank for Securitisation Deal in 2021" by *Asia Money* and "Credit Card Centre in 2021" by *21st Century Business Herald*. Besides, the Bank was also awarded "Excellent Bank for Brand Construction in 2021" by *China.com.cn* and "2021 People's Corporate Social Responsibility – Corporate Performance Award" by *People.cn*. In 2020, the Bank was awarded "Outstanding Corporate Social Responsibility Award or Chinese Enterprises in 2020" and "Excellent Corporate Social Responsibility Cases in 2020" by *Xinhuanet* and "Best Bank for Poverty Alleviation Support in 2020" by *Financial Times*. Besides, the Bank was awarded "Best Brand Image Bank of the Year" and "Best Innovative FinTech Bank of the Year" by *Sina Finance*, and "Mobile Banking with Best User Experience Award" and "Best Open Bank Award" by CFCA. The Bank was awarded "2020 Gamma Award for Best Comprehensive Bank in Undertaking Investment Bank Business" by the *Securities Times* and "Best Green Bond 2020 (China)" by *The Asset*.

THE BANK'S COMPETITIVE ADVANTAGES

A fast growing state-owned bank in China with sustainable improvement in value creation

Known as a "centuries-old bank", the Bank established its time-honoured financial brand with a long-standing history and accumulative competitive advantages. As at 31 December 2022, the total assets of the Group amounted to RMB12,992,419 million. As at 31 December 2022, the deposit balances of the Group reached RMB7,949,072 million and the loans and advances balances of the Group amounted to RMB7,296,155 million. The Bank enjoys high recognition and reputation nationwide. The Bank was ranked in Fortune 500 for fourteen consecutive years, and ranked No. 155 in 2022. The Bank ranked No. 10 among the Top 1000 World Banks 2022 by *The Banker*.

The Bank has always been a pioneer of reformation in banking sector since reorganisation. The Bank is the first national joint-stock commercial bank in China, the first integrated commercial bank to carry out banking, insurance and securities businesses and the first domestic large scale commercial bank to successfully bring in foreign capital and to list overseas. In 2015, the Bank took the initiative to be responsible for the financial pilot reform in China after its reformation plan, BoCom's Plan to Strengthen Reformation, approved by the State

Council. In taking "creating shared value and providing the best service" as its core value, the Bank will continue to implement reformation as appropriate and place emphasis on the continuous strategic landscape for stronger wealth management characteristics, with an aim to become a bank with top wealth management businesses and global competitive capabilities in the world.

The Bank is one of the first banks to initiate the concept of wealth management services in the industry. The brand and characteristics of wealth management became more and more prominent with the continuous development of the Bank's wealth management service system. The Bank has also obtained various licenses relating to trust, leasing, fund, insurance, securities and financial investment, to develop its wealth management business. In 2019, the Bank set up and continuously expanded its asset management subsidiary and fund management subsidiary. The Bank has built up a product and service system categorised by wealth preservation and incrementation, financial planning and risk hedging in order to provide online and offline financial services in relation to on-and-off balance sheet and debt and equity investment. Targeting retail customers, the Bank also integrated certain retail services into the system with respect to wealth management, family trust, insurance broker and asset management. As at 31 December 2022, the individual financial AUM managed by domestic branches was RMB4,621.362 billion, representing an increase of 8.57 per cent. over the end of the previous year; and number of monthly active users ("**MAU**") of personal mobile banking increased by 19.35 per cent. over the end of the previous year to RMB45.4833 million. For the year ended 31 December 2022, the Group reported fee and commission income from wealth management business of RMB10,154 million through the consignment of wealth management products, funds and wealth management business.

The Group maintains constant and steady growth in terms of its business scale. The Group's corporate banking businesses routinely increased. As at 31 December 2022, the Group's corporate loan balance increased by RMB572,771 million or 13.84 per cent. as compared with the end of the previous year, in which related loans to the manufacturing industry, green credit and the agriculture-related loans increased by 23.23 per cent., 33.28 per cent. and 22.15 per cent., respectively, all exceeding the average growth rate of the Group's loans. For the year ended 31 December 2022, the business volume of industrial value chain financial business increased by 41.92 per cent. on a year-on-year basis, and the sci-tech finance credit customers increased by 49.55 per cent. over the end of the previous year. As at 31 December 2022, the balance of loans of inclusive loans for small and micro enterprises amounted to RMB456,239 million, representing an increase of 34.66 per cent. over the end of the previous year. As at 31 December 2022, the number of customers with loan balances was 293,100, representing an increase of 38.09 per cent. over the end of the previous year.

The Group's personal banking business also showed an upward trend. As at 31 December 2022, the Group's balance of personal deposits increased by 23.01 per cent. over the end of the previous year to RMB2,955,724 million, and its balance of personal loans increased by 3.56 per cent. over the end of the previous year to RMB2,366,507 million, of which personal housing loans increased by 1.55 per cent. over the end of the previous year. As at 31 December 2022, the credit cards in force reached 74,508,300 and the net increase of new credit cards reached 239,500. As at 31 December 2022, the accumulated consumption paid by debit card amounted to RMB2,375,646 million; and the accumulated number of debit cards issued amounted to 173.5156 million, representing a net increase of 7.7641 million over the end of the previous year. The Group also focused on developing consumer finance, optimising its online application named "Benefit Loan" (namely online credit consumption loans launched by the Bank for qualified customers), leveraging its FinTech services and improving its intelligent risk management capabilities during the same period. The Bank accelerated the innovation and iteration of personal consumer loan products, on the basis of meeting customers' diversified financial needs concerning clothing, food, housing, travel and medical care to improve the whole-process customer experience. The Bank also provided supporting differentiated credit policies and service solutions to enhance consumer loan services for new citizens. It actively provided relief measures to the retail credit customers affected by the pandemic. As at 31 December 2022, the personal housing loan balance increased by 1.55 per cent. over the end of the previous year to RMB1,512.648 billion. As at 31 December 2022, the personal consumption loan balance of domestic branches increased by 58.38 per cent. over the end of the previous year to RMB84.893 billion, and the market share of personal consumption loans domestic branches increased by 0.97 percentage points over the end of the previous year.

Committed to building the international and comprehensive financial service platform

The Bank is committed to becoming a first-class international bank with advantages in international businesses and delivering global financial services. The Bank is one of the most internationalised domestic banks in China and its international layouts are at the forefront with respect to its domestic counterparts. Its overseas banking institutions have initially sprouted up within the Asia-Pacific area. Taking it as a base camp, the Bank also expanded its global landscape by tapping into Europe and the United States. As at 31 December 2022, the Bank established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions, providing customers with comprehensive financial services including deposits, loans and advances, international settlement, trade financing and foreign currency exchange. In the year of 2022, the Bank's overseas banking institutions closely monitored changes in the global market. It carried out operational management in a steady and orderly manner, strengthened structural and dynamic adjustments, and coordinated development and safety. The Bank aimed to proactively respond to the pursuit of high-level opening up and a new development pattern of "dual circulation," in which domestic and foreign markets reinforce each other. As at 31 December 2022, the Bank had established overseas banking service network with 1,010 banks in 127 countries and regions, set up 235 cross-border Renminbi interbank accounts for 100 overseas Renminbi participating banks in 32 countries and regions, and opened 82 foreign currency settlement accounts in 27 major currencies with 63 banks in 31 countries and regions. In addition, for the year ended 31 December 2022, the net profit of the Group's overseas banking institutions was RMB5,111 million, whose contribution to the Group's total net profit was 5.55 per cent. As at 31 December 2022, the total assets of the Group's overseas banking institutions were RMB1,262.918 billion, whose contribution to the Group's total assets was 9.72 per cent.

To facilitate the globalisation of domestic enterprises, the Bank and HSBC has also jointly launched a program named "1+1 Global Financial Cooperation" to provide related services and advices. The Bank also connected to the "Single Window" of the customs to provide one-stop trading, settlement and financing services to foreign trade companies. In addition, the Bank developed a new format of trade services, actively connected the Bank with cross-border e-Commerce enterprises and integrated foreign trade service platforms to improve the foreign exchange settlement autonomy and capital turnover efficiency of medium, small and micro enterprises. To enhance its global influence, the Bank is also devoted to promote the integration of its businesses. To be facilitated by its various wholly-owned and controlling subsidiaries, the Group provides comprehensive financial services and products to its customers, comprising fund, trust, financial leasing, onshore insurance, investment banking, offshore insurance, debt-to-equity swap and wealth management.

BoCom Schroder Fund, whose primary businesses are fund raising, fund sales and asset management, was awarded "Golden Bull Fund Management Company" by *China Securities Journal*, "Golden Fund Top Company Award" by *Shanghai Securities Journal* and "Top 10 Star Fund Company Award" by *Securities Times*. As at 31 December 2022, its total assets and net assets were RMB7.926 billion and RMB6.305 billion respectively, and the public fund under management reached RMB528.1 billion. Affected by the fluctuations in the market, its net profit for the year ended 31 December 2022 was RMB1.581 billion, representing a decrease of 11 per cent. on a year-on-year basis.

Staying committed to fulfil the original mission as a trust company to serve the real economy, BoCom International Trust focuses on trust loans, investment fund trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor, and private equity investment trusts. It was awarded "Integrity Trust · Excellent Company Award" by *Shanghai Securities News* and "Excellent Risk Management Trust Company of the Year" by *Securities Times*. During 2022, the value of securitised credit assets publicly issued by BoCom International Trust ranked seventh in the sector. As at 31 December 2022, its total assets, net assets and the AUM were RMB18.528 billion, RMB15.418 billion and RMB513.740 billion, respectively. BoCom International Trust's net profit for the year ended 31 December 2022 was RMB0.942 billion, representing a decrease of 23.72 per cent. on a year-on-year basis.

BoCom Leasing continues to promote financing leasing and operating leasing in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. As at 31 December 2022, its total assets, net assets and balance of leasing assets amounted to RMB358.981 billion, RMB41,089 billion and RMB316.795 billion, respectively. For the year ended 31 December 2022, BoCom Leasing's net profit reached RMB3.815 billion, representing a year-on-year increase of 8.05 per cent. In addition, as at 31 December 2022, it owned and managed 473 ships and was the largest leasing company in the domestic merchant fleet and had a fleet of 277 planes, making the value of aircraft leasing assets ranked second domestically and tenth globally in the financial leasing industry.

In relation to onshore insurance, BoCommLife remains committed to provide insurance guarantee and maintains a stable performance. As at 31 December 2022, BoCommLife's total assets and net assets were RMB109.916 billion and RMB7.167 billion respectively. BoCommLife's original premium income for the year ended 31 December 2022 was RMB18.144 billion, representing an increase of 7.10 per cent. on a year-on-year basis. Affected by the fluctuations in the capital market and decrease in investment income, its net loss was RMB0.591 billion for the year ended 31 December 2022.

With respect to offshore insurance, BoCom Insurance expands its banking-related insurance business domestically and overseas and officially obtains the full-coverage aviation insurance license issued by the Hong Kong Insurance Authority (namely, No. 5 Aviation Insurance License and No.11 Aviation Liability Insurance License).

As one of the first pilot banks to implement debt-to equity conversion as determined by the State Council, BOCOM Financial Asset Investment is mainly engaged in debt-to-equity swap and supporting services. As at 31 December 2022, BOCOM Financial Asset Investment's total assets and net assets were RMB61.956 billion and RMB20.415 billion, respectively. Its net profit for the year ended 31 December 2022 was RMB1.124 billion, representing a decrease of 61.32 per cent. on a year-on-year basis.

For the year ended 31 December 2022, net profit attributable to shareholders of the Bank from the subsidiaries[1] amounted to RMB5.769 billion, the proportion of which to the Group's net profit was 6.26 per cent. As at 31 December 2022, the total assets of the Group's subsidiaries were RMB603.197 billion, the proportion of which to the total assets of the Group was 4.64 per cent.

Prominent wealth management services

The Group grasped market opportunities and cooperated with sophisticated fund managers to manage its funds and investments, aiming to create conventional, popular and featured wealth management products and build up the name of BOCOM Wealth. In addition, the Group strengthened the operation of full volume of customers, brought wealth management products' and service brand's superiorities into full play, better met the multi–level wealth management needs of the people. As at 31 December 2022, individual financial AUM managed by domestic branches of the Group increased by 8.57 per cent. over the end of the previous year, whereas the personal mobile banking MAU increased by 19.35 per cent. over the end of the previous year. As at 31 December 2022, there were 77,000 private banking customers of the Group, representing an increase of 9.33

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

per cent. over the end of the previous year; the assets of private banking customers under management of the Group were RMB1,084,442 billion, representing increase of 8.97 per cent. over the end of the previous year. In addition, the Group has established comprehensive service brands for its customers in relation to wealth preservation. The Group provided retail and individual customers, corporations and financial institutions with comprehensive financial services, building up a complete series structure comprising "Win to Fortune", a corporate and interbank wealth management brand of the Bank providing comprehensive one-stop wealth management solutions for corporate, government institutions and interbank financial customers through intelligent financial service and digital transformation and "OTO Fortune", a main brand of retail business of the Bank with core value of "creating and sharing abundant wealth with noble virtue" devoted to realising value maintenance and appreciation of wealth for customers. As at 31 December 2022, the number of qualified customers of OTO Fortune increased by 10.77 per cent. over the end of the previous year to RMB2.2186 million. The scale of AUM increased by 8.57 per cent. over the end of the previous year to RMB4,621.362 billion.

Comprehensive and robust risk management

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

For the year ended 31 December 2022, the Group reinforced risk identification and prompted risk response. The business accountability mechanism for credit granting of key customers was continuously deepened, the approval procedures of credit business were also continuously deepened, the post-loan management was continuously improved and enhanced. The Bank continuously strengthened the credit risk identification and management in key sectors, further optimised systems and models of risk monitoring, assessment and measurement, and the direct operation and management mechanism for the asset preservation was significantly effective. By maintaining strict asset quality classification standards, the foundation of asset quality was continuously strengthened, and the asset quality was steadily improved. As at 31 December 2022, the balance of non-performing loans was RMB98.526 billion and the non-performing loan ratio was 1.35 per cent., representing an increase of RMB1.730 billion and a decrease of 0.13 percentage points, respectively, over the end of the previous year.

Experienced and professional management team and talent pool

The Group's senior management has an average of more than 20 years' experience in banking practice and is well experienced in management. Among the Group's senior management, Mr. Ren Deqi, the Chairman of the Board of Directors and Executive Director, has over 30 years' experience in banking sector, holding important positions. The Group also launched three major projects, namely, "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents" to enrich its Fintech talents pool in a timely fashion. In 2020, the Bank formulated the Plan for the Cultivation of FinTech Talents (2020-2024). The Bank strived to build a technology team consisting of over 10,000 talents with "forward-looking vision, agile mind, efficient work style, and value creating ability" via external talent introduction, internal talent transformation and incentive scheme.

The Group also adheres to pursue operational improvements and actively reforms its corporate governance structure in a professional manner. Currently, the Bank has established its modern corporate governance mechanism comprising the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and Senior Management with clearly defined roles, authorities and responsibilities. Based on their mutual coordination and individual operation, the Group protects the legitimate rights and interests of shareholders and other stakeholders and functions fairly and efficiently.

Strategic cooperation with HSBC

In 2022, the Bank and HSBC were strongly committed to promote the cooperation in various fields under the framework of the strategic cooperation mechanism, as well as consolidating the mutually beneficial and win-win cooperation situation. The Bank and HSBC held the top-level meetings at the Chairman/Group Chairman through online channels; established and conducted the dialogue mechanism for the President/Group CEO; communicated the significant matters of business development in a timely manner, and determined the direction and route of cooperation. The Bank and HSBC steadily promoted cooperation in various fields under the unified framework of "1+1 Global Financial Service" based on the market-oriented principles. In 2022, the Bank and HSBC joined hands to assist Chinese enterprises to "go global", concluding 2 cooperative syndicated loan projects; the cooperation in Hong Kong region was further increased, concluding 57 bond underwriting projects and 20 cooperative syndicated loan projects; trade financing and cross-border Renminbi settlements were continuously deepened; the investment banking and inter-bank bond trading business cooperation kept advancing; the cooperation scale of fund distribution increased steadily.

Under the framework of "Resources and Experience Sharing (RES)", both parties focused on the transformation and development, business innovation and other issues, and also continued carrying out the two-way training and business experience exchange. During the year ended 31 December 2022, the Bank and HSBC successfully renewed the new three-year cooperation agreement on RES, which will enhance the resources sharing and experience exchange on key issues of transformation and development to empower the high-quality development.

The Bank intends to cooperate with HSBC to actively explore the strategic convergence, focus on key areas such as serving national strategies and green finance, and exploit the potential of cooperation to create more value through practical cooperation.

THE GROUP'S PRINCIPAL BUSINESS ACTIVITIES

The Bank provides the customers with corporate banking, personal banking and interbank and financial market businesses. Corporate banking businesses include offering deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses to corporate customers and government agencies. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Interbank and financial market businesses include cooperation with customers in the markets of interest rates, exchange rates, commodities, providing comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. In addition, the Group is involved in businesses in financial leasing, fund, trust, insurance, overseas securities, debt-to-equity conversion and asset management through wholly-owned or controlling subsidiaries.

Corporate Banking Business

As at 31 December 2022, the Group's corporate deposit balance increased to RMB4,877,033 million. The Group's corporate loan balance increased by 13.84 per cent. over the end of the previous year to RMB4,711,353 billion, among which short term loans increased by RMB128.961 billion, and medium and long-term loans increased by RMB443.810 billion.

Customer development

The Bank continuously optimised the management of corporate customers by tiered classification and built a refined and professional service system. As at 31 December 2022, the total number of corporate customers of domestic branches increased by 10.91 per cent. over the end of the previous year.

For group customers, the Bank increased its services and support for national strategies such as strong manufacturing and transportation and continued to optimise credit management policies and processes. It also established a group–wide integrated and collaborative service system and improved the level of group customer service. As at 31 December 2022, the number of the Bank's group customers reached 88,700, representing an increase of 11,987 over the end of the previous year. For government institutions customers, the Bank actively participated in the construction of digital government and the process of urban digital transformation. It assisted in the provision of convenient government services and built a smart government product system. As at 31 December 2022, the number of government institutions customers reached 74,000, representing an increase of 3,599 over the end of the previous year. For small and micro basic customers, the Bank further implemented "Online Management and Remote Management", built an outbound call strategy support system, enhanced digital marketing support and improved services for basic customers. As at 31 December 2022, the number of small and micro basic customers reached 2,255,800, representing an increase of 223,600 over the end of the previous year.

Scenario construction

The Bank intensively explored scenario construction through digital thinking and gained noticeable achievement in subdivided scenarios such as medical care, schools, parks and central corporate treasury. The "Credit for Medical Treatment" initiative has been launched in 45 cities, including Shanghai, Nanjing, Dalian, Guangzhou and Kunming, to solve the problem in queuing for medical treatment through the new model of "Treatment First and Payment Later". The service capability of BoCom Smart Schools continued to improve, and the "Education Management Information Service Platform" has been completed, with functions covering fee reconciliation, fund supervision, qualification filing, annual inspection and audit, etc., providing precise services to niche customer groups in the education industry. The total number of customers signed up on the Intelligent Financial Services Platform exceeded 110,000, an increase of 31,600 from the end of the previous year, with a collection and settlement volume of RMB898.086 billion, an increase of 274.86 per cent. year-on-year. Ten major treasury services, including account management, payment and settlement, domestic fund collection, overseas visibility and control, bill management and system docking, were launched to better serve the construction of the treasury system of state–owned groups.

Services to inclusive small and micro enterprises

The Group continued to increase credit allocation to inclusive small and micro enterprises and strengthened support for "First-time Lenders" and small and micro manufacturing enterprises. With the help of fintech and big data, the Bank relied on "Inclusive e–Loan" to build a comprehensive online financing product system and realised the dual driving forces of online standard products and customised scenario products, while increasing the coverage and availability of financing for small and micro enterprises; online standardised products achieved a variety of combinations of collateral, credit and guarantee to meet the differentiated needs of customers. The Bank performed financial services of key areas and realised scenario customisation in key areas such as supply chain, sci–tech innovation, rural revitalisation, medical insurance, mass entrepreneurship and innovation and individual industrial and commercial households.

As at 31 December 2022, the balance of inclusive loans to small and micro enterprises was RMB456.239 billion, which was an increase of 34.66 per cent. over the end of the previous year. As at 31 December 2022, the number of customers with loan balances was 293,100, representing an increase of 38.09 per cent. over the end of the previous year. For the year ended 31 December 2022, the accumulated average interest rate of inclusive loans to small and micro enterprises was 3.75 per cent., representing a year-on-year decrease of 26 basis points. As at 31 December 2022, the non-performing loan ratio of inclusive small and micro enterprises was 0.81 per cent., representing a decrease of 0.35 percentage points over the end of the previous year. Also, as at 31 December 2022, 2,771 business outlets of the Bank provided financing services to small and micro enterprises.

Industrial chain finance

Using innovative products, the Bank deepened cooperation with leading enterprises in key industries such as electricity, construction, automobiles and pharmaceuticals to meet their upstream and downstream financing needs and serve the construction of modern industrial systems. Concentrating on technological empowerment, the Bank developed an industrial chain rapid financing product line. For the year ended 31 December 2022, the volume incurred of rapid discounted bills amounted to RMB93.476 billion, the volume incurred of Express Pay reached RMB20.097 billion and the volume incurred of rapid order amounted to RMB6.561 billion. The Bank also launched its self-built smart transaction chain platform. Moreover, the Bank connected with 16 mainstream platforms, such as TravelSky and CSCC, to realise cross–scenario financial cooperation and automate the whole process of rapid payment, which greatly improved user experience. The Bank stimulated special authorisation, system innovation and process optimisation to meet the personalised financing needs of enterprises in the principle of "one policy for one chain". For the year ended 31 December 2022, the industrial chain financial business was RMB479.126 billion, which increased by 41.29 per cent. on a year-on-year basis. As at 31 December 2022, there were 26,300 financing customers, and inclusive customers accounted for 91.84 per cent.

Sci-tech finance

The Bank actively adhered to the strategy of strengthening the country through science and technology, strengthened the connection between industry and finance, provided multi–level, specialised and distinctive science and technology financial products and services for science and technology–based enterprises, and supported the self-reliance and self–improvement of high-level science and technology. The Bank made great efforts to serve strategic emerging industries, advanced manufacturing industry, sci–tech innovation, green and low–carbon, and traditional industry update, etc., and optimise customer structure and asset structure. The Bank focused on key clients such as high-tech enterprises, sci-tech SMEs, national manufacturing leaders, specialised and new "little giants", specialised and new SMEs, and model companies for national technology innovation. The Bank innovated an integrated business model of "special-level of sci-tech finance", improved supporting policies, products, data and systems, and established seven private equity investment funds for strategic emerging industries and science and innovation enterprises. As at 31 December 2022, sci-tech finance credit customers increased by 49.55 per cent. over the end of the previous year. As at 31 December 2022, the loan balance of strategic emerging industries increased by 109.88 per cent. compared with the end of the previous year. As at 31 December 2022, there were 3,275 "little giant" enterprises of "specialisation, delicacy, characterisation and novelty", with a market coverage rate of 36.30 per cent., and their loan balances increased by 75.52 per cent. over the end of the previous year.

Investment bank

The Bank intensified its efforts in scaling up full financing to build an innovative investment bank. For the year ended 31 December 2022, the bond underwriting according to NAFMII (debt financing instruments for non–financial enterprises) reached RMB410.576 billion. The Bank captured the business opportunity of the three-year action of SOE reform. The new increase in domestic and overseas mergers and acquisitions finance for the year ended 31 December 2022 was RMB84.2 billion, with an increase of 14.82 per cent. year-on-year, of which the net increase in domestic renminbi mergers and acquisitions loans remained the industry leader for three consecutive years. For the year ended 31 December 2022, the Bank served the green development strategy by underwriting green bonds (including carbon neutrality bonds) for RMB7.165 billion and investing RMB3.018 billion in green new energy equity. For the year ended 31 December 2022, the Bank promoted the stable and healthy development of the real estate market, helped real estate enterprises to raise RMB16.643 billion in debt financing, landed RMB7.789 billion in real estate mergers and acquisitions loans and placed RMB7.487 billion in real estate equity trusts. "Win to Fortune e-Smart", an information consultancy service, was upgraded and an investment banking full financing platform was launched online to further integrate financing service with collaborative intelligence. With the ability to innovate products and services enhanced in all respects, the Bank was awarded "Excellent ABS Originating Institution" by China Central Depository & Clearing Co., Ltd. and other prizes.

Personal Banking Business

As at 31 December 2022, the balance of personal deposits of the Group increased by 23.01 per cent. over the end of the previous year to RMB2,955.724 billion. As at 31 December 2022, the balance of personal loans was RMB2,366.507 billion, representing an increase of 3.56 per cent. over the end of the previous year, and the market share of personal consumption loans of domestic branches was increased by 0.97 percentage points over the end of the previous year.

Retail customers and AUM

The Bank improved the tiered and categorised customer management system and strengthened the digital management capability of retail customers. A new, clear and concise retail customer tagging system was launched to improve the customer profile. The Bank deepened the application of the retail marketing middle office to reach customers effectively and accurately with financial services. The Bank strengthened the promotion and application of the account manager working platform and WeCom of the Bank to build a strong digital management force. The Bank stepped up the expansion of scenario–based finance, promoted the iterative update of Personal Mobile Banking 7.0, further enhanced the effectiveness of customer acquisition and activation in all channels and scenarios, and continuously improved its customer service capability to achieve steady growth in AUM scale. As at 31 December 2022, the number of retail customers of domestic branches (including debit card and credit card customers) increased by 3.29 per cent. over the end of the previous year to 191 million. As at 31 December 2022, the number of qualified customers of OTO Fortune increased by 10.77 per cent. over the end of the previous year to 2,218,600. As at 31 December 2022, the scale of AUM increased by 8.57 per cent. over the end of the previous year to RMB4,621.362 billion.

Wealth management

Adhering to the customer orientation, the Bank developed the feature of its wealth finance business and leveraged the advantages of wealth management products, services and brands to serve the multi-level and personalised wealth management needs of the people and help achieve common prosperity. The Bank leveraged the integrated advantage of the Group to optimise the full-chain wealth management operating system and enhance the synergy of wealth management. The Bank was the first batch to be qualified for personal pension business and continued to deepen its pension financial products and service system. By focusing on the digital operating level of wealth finance, the Bank strengthened the deep understanding of customer needs driven by data and realised full-channel and full-chain marketing services by means of "human-machine collaboration".

In addition, the Bank enhanced product creation and supply capabilities. By adhering to open integration, the Bank introduced high-quality products and established partnerships with 16 external institutions on wealth management products consignment. Quantitative indicators were considered together with experts' experience to build the "OTO Best Choice" product system covering wealth management, funds, insurance and precious metals. The Bank was the first batch to be qualified to sell pension funds in 2022 and it was the seventh consecutive year for the Bank to launch the promotion of mobile banking fund subscription rate, and the average yield of the "OTO Best Choice" fund overperformed the market average. Besides, the Bank introduced more low-fluctuating fixed income funds with low starting points, fixed income+ funds, pension funds and cash management products to fulfill the multi–level investment requirement of different types of clients. As at 31 December 2022, the balance of personal public funds product on consignment was RMB264.520 billion; the balance of wealth management products on consignment was RMB859.002 billion; and the balance of insurance products on consignment was RMB255.102 billion.

Scenario and payment

The Bank improved the strength of financial services for rural revitalisation, actively participated in the construction of the third pillar of pensions, responded to the requirements of financial services for new citizens, and vigorously promoted debit cards themed on rural revitalisation, personal pension accounts, and new debit cards themed on citizens. As at 31 December 2022, the accumulated number of debit cards themed on rural revitalisation issued amounted to 1,718,400.

The Bank focused on government affairs scenarios to provide citizens with financial services such as bill settlement, credit and payment, using citizen wallets and new citizen debit cards. Focusing on transportation and travel scenarios, the Bank has built a membership system and enriched payment benefits in the areas of public transportation, new energy vehicles, airlines and the car aftermarket to provide customers with safe, convenient and compliant accounts and payment services. The Bank focused on medical and health scenarios, optimised the payment process in the medical consultation process and provided convenient and beneficial payment services. The Bank deepened the construction of smart schools and provided safe, convenient and intelligent education industry solutions to schools through open banking.

As at 31 December 2022, the accumulated number of debit cards issued amounted to 173.5156 million, representing a net increase of 7.7641 million over the end of the previous year. For the year ended 31 December 2022, the number of debit card customers acquired online increased by 6.86 percentage points compared with the end of the previous year. Under the support of cooperative institutions, the Bank upgraded payment products to improve card holders' payment experience on mainstream platforms. The Bank contributed to the revitalisation of long-established brands and cooperated in card marketing activities such as consumer discounts for long–established brands to enrich consumption payment scenarios. For the year ended 31 December 2022, the accumulated consumption paid by debit card amounted to RMB2,375.646 billion.

Customer finance

The Bank actively implemented differentiated housing credit policies to reasonably support residents' solid and improved housing needs. It also continued to improve the whole process of risk control system to ensure the steady development of personal housing loan business. To serve the national strategy of expanding domestic demand and promoting consumption, the Bank accelerated the iteration and innovation of personal consumer loan products, met the diversified consumer financial needs of citizens such as clothing, food, housing, transportation and medical care, and enhanced the level of consumer credit services for new citizens. The Bank continued to improve the digitalisation of the entire mortgage process, quickly deployed customer lifecycle management strategies with the help of its marketing middle office, realised modular and parametric product configuration and innovation based on an enterprise–level architecture, enhanced centralised risk control support, strengthened anti–fraud capabilities in key areas, and enhanced service quality and efficiency with technological empowerment.

As at 31 December 2022, the personal housing loan balance increased by 1.55 per cent. over the end of the previous year to RMB1,512.648 billion. As at 31 December 2022, the personal consumption loan balance of domestic branches increased by 58.38 per cent. over the end of the previous year to RMB84.893 billion, and the market share of personal consumption loans domestic branches increased by 0.97 percentage points over the end of the previous year.

Private banking

The Bank continued to improve its private banking product system, established a market–wide selection mechanism, continued to grow the number and scale of exclusive products sold on behalf of private banking, and gradually enriched its product strategies. The family wealth management business picked up speed and doubled in size during the year ended 31 December 2022, with insurance trusts being the main driver of business growth. The Bank built a professional private banking team, organised tiered training and improved the professional capability of the team. The Bank published investment research reports and asset allocation proposals on a regular basis to strengthen the investment research capabilities. The Bank strengthened the marketing management based on lists of customers with specific features for precise marketing. As at 31 December 2022, there were 77,000 private banking customers of the Group, representing an increase of 9.33 per cent. over the end of the previous year; the assets of private banking customers under management of the Group were RMB1,084.442 billion, representing an increase of 8.97 per cent. over the end of the previous year.

Credit card

The Bank strengthened the brand marketing of "Easy For More" and carried out a number of large-scale card activities such as Red Hot Friday, Anti-epidemic Benefit, Shanghai's Double-Five Shopping Festival and online Lunar New Year's Shopping Festival, etc. The spending volume grew against the trend. During the year ended 31 December 2022, the consumption was ranked the third in the industry and was levelled from the beginning of the year. Focusing on premium customer segments, the Bank launched a number of card products such as the Guo Yun Theme Card and the POP MART Sweet Bean Y-ELITE Platinum Card. As at 31 December 2022, the percentage of premium customers among new customers increased by 3.49 percentage points year-on-year.

The Bank steadily pushed forward with the digital transformation and launched the new credit card core system. After completing the system switch for the entire customer base in July, it became the first core system to complete a distributed cloud migration and created the first real-time credit card transaction bookkeeping business model in the industry. The Bank upgraded and optimised the online operation platform, as well as released BoCom Credit Card Official APP 6.0 version and focused on the integration and launch of 6 major scenarios on the Internet, enabling the online business diversion rate to reach 97.82 per cent in 2022. The "2022 China Golden Tripod Award-Technology Finance of the Year" was awarded to the BoCom Credit Card Official APP.

As at 31 December 2022, the cards in force reached 74.5083 million. The net increase of new cards reached 239,500. For the year ended 31 December 2022, the total spending reached RMB3,058.993 billion, up 1.44 per cent. on a year-on-year basis. In detail, for the year ended 31 December 2022, the volume of online payment transactions up 17.10 per cent. on a year-on-year basis. As at 31 December 2022, the accounts receivables from domestic branches reached RMB477.642 billion.

Pension finance

The Bank actively served the national strategy of coping with the aging population and boosted the development of pension finance and elderly care industry finance to facilitate the overall layout of pension financial services. It actively participated in the construction of the third pillar pension insurance system and was among the first batch of companies to obtain qualifications for personal pension business. It was also approved as a qualified pilot bank for pension wealth management products, ranking first in the industry in terms of the scale of pension targeted securities investment funds. It continuously strengthened the account management and custody services for China's National Social Security Fund, Basic Pension Insurance Funds and Enterprise Annuity Funds, business scale continues growing. The Bank enhanced its efforts in the research and development of unique credit products to strengthen its credit support for elderly care service institutions. As at 31 December 2022, the number of customers in the elderly care service industry receiving credit granting services from the Bank increased by 176 per cent. over the end of the previous year. The Bank actively promoted the development of inclusive elderly care special refinancing business. The age-appropriate function modification work has been finished for mobile banking and BoCom Credit Card Official APP, which served more than 910,000 elderly customers in total for the year ended 31 December 2022.

Inter-bank and Financial Market Businesses

The Bank actively supported the construction of Shanghai as an international financial centre, intensively participated in the financial market development of bonds, currencies and foreign exchange of China, improved its market making and quotation ability, deepened its cooperation in financial element market businesses, optimised its custody professional services, and transformed financial market products into quality services satisfying the demands of all kinds of customers, to constantly strengthen the capability to serve the real economy.

Inter-Bank Businesses

The Bank optimised the settlement business in the financial factor market and served the smooth operation of the financial market. For the year ended 31 December 2022, the volume of the Bank's agent clearing business in Shanghai Clearing House topped in the market, and the volume of securities and futures settlement of the Bank was also leading the market. The Bank also participated in facilitating the interconnection between financial markets and financial infrastructure and was the first batch to become a qualified settlement bank for interconnection transactions between the interbank and exchange bond markets. It helped the futures market serve green and low-carbon development and was the first batch to be qualified as the designated depository bank for futures margin of Guangzhou Futures Exchange. The Bank's new-generation Shanghai securities fund settlement system was launched to enhance the efficiency of capital market settlement services and took the lead in achieving direct connection with the new-generation electronic inter-banking system of the Shanghai Branch of the China Securities Depository and Clearing Corporation.

The Bank enriched inter-industry cooperation to better meet the financial services needs of various types of customers. The Bank supported the development of capital markets by joining hands with 105 securities companies in third-party depository management business, 92 securities companies in the financing and securities depository management business, and 148 futures companies in the bank-futures transfer business, It provided settlement and other services for corporate and individual clients to participate in capital market investment transactions. The Bank strengthened cooperation with cross-border inter-bank payment clearing companies and expanded the network coverage of the renminbi cross-border payment system by expanding domestic and foreign participating banks. It actively promoted processing and information interaction products of renminbi cross-border business to provide safe and efficient renminbi cross-border payment services for enterprises going global. As at 31 December 2022, the Bank topped the market in terms of the number of peer-to-peer customers of the standard transmit product of online renminbi cross-border payment system.

Financial Market Businesses

Focusing on national strategies and the needs of the real economy, the Bank used a combination of investment and trading instruments to provide key support to key regions such as the Yangtze River Delta, Beijing-Tianjin-Hebei Region and the Greater Bay Area, as well as key projects to benefit the people's livelihood, replenish shortcomings and new infrastructure in order to serve high-quality economic development.

The Bank played the role of "Stabiliser" as a market maker in the interbank market and carried out market making, quotation and trading to help shape the "Shanghai Price". For the year ended 31 December 2022, the trading volume in Renminbi money market of domestic branches amounted to RMB81.99 trillion; the trading volume in foreign currency market amounted to U.S.$1.81 trillion; the trading volume of Renminbi bonds amounted to RMB5.56 trillion; the trading volume in interbank foreign exchange market amounted to U.S.$3.65 trillion; the trading volume of self-operated gold amounted to 4,967 tons, maintaining its market position as an active trading bank.

Serving the construction of Shanghai as an international financial centre, the Bank seised the important opportunity of the reform and opening-up development of the financial market, actively promoted product innovation, obtained the qualification as the first batch of inquiry market makers on the international board of the Shanghai Gold Exchange, and was the first batch of participants using X-LENDING anonymous click service for bond lending transaction. The Bank enhanced the design capability of products for customers, channelled quality investment trading products into comprehensive services for customers, and launched innovative structured deposit products such as gold interval cumulative structured products, US dollar-yen interval cumulative structure products and customised stock index SharkFin to meet customers' needs for hedging, value preservation and appreciation.

The Bank promoted the integrated operation of global funds and improved the quality and efficiency of funds operation and management in the free trade zone and overseas banks. The Bank actively developed cross-border renminbi funding linkages with overseas banks to serve the real financing needs of multinational operating enterprises and trading enterprises.

Asset Custody

Focusing on the origin business of custody, the Bank continued to strengthen the capacity building of its securities custody business, deepened the business synergy of the Group, prepared for innovative products and enhanced the market competitiveness of its public fund custody business. The Bank improved pension custody services, actively developed personal pension custody and continuously consolidated the advantages of the pension brand. The Bank deepened custody cooperation with insurance companies, securities companies, trust companies and other types of financial institutions, and optimised innovative custody service solutions for asset management products. The Bank actively provided custodian services for industrial funds around the world to help the development of the real economy. As at 31 December 2022, the assets under custody reached RMB13.05 trillion, representing an increase of 8.06 per cent. over the end of the previous year.

Wealth Management Businesses

The Bank adhered to prudent operation of wealth management business and the proportion of net value wealth management products continued to increase. As at 31 December 2022, the balance of asset management products of the Group reached RMB1,206.901 billion, representing a decrease of 12.81 per cent. over the end of the previous year, and the balance of net-worth wealth management products reached RMB1,085.438 billion, accounting for 89.94 per cent. of the wealth management products and representing an increase of 1.47 percentage points over the end of the previous year.

INTEGRATED OPERATION

The Group aimed to establish development pattern with primary focus on commercial banking business, in close coordination and connection with other businesses including financial leasing, fund, wealth management, trust, insurance, overseas securities and debt-to-equity swap, so as to provide comprehensive financial services for customers.

For the year ended 31 December 2022, net profits of subsidiaries[1] that are attributable to shareholders of the Bank amounted to RMB5.769 billion, the proportion of which to the Group's net profit was 6.26 per cent. As at 31 December 2022, total assets of the subsidiaries[2] are RMB603.197 billion, the proportion of which to the total assets of the Group was 4.64 per cent.

1 Excluding Bank of Communications (Luxembourg) S.A., Bank of Communications (Brazil) Co., Ltd. and Bank of Communications (Hong Kong).

2 Excluding Bank of Communications (Luxembourg) S.A., Bank of Communications (Brazil) Co., Ltd. and Bank of Communications (Hong Kong).

Major Subsidiaries

BoCom Leasing

As the Bank's wholly-owned subsidiary, BoCom Leasing was set up in December 2007 with a registered capital of RMB14.0 billion as at 31 December 2022. The main business scope includes financing leasing and operating leasing in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. BoCom Leasing was elected as the Fifth Chief Administration Unit of China Banking Association (CBA) Financial Leasing Committee. During the year ended 31 December 2022, BoCom Leasing adhered to the development strategies of "Professionalism, Internationalisation, Differentiation and Characteristics", and was deeply engaged in aviation, shipping, traditional financing leasing and other businesses. BoCom Leasing's main indicators still ranked first in the industry. As at 31 December 2022, total assets and net assets were RMB358.981 billion and RMB41.089 billion respectively. As at 31 December 2022, the balance of leasing assets was RMB316.795 billion, of which the balance of aviation and shipping leasing assets took the lead in exceeding RMB200 billion in the industry. As at 31 December 2022, it owned and managed 473 ships and was the largest leasing company in the domestic merchant fleet. It also had a fleet of 277 planes, making the value of aircraft leasing assets ranked second domestically and tenth globally in the financial leasing industry as at 31 December 2022. For the year ended 31 December 2022, its net profit was 3.815 billion, representing a year-on-year increase of 8.05 per cent. BoCom Leasing have successively won 25 honours such as the "Best Financial Leasing Company of the Year" of the Global Leasing Industry Competitiveness Forum, and "China Financial Leasing Outstanding Achievement Award" of China International Finance Forum.

During the year ended 31 December 2022, BoCom Leasing improved its ability to provide precise services in key strategic areas of the country. As at 31 December 2022, the balance of leasing assets of BoCom Leasing in the Yangtze River Delta Region increased by 18.94 per cent. over the end of the previous year to RMB37.465 billion, among which the balance of leasing assets in Shanghai increased by 31.71 per cent. over the end of the previous year to RMB25.245 billion and the first aircraft leasing project in Lin-Gang Special Area was launched. BoCom Leasing fully leveraged its innovative leading role, setting up a special working group for the new infrastructure (new energy) leasing business centre and the inclusive (technology) leasing business centre. For the year ended 31 December 2022, BoCom Leasing invested RMB16.831 billion in new infrastructure and new energy projects, representing a year-on-year increase of 86.45 per cent. It adhered to the "Manufacturing Power" strategy, with manufacturing investment reaching RMB9.212 billion, representing a year-on-year increase of 89.24 per cent. It deeply served the development of national high-end manufacturing, industrial and supply chains. For the year ended 31 December 2022, BoCom Leasing placed orders for 53 ships with Chinese shipyards, reaching a total amount of RMB12.68 billion, and supported key ship financing projects such as the world's largest multi-purpose heavy-lift vessel and the first LNG dual-fuel-powered Aframax tanker in China; BoCom Leasing also signed a letter of intent to order 50 C919 and 10 ARJ21 aircraft with COMAC. BoCom Leasing actively practiced the development concept of "green finance", and the scale of green finance lease assets exceeded RMB70 billion under the statistical scope of the PBOC's green loan special category. It also successfully issued the first ESG Free Trade Zone offshore bonds of financial institutions in China.

BoCom International Trust

BoCom International Trust was set up in October 2007 with a registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85 per cent. and 15 per cent. shares respectively as at 31 December 2022. The main business scope includes trust loans, equity investment trusts, securities investment trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), family trusts, charitable trusts, etc. For the year ended 31 December 2022, BoCom International Trust insisted on prioritising stability, set the strategic goal of "building the most trustworthy first-class trust company", served the real economy actively, accelerated transformation and development and deepened the synergy effect of the Group. As at 31 December 2022, the total assets, net assets and the assets under management of BoCom International Trust were RMB18.528 billion, RMB15.418 billion and RMB513.740 billion respectively. Its net profit for the year ended 31 December 2022 was RMB0.942 billion, representing a decrease of 23.72 per cent. on a year-on-year basis. It has been rated as Level A (the highest level) for seven consecutive years in the industry rating launched by the China Trustee Association and has won the "Cheng Xin Tuo Excellent Trust Company Award" granted by the *Shanghai Securities News*. It has won the "Annual Excellent Risk Control Trust Company Award" from *Securities Times* for seven consecutive years, and the "China Trust Industry Golden Bull Award" from *China Securities Journal* was awarded to the BOCOMM TRUST-Fengyun 68 Active Management TOF Product.

During the year ended 31 December 2022, in accordance with the regulatory requirements of the "Three Categories" of trust management, BoCom International Trust focused on its main business, deeply cultivating in areas such as asset management trusts, asset service trusts, and charity trusts. It has successfully launched a number of innovative products, including issuing the first Commercial Mortgage-Backed Medium-termed Notes (CMBN) for underground property in the nation, the first knowledge property rights service trust, the affordable housing equity trust, the enterprise specific incentive service trust, and several charity trusts such as rural revitalisation and excellent teacher awards, fulfilling its social responsibility and helping to promote high-quality development of the real economy.

BoCom Schroder Fund

BoCom Schroder Fund was set up in August 2005 with a registered capital of RMB0.2 billion as at 31 December 2022. It was jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., with the shares accounting for 65 per cent., 30 per cent. and 5 per cent. respectively. The primary businesses include fund raising, fund sales and asset management. According to data from Haitong Securities, among 12 large equity investment companies, BoCom Schroder Fund ranked first in terms of equity investment return rate in 2022. With outstanding investment performance, it has won the "grand slam" of corporate awards in the three major authoritative awards in the public fund industry and has also won the "Golden Bull Fund Management Company" award for four consecutive years. As at 31 December 2022, the total assets and net assets of BoCom Schroder Fund were RMB7.926 billion and RMB6.305 billion respectively, and the public fund under management reached RMB528.1 billion. Affected by the fluctuations in the market, its net profit for the year ended 31 December 2022 was RMB1.581 billion, representing a decrease of 11 per cent. on a year-on-year basis.

As the backbone of the Group to build wealth management feature, BoCom Schroder Fund, centring on the Group's strategy and the 14th Five-Year Plan, continuously improved core competitiveness in investment research and built multi-level product lines. Relying on spillover effect of initiative management investment research advantages, it improved its management ability in equities, fixed income+ and FOF, investment advisory portfolios, strived to make itself a first-class fund company with core competitiveness for high-quality development and actively assisted the Group in the construction of wealth management ability. During the year ended 31 December 2022, BoCom Schroder Fund and the Bank jointly promoted the implementation of personal pension system, made efforts in the layout and sales of pension financial products, and thus BoCom One Year Stable Pension FOF became the largest FOF product under management in the market, with a scale of over RMB12.0 billion as at 31 December 2022.

BOCOM Wealth

As a wholly-owned subsidiary of the Bank, BOCOM Wealth was set up in June 2019 with a registered capital of RMB8.0 billion as at 31 December 2022. It primarily issues wealth management products of fixed income, equity, commodities, financial derivatives and hybrid categories to customers. During the year ended 31 December 2022, BOCOM Wealth adhered to the customer-centric and investor- oriented principles and adjusted the focus of product design and issuance in a timely manner. It actively expanded consignment agencies outside the Bank, and the balance of products sold under consignment outside the Bank reached RMB499.613 billion, accounting for 46.03 per cent. of the balance of products for the year ended 31 December 2022. It has preliminarily established an open and diversified omni-channel system with the Bank as the main body. As at 31 December 2022, the balance of wealth management products decreased by 11.37 per cent. over the end of the previous year to RMB1,085.438 billion. As at 31 December 2022, its total assets and net assets were RMB11.458 billion and RMB11.099 billion respectively. Its net profit for the year ended 31 December 2022 was RMB1.188 billion, indicating an increase of 2.86 per cent. on a year-on-year basis.

During the year ended 31 December 2022, BOCOM Wealth actively seised the opportunity in the pension financial market and obtained the pilot qualification for pension financial products, and its personal pension financial management business was the first batch to pass the acceptance of the financial industry platform. In the future, its pension financial products will highlight inclusiveness and long-term stability and rely on its investment research and operation mechanism of "Investment Managers + Professional Committees" to support the steady operation of pension products. During the year ended 31 December 2022, BOCOM Wealth won several awards including Golden Bull Award, Golden-shell Award, Golden Reputation Award, and its ESG financial products won the "2022 Cailian Press Green Water and Gold Mountain Award Green Financial Product Innovation Award."

BoCommLife

BoCommLife was set up in January 2010 with a registered capital of RMB5.1 billion, of which the Bank and the MS&AD Insurance Group contributed 62.50 per cent. and 37.50 per cent. shares respectively as at 31 December 2022. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances in Shanghai as well as regions where its branches were established. As at 31 December 2022, its total assets and net assets were RMB109.916 billion and RMB7.167 billion respectively. For the year ended 31 December 2022, the original premium income was RMB18.144 billion, representing an increase of 7.10 per cent. on a year-on-year basis, the amount of new businesses value was RMB0.881 billion, representing an increase of 5.30 per cent. on a year-on-year basis. Affected by the fluctuations in the capital market and decrease in investment income, the net loss was RMB0.591 billion for the year ended 31 December 2022.

During the year ended 31 December 2022, BoCommLife optimised its diverse product offerings with a customer-centric approach to meet the insurance needs of customers at different stages, improved the construction of the pension service system, and won the "Annual Excellent Pension Insurance Service Provider" award at the 2022 Golden Tripod Awards. It also strengthened its "Great Bank-Insurance" service capabilities and continued to enhance the construction and capacity development of professional teams such as wealth planners. It leveraged the advantages of group integration and focused on providing one-stop services for high net worth clients' wealth protection and inheritance needs through insurance and insurance trust products.

BOCOM Financial Asset Investment

As a wholly-owned subsidiary of the Bank, it was set up in December 2017 with a registered capital of RMB10.0 billion as at 31 December 2022. As one of the first pilot banks to implement debt-to-equity swap as determined by the State Council, it is mainly engaged in debt-to-equity swap and supporting services. As at the date of Offering Circular, the Bank has injected additional capital of RMB5.5 billion to BOCOM Financial Asset Investment. During the year ended 31 December 2022, it made efforts to develop the main business of market-oriented debt-to-equity swap, and actively reduced leverage ratio and controlled risks for the real economy. For the year ended 31 December 2022, its net incremental investment of the year was RMB9.901 billion. As at 31 December 2022, it managed funds with a subscribed scale of RMB8.338 billion through its subsidiary, Bank of Communications Capital Management Co., Ltd., which represented an increase of 298.34 per cent. on a year-on-year basis, further strengthening the momentum of its equity investment business development. As at 31 December 2022, its total assets and net assets were RMB61.956 billion and RMB20.415 billion respectively. Its net profit during the year ended 31 December 2022 was RMB1.124 billion, representing a decrease of 61.32 per cent. on a year-on-year basis.

BOCOM Financial Asset Investment closely followed the direction of the Group's "14th Five-Year Plan", continuously increased the proportion of business in the Shanghai Base, the Yangtze River Delta region, and other key strategic areas of the country. It also accelerated the formation of technology and financial service capabilities, chose equity investment as a starting point, deepened customer cooperation relationships, and helped the Group consolidate its customer and debt base. For the year ended 31 December 2022, the balance of investment in key regions such as the Yangtze River Delta, the Guangdong-Hong Kong-Macau Greater Bay Area, and the Beijing-Tianjin-Hebei Region accounted for 58.13 per cent. of the total investment. Among them, the proportion of investment in the Shanghai area was 9.12 per cent., and the proportion of investment in newly-emerging strategic industries was 51.27 per cent.

BoCom International Holdings

BoCom International Holdings was set up in June 1998 (formerly known as Communications Securities Co., Ltd. It changed its name to BOCOM International Holdings Company Limited in May 2007). It was listed on the main board of the HKSE on 19 May 2017. The main businesses include securities brokerage and margin financing, corporate financing and underwriting, asset management and consulting, investment and loan. As at 31 December 2022, the Bank's shareholding in BoCom International Holdings was 73.14 per cent. During the year ended 31 December 2022, it focused on key national regions to strengthen its business layout, and provided customers with comprehensive financial services integrating the industrial chain. As at 31 December 2022, its total assets and net assets were HKD24.662 billion and HKD2.677 billion respectively. Affected by adverse market conditions, its net loss for the year ended 31 December 2022 was HKD2.984 billion.

BoCom Insurance

As a wholly-owned subsidiary of the Bank, it was set up in November 2000 with a registered capital of HKD0.4 billion as at 31 December 2022. The main business includes the operation of 17 types of general insurances approved by the Insurance Authority of Hong Kong. During the year ended 31 December 2022, A.M. Best, which is an international professional rating agencies in insurance industry, affirmed the BoCom Insurance's financial strength ratings of "A-" (Excellent) and long-term issuer credits ratings of "a-", both with "Stable" outlook. As at 31 December 2022, its total assets and net assets were HKD0.874 billion and HKD0.538 billion respectively. Affected by capital market fluctuations and a year-on-year increase in claims paid, the net profit suffered a year-on-year decrease of HKD11.74 million for the year ended 31 December 2022.

During the year ended 31 December 2022, BoCom Insurance took advantage of the full business license for general insurances, promoted the improvement and innovation of insurance products to continuously enhance insurance customer experience, and obtained the ISO9001 certification. Its gross premiums for the year ended 31 December 2022 increased by 14.38 per cent. on a year-on-year basis to HKD0.28 billion, reaching a record high, and the premium profits before expenditure were HKD18.45 million and the net compensation rate was 31.30 per cent., maintaining a favorable condition.

GLOBAL SERVICE CAPABILITIES

The Group formed an overseas operating network covering major international financial centres across five continents, and had 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, with 69 overseas operating outlets as at 31 December 2022. For the year ended 31 December 2022, net profit of overseas banking institutions of the Group was RMB5.111 billion, whose contribution to the Group's total net profit was 5.55 per cent. As at 31 December 2022, the total assets of overseas banking institutions were RMB1,262.918 billion, whose contribution to the Group's total assets was 9.72 per cent.

Hong Kong Branch

Established in 1934, Bank of Communications Co., Ltd. Hong Kong Branch (the "**Hong Kong Branch**") is the Bank's largest overseas branch. In addition to foreign exchange deposits, foreign exchange loans and international settlement services, the Hong Kong Branch also provides non-banking services through its subsidiaries.

The Hong Kong Branch has placed an increasing emphasis on serving personal finance customers. For corporate finance operations, the Hong Kong Branch targets, among others, listed companies and large PRC state-owned enterprises. In addition, the Hong Kong Branch also actively participates in the syndicated loan market. In addition to generating interest income, the Hong Kong Branch continues to focus on generating fee income. The Hong Kong Branch provides a variety of fee-based products and services.

On 29 January 2018, the Bank established Bank of Communications (Hong Kong) in order to expand and intensify the Bank's retail and private banking business. The activities, assets and liabilities which constitute the retail and private banking businesses of the Hong Kong Branch were transferred to the Bank of Communications (Hong Kong).

Other overseas branches

Other overseas branches and subsidiaries as at 31 December 2022 were:

- The Bank's New York branch commenced operation in November 1991.
- The Bank's Tokyo branch commenced operation in December 1995.
- The Bank's Singapore branch commenced operation in September 1996.
- The Bank's Seoul branch commenced operation in August 2005.
- The Bank's Frankfurt branch commenced operation in October 2007.
- The Bank's Macau branch commenced operation in November 2007.
- The Bank's Ho Chi Minh City branch commenced operation in February 2011.
- The Bank's London branch commenced operation in November 2011.
- The Bank's Sydney branch commenced operation in November 2011.
- The Bank's San Francisco branch commenced operation in November 2011.
- The Bank's Taipei branch commenced operation in July 2012.
- The Bank's representative office in Toronto was opened in November 2014.
- The Bank's tier-2 branch in Brisbane commenced operation in April 2015.
- The Bank's subsidiary in Luxembourg commenced operation in May 2015.
- The Bank's subsidiary's branch in Paris commenced operation in November 2016.
- The Bank's subsidiary's branch in Rome commenced operation in November 2016.
- Banco BBM S.A. became a non-wholly owned subsidiary of the Bank in November 2016.
- The Bank's tier-2 branch in Melbourne commenced operation in December 2018.

- The Bank's Prague branch commenced operation in May 2019.
- The Bank's Johannesburg branch commenced operation in November 2020.

International development

The Group actively responded to changes in internal and external conditions, and overseas banking institutions closely tracked changes in global markets. It carried out operational management in a steady and orderly manner, strengthened structural and dynamic adjustments, and coordinated development and safety. The Group aimed to proactively respond to the pursuit of high-level opening up and a new development pattern of "dual circulation," in which domestic and foreign markets reinforce each other. The Bank provided financial services to Chinese enterprises that were in line with the national strategy to "go global" and actively built a financial bridge between the inside and outside world. The Bank constantly improved its emergency protection plans in accordance with changes in the situation, strengthened risk prevention and built a solid foundation for sustainable and high-quality development of overseas banks.

International settlement and trade financing

The Bank served the high level of opening up to support the cross-border financial needs of customers in manufacturing, wholesale and retail industries, and increase support for small and micro foreign trade enterprises. The "Digital Trade Service" is an online and intelligent trade finance product that covers five modules: new foreign trade, scenario finance, Easy series, large customer platform and banking and government docking, to effectively serve the construction of a strong trade nation. The Bank integrated into scenarios such as shipping logistics and pilot digital services for capital projects to enhance the quality and effectiveness of supporting financial services. The Bank optimised the functions of the Easy series of online settlement and financing products. The number of customers and business volume continued to grow exponentially, and the digitalisation of financial services continued to improve. The Bank supported the development of new foreign trade models, and the trading volume of cross-border e-commerce, integrated foreign trade services and market procurement totalled RMB28.21 billion for the year ended 31 December 2022. The Bank promoted technology empowerment and enriched the platform for large clients in international business. It also launched a pilot bridge for digital currency of multiple central banks and launched the innovative letter of credit business of renminbi cross-border payment system. For the year ended 31 December 2022, the amount of international settlement processed by the Bank reached U.S.$538.77 billion, representing a year-on-year increase of 11.5 per cent; the volume of financing for cross-border trade reached U.S.$220.49 billion, representing a year-on-year increase of 1.8 per cent.

Overseas service network

The arrangement of the overseas service network is progressing steadily. As at 31 December 2022, the Group had 23 overseas branches (sub-branches) and representative offices in places including Hong Kong, New York, London, Singapore, Tokyo, Frankfurt, Luxembourg and Sydney, providing customers with financial services including deposits, loans, international settlement, trade financing and foreign currency exchange. As at 31 December 2022, the Group established overseas banking service network with 1,010 banks in 127 countries and regions, set up 235 cross-border renminbi interbank accounts for 100 overseas renminbi participating banks in 32 countries and regions; in addition, 82 foreign currency settlement accounts in 27 major currencies were opened in 63 banks in 31 countries and regions.

Cross-border Renminbi transactions

The Bank continued to promote the construction of cross-border renminbi payment scenarios and strengthened the combined use of products with cross-border settlement and cross-border investment and financing. As at 31 December 2022, the Bank topped the market in terms of the number of corporate customers of the standard transmit product of online cross-border renminbi payment system. The Bank continued to expand the cross-border use of renminbi and promoted steady growth in the scale of cross-border renminbi settlement. For the year ended 31 December 2022, the volume of cross-border renminbi settlement of domestic banking institutions reached RMB1,537.448 billion, representing an increase of 26.84 per cent. on a year-on-year basis.

Offshore businesses

The Bank strengthened the integrated development of offshore and onshore businesses as well as the integrated operation of non-resident accounts, and fully explored the business potentials of the integration of Yangtze River Delta and Lin-Gang Special Area of Shanghai Pilot Free Trade Zone. As at 31 December 2022, the asset balance of offshore business increased by U.S.$1.0 billion and 6.27 per cent. over the end of the previous year to U.S.$16.936 billion.

MARKETING

The Bank develops specific marketing strategies for both corporate and personal banking clients. The Bank's head office organises bank-wide marketing and provides supporting resources for local marketing efforts formulated and coordinated by the Bank's branches. The Bank's sub-branches are responsible for the implementation of local marketing plans.

The Bank has created marketing strategies based on region, customer size and product type. The Bank focuses its advertising spending on television advertising, outdoor billboards, and to a lesser extent, internet, print and radio advertising. Regionally, in addition to continuing to focus on the Yangtze River Delta, Pearl River Delta, and Bohai Rim Economic Zone regions, the Bank pays specific attention to other economic zones and projects, such as Shanghai's "Two Centres" plan to develop into an international financial and shipping centre. The Bank also develops marketing strategies based on customer segmentation. The Bank intends to continue to strengthen branding efforts for the specific products it offers. For example, the Bank will continue to promote its personal banking business service brand of "OTO Fortune" (沃德財富), and corporate business service brand of "Win to Fortune" (蘊通財富), as well as promote more customised and comprehensive wealth management solutions and product combinations under those brands and gradually position its brand as the "wealth management bank".

INFORMATION TECHNOLOGY

The Bank's information technology systems are integral to the Bank's business operations, including its customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of advanced information technology systems complement its overall business strategies and will greatly improve its operational efficiency and the quality of its customer services as well enhance its risk and financial management capabilities. The Bank has invested and will continue to make profound investments in promoting its information technology systems.

The Bank expects to increasingly leverage information technology to drive its business in the future. In addition to the upgrades and improvements the Bank has made in recent years to its information technology systems, the Bank will continue to upgrade and integrate its information technology systems to facilitate operational efficiency, risk management and business development.

EMPLOYEES

As at 31 December 2022, the Group had a total of 91,823 employees, of whom 85,405 employees were based in domestic banking institutions and 2,556 were local employees in overseas branches. As at 31 December 2022, there were 3,862 employees in total working for the Bank's subsidiaries, excluding staff dispatched from the Head Office and branches.

INTELLECTUAL PROPERTY

The Bank conducts business under the brand names and logos of “交通銀行”, “太平洋卡”, “Bank of Communications” “蘊通財富 WINTOFORTUNE”, “沃德 OTO”, “交銀沃德”, “BOCOM FORTUNE”, “交銀理財” and “得利寶”. The Bank has registered, or is in the process of applying for registration or renewal of, these brand names and logos and other related logos in the PRC and Hong Kong. The Bank is also the registered owner of the domain name “www.bankcomm.com”.

LEGAL AND REGULATORY PROCEEDINGS

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. For the year ended 31 December 2022, the Group was not involved in any material litigation and arbitration. As at 31 December 2022, the Group was involved in certain outstanding litigations/arbitrations as defendant or third party with an amount of approximately RMB2.017 billion. The Bank believes that there is sufficient provision for current and pending litigations and arbitrations against the Bank or its branches. Even if any judgment or award of the said current and pending litigations or arbitrations against the Bank or its branches is adverse to the Bank, the Bank does not anticipate that any such cases (individually or jointly) would have a material adverse impact on the Bank’s financial condition or results of operations.

PROPERTIES

The address of the headquarter of the Bank is No.188 Yincheng Zhong Road, Pudong New District, Shanghai, China. As at 31 December 2022, the Group had 252 domestic branches, including 38 branches at provinces, autonomous regions or municipalities level or directly-managed level and 214 branches managed by branches at provinces, autonomous regions or municipalities level, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. As at 31 December 2022, in addition to its PRC operations, the Bank had branches or subsidiaries which are located in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors of the Group established the overall risk appetite of "Stability, Balance, Compliance and innovation" for the Group and further set specific indicators of risk limits against various risks including credit, market, operation, liquidity, interest rate of banking book, information technology and country to exercise strict control over various risk types. In 2022, the Group closely focused on the "three major tasks" under the financial planning, strictly adhered to the bottom-line thinking, coordinated the development and security, and mainly considered the battle for asset quality to continuously improve its comprehensive risk management capability. Besides, the Group enhanced its credit risk management and anti-money laundering management capability, strengthened and modernised its risk governance system and capability, and promoted the digital transformation of its risk management. The annual risk management objectives and tasks were successfully achieved and completed, and that helped with promoting the Group's high-quality development.

- **Risk Management Framework**

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

- **Risk Management Tool**

  The Group actively practiced digital transformation in risk management and built a full- process, full-coverage digital risk management under the guideline of being market- driven, customer-based, grass roots-oriented and urgency-prioritised. The Group built a strong foundation for risk data across the Group and enterprise-grade risk management applications, and enhanced intelligent risk management. In 2022, the Risk Management Department/Risk Measurement Centre at the sub-department level under Internal Control and Crime Prevention Office were established to strengthen the unified risk measurement and monitoring throughout the Group. Centring on the requirements of "Four Transformations", the Group continuously performed the regulation preparation, team construction, model optimisation. The Group created a unified model management platform, launched the project of implementing new capital management measures and completed upgrading the main work of system construction.

BOARD OF DIRECTORS AND ITS RISK MANAGEMENT AND RELATED PARTY TRANSACTIONS CONTROL COMMITTEE

The Board of the Bank assumed the ultimate responsibility and served the highest function of decision-making and monitored the Group's risk management through its risk management and related party transactions control committee (the "**Risk Management and Related Party Transaction Control Committee**"). The Bank's Senior Management established a Risk Management Committee, namely Comprehensive Risk Management

Committee and its risk management subcommittees with various professionals and two business review committees namely Credit and Investment Review Committee and High-risk Asset Review Committee.

The Risk Management and Related Party Transactions Control Committee of the Board of the Bank is primarily responsible for supervising the risk management of the Bank, assessing risks of the Bank and the effectiveness of the Bank's risk management policies, and making recommendations to the Board regarding the Bank's risk management and internal control strategies and policies. The Audit Committee of the Bank is responsible for proposing the appointment, change or removal of the Bank's auditors, overseeing the Bank's internal auditing system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial condition and financial reporting procedures, and evaluating the Bank's compliance with, and adequacy of, the Bank's internal controls. As at 31 December 2022, the Audit Committee of the Bank consisted of seven members, Mr. Li Longcheng, Mr. Chang Baosheng, Mr. Chen Junkui, Mr. Woo Chin Wan, Raymond, Mr. Shi Lei, Mr. Zhang Xiangdong and Ms. Li Xiaohui, with Ms. Li Xiaohui as the Chairwoman of the Audit Committee[1].

Board of Supervisors

The board of supervisors of the Bank is responsible for supervising the Board of the Bank and senior management with regard to risk management and internal controls and providing suggestions and proposals for improvement of risk management and internal controls. See "*Management of the Bank*".

Senior Management and the Chief Risk Officer

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

Credit Risk Management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Retail Credit Business Department, Pacific Credit Card Centre, International Banking Department, Credit Management Department, Credit Authorisation Department, Risk Management Department/Internal Control and Crime Prevention Office, Asset Preservation Department, Financial institution Department and Financial Market Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

During the year ended 31 December 2022, the Bank continued to strengthen unified credit risk management. The Group promoted the development of credit business in an orderly manner, supported the real economy improve steadily, and strived to develop green finance. The Group provided proactive support to key fields such as inclusive small and micro enterprises, advanced manufacturing, infrastructure construction, strategic emerging industries and trade and logistics, and reinforced control over real estate, implicit government debts,

[1] According to the resolution of the Board of the Bank on 28 April 2022, Mr. WOO will cease to hold his position as a member of the Audit Committee after the approval of the CBIRC on Mr. Wang Tianze's qualification as the Independent Director. Mr. Wang will hold the position as a member of the Audit Committee.

large enterprises, overcapacity and credit card. The Group consolidated the foundation of management base, optimised the framework of credit granting policy, in which process the outline of credit granting and risk policy, the guidelines on industry investment, "one policy for one bank" and some special policies were upgraded in a timely manner. Moreover, the Group made the credit process online and more automated, completed docking with the unified registration and publicity system of movable property financing of the Credit Information Center of the PBOC, promoted online real estate mortgage registration throughout China and realised its "cross-provincial business" in many cities across the country. With these efforts, the system tools were upgraded continuously, which enriched post loan (investment) management and risk monitoring. In addition, risk classification became more sophisticated with the asset quality improved steadily.

The Group enhanced disposal and collection of non-performing loans continuously. For the year ended 31 December 2022, the disposal of non-performing loans reached RMB86.4 billion, representing a year-on-year increase of 2.9 per cent. Among them, the substantive settlement was 39.34 billion, representing a year-on-year increase of 16.9 per cent., and the quality and efficiency of disposal were improved simultaneously. During the year ended 31 December 2022, the Bank focused on the significant risks and key sectors, brought into play the professional disposal capability, steadily and orderly performed the risk disposals on significant items, increased the use of disposal methods such as non-performing asset securitisation and debt-for-equity swap of risk assets, and improved the quality and efficiency of non-performing asset settlement and recovery.

During the year ended 31 December 2022, the Group reinforced risk identification and prompted risk response. The business accountability mechanism for credit granting of key customers was continuously deepened, the approval procedures of credit business were also continuously deepened, the post-loan management was continuously improved and enhanced. The Bank continuously strengthened the credit risk identification and management in key sectors, further optimised systems and models of risk monitoring, assessment and measurement, and the direct operation and management mechanism for the asset preservation was significantly effective. By maintaining strict asset quality classification standards, the foundation of asset quality was continuously strengthened, and the asset quality was steadily improved. As at 31 December 2022, the balance of non-performing loans was RMB98.526 billion and the non-performing loan ratio was 1.35 per cent., representing an increase of RMB1.730 billion and a decrease of 0.13 percentage points respectively over the end of the previous year. The year ended 31 December 2022 also witnessed a decrease in both the balance and proportion of overdue loans. The Group adopted prudent classification standards for overdue loans. As at 31 December 2022, all the corporate loans overdue for more than 60 days were included in non-performing loans and accounted for 63 per cent. Loans overdue for over 90 days were included in non-performing loans and accounted for 58 per cent. of non-performing loans.

Distribution of loans by five categories of loan classification

	31 December 2022		**31 December 2021**		**31 December 2020**	
	Amount	**Proportion (%)**	**Amount**	**Proportio n (%)**	**Amount**	**Proportion (%)**
Pass loan	7,092,545	97.21	6,374,975	97.17	5,668,199	96.92
Special mention loan	105,084	1.44	88,629	1.35	82,527	1.41
Total performing loan balance ..	7,197,629	98.65	6,463,604	98.52	5,750,726	98.33
Sub-standard loan	40,465	0.55	52,960	0.81	52,652	0.90
Doubtful loan	33,257	0.46	25,978	0.40	26,713	0.46
Loss loan	24,804	0.34	17,858	0.27	18,333	0.31
Total non-performing loan balance	98,526	1.35	96,796	1.48	97,698	1.67

	31 December 2022		31 December 2021		31 December 2020	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Total	7,296,155	100.00	6,560,400	100.00	5,848,424	100.00

As at 31 December 2020, 2021 and 2022, the breakdown of the Bank's migration rate stipulated by the CBIRC is as follows:[1]

	31 December 2022	31 December 2021	31 December 2020
		(%)	
Loan migration rates			
Pass loan migration rate	1.89	1.86	1.84
Special mention loan migration rate	26.55	45.72	46.59
Sub-standard loan migration rate	52.87	29.61	25.48
Doubtful loan migration rate	26.61	17.42	19.92

Note:

(1) Data calculated pursuant to the Notice on the Distribution of the Regulatory Indicator and Calculation Formula for Off-Field Investigation issued by the CBIRC.

Market Risk Management

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

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

The exchange rate risk and general interest rate risk of trading book were assessed with the use of the internal model-based approach by the Group, while the market risk not covered by the internal model-based approach was assessed under the standardised approach. In terms of the internal model-based approach, historical simulation method was adopted to calculate value at risk ("**VaR**") and stressed value at risk ("**SVaR**"), which had a historical observation period of 1 year, a holding period of 10 working days and a 99 per cent. confidence interval. Daily capital transaction positions of the Group and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, using the historical simulation method, the Group measured VaR of market risks on a daily basis from different perspectives, including risk factors and investment portfolios and products and performed reverse testing to verify the accuracy of the VaR model. The results obtained using the internal model-based approach were also applied to capital measurement, quota monitoring and management, performance assessment and risk monitoring and analysis.

During the year ended 31 December 2022, the Group kept improving the market risk management system, improved management policies and procedures, optimised the risk management system, strengthened product management, optimised limit setting, and improved derivatives business risk management. The Group closely monitored the financial market fluctuations, strengthened market research and judgement on the market, enhanced exposure monitoring and risk warning, improved the risk assessment and inspection, and strictly controlled various market risk exposure limits to improve the level of market risk management.

Liquidity Risk Management

Liquidity risk is the risk that occurs when the commercial bank cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfil other payment obligations, or meet other funding needs in the normal course of business. The main factors affecting the liquidity risk include early withdrawal by deposit customers, deferred repayment by loan customers, mismatch of asset and liability structure, difficulty in asset realisation, decline in financing capability, etc.

The governance structure of liquidity risk management of the Group consisted of a decision-making body comprised the board of directors and its special committees and senior management, a supervisory body comprised the board of supervisors and the audit supervision committee and an executive body comprised Financial Management Department, Financial Markets Department, Risk Management Department, Operations and Channel Management Department, all the branches and subsidiaries, and the Head Office's departments in charge of each business unit.

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

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

During the year ended 31 December 2022, the Group continuously improved its liquidity risk management system, adhered to the balance between capital source and utilisation, timely and flexibly adjusted its liquidity management strategies and business development structure and rhythm, and promoted the coordinated development of the entire bank's asset liability business; the Group conducted cash flow calculation and analysis on a daily basis and strengthened daytime liquidity management and financing management to ensure liquidity safety during major holidays, key time points, and epidemic situations. The Bank strictly monitored liquidity risk related indicators, strengthened proactive risk early warning and prediction, and timely made strategic adjustments to ensure the smooth operation of liquidity risk indicators throughout the Bank.

The Group launched regular stress testing for liquidity risk, taking various factors that may affect the liquidity into full consideration, and set reasonable stress scenarios. The results of stress tests showed that the liquidity risk of the Bank was in a controllable range under various stress scenarios.

Operational Risk Management

The Group developed comprehensive operational risk management system dealing with the nature, scale and product complexity of the Group's businesses. The Group also standardised the procedures of operational risk controls, control assessment, lost data collection, key risk indicator monitoring and operational risk management. In 2022, the Group further enhanced the operational risk classification and matrix evaluation mechanism, strengthened the integrated management of operational risks of subsidiaries, and strengthened operational risk monitoring assessment on key areas. The Group also strengthened business continuity and outsourcing risk management.

Legal Compliance and Anti-Money Laundering

During the year ended 31 December 2022, the Bank made efforts to improve and promote the implementation of its legal compliance management framework. The Group improved legal knowledge education and the construction of compliance culture, contributing to steady legal and compliance management. During the year ended 31 December 2022, the Group took the measures to enhance anti-money laundering management capabilities, including advancing the self-evaluation of money laundering risk, strengthening customer identification, improving the quality and efficiency of large-sum transactions and suspicious transactions' reports, strengthening the anti-money laundering system construction, and promoting the anti-money management capability continuously.

Cross-industry, Cross-Border and By-Country Risk Management

The Group set up the risk management system across industries and boarders, characterised by "centralised management, clear allocation, adequate tools, IT support, risk quantification, and consolidation of substantially controlled entities". All subsidiaries and overseas branches take into account both the Group's standardised requirements and the respective requirements from local regulatory governing bodies while performing risk management. During the year ended 31 December 2022, considering the uncertainties caused by the global COVID-19 pandemic, the Group strengthened risk management in overseas institutions, improved the institutional system, advanced assessment mechanism, and strengthened the development and drilling of various emergency plans to ensure stable operation of business. In addition, the Group also strengthened management of key areas such as employees' awareness of pandemic prevention, liquidity, business continuity and asset quality in overseas institutions. The Group enhanced the consolidation management, improved unified risk management of the Group, refined the full lifecycle management of subsidiaries, and optimised risk information reporting mechanism. The Group strengthened by-country risk management, increased the frequency of monitoring by-country risk exposure, improved the management of by-country risk limits, carried out by-country risk analysis and rating, continuously paid attention to and responded to by-country risk events in a timely manner, and integrated by-country risk management requirements throughout the entire process of relevant business development.

Reputation Risk Management

The Group implemented the Administrative Measures for Reputational Risk of Bank and Insurance Institution (for Trial Implementation). As for the governance structure, the Group improved the reputational risk management of "Board of Directors, Board of Supervisors and Top Management Team". As for the mechanism, the Group enhanced the Group integrated management, continuously improving the management system of reputational risk of the Group. As for execution, the Group optimised the closed-loop management of the whole process, including pre-assessment, in-process response, and post event summary, and improved the management of the reputational risk. During the year ended 31 December 2022, the Group's reputational risk management system operated well and the reputational risk was under control.

Management of Large Exposure Risk

The Group thoroughly implemented the requirements of the *Administrative Measures for the Large Exposures of Commercial Banks* issued by the CBIRC, boosted the construction of management system, and optimised management process and organisation structure. The Group continuously monitored situations of large exposure risk, and strictly adhered to various delegated authorities' standards, so as to improve the Group's ability to prevent systematic and regional risk. As at 31 December 2022, the Group's large exposure risk indicators all met the regulatory requirements.

Climate and Environmental Risk Management

The Group actively supported the target of "Carbon Peak and Carbon Neutrality", and promoted the further integration of climate and environmental risks into the comprehensive risk management system. According to the risk appetite determined by the Board of Directors, the Bank continuously improved the governance structure, strengthened institutional restrictions, enhanced the risk assessment, and optimised management as well as control measures to effectively respond to new challenges brought by climate change and low-carbon transformation of the social economy.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

ASSETS

The Bank's total assets as at 31 December 2022 were RMB12,992,419 million, which represents an increase of 11.37 per cent. from RMB11,665,757 million as at 31 December 2021. The four principal components of the Bank's assets consist of loans and advances to customers (after provision), financial investments, cash and balances with central banks and due from and placements with banks and other financial institutions. As at 31 December 2022, the balances (after provision) of the Bank's loans and advances to customers, financial investments, cash and balances with central banks, due from and placements with banks and other financial institutions and others constituted 54.93 per cent., 30.44 per cent., 6.20 per cent., 5.32 per cent. and 3.11 per cent., respectively, of its total assets. The following table sets forth the balances of significant components of the Bank's total assets as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
		(RMB in million)	
Cash and balances with central banks	817,561	734,728	806,102
Due from and placements with banks and other financial institutions	571,130	632,708	690,421
Derivative financial assets	54,212	39,220	69,687
Loans and advances to customers	5,720,568	6,412,201	7,136,677
Financial investments at fair value through profit or loss	482,588	638,483	705,357
Financial investments at amortised cost	2,019,529	2,203,037	2,450,775
Financial investments at fair value through other comprehensive income	735,220	681,729	799,075
Investments in associates and joint ventures	4,681	5,779	8,750
Property and equipment	169,471	171,194	194,169
Deferred income tax assets	27,991	32,061	38,771
Other assets[(1)]	94,665	114,617	92,635
Total assets	10,697,616	11,665,757	12,992,419

Note:

(1) Other assets consist of interest receivable, settlement accounts, other receivables and prepayments, investment properties, land use rights and others, intangible assets, long-term deferred expenses, precious metal, foreclosed assets, goodwill, refundable deposits, unsettled assets etc.

As at 31 December 2022, the Group's capital position is among the best in the industry, its core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio being 10.06 per cent., 12.18 per cent. and 14.97 per cent., respectively.

Loans and Advances to Customers

As at 31 December 2022, the Bank's corporate loans and personal loans represented approximately 64.58 per cent. and 32.43 per cent., respectively, of its total gross loans and advances to customers. While the Bank's corporate banking business remains its core banking business, the Bank believes that the PRC personal banking sector continues to offer significant growth opportunities. As part of the Bank's growth strategy, the Bank has taken, and will continue to take, various initiatives to enhance its personal banking business. As at 31 December 2022, the Bank's personal loans reached RMB2,366,507 million, representing an increase of RMB81,411 million or 3.56 per cent. compared to 31 December 2021.

Unless otherwise stated, all amounts of corporate loans, personal loans and discounted bills set forth in this section represent amounts before impairment allowance.

The balances (after provision) of Bank's loans and advances to customers represent a significant portion of its assets and accounted for 54.93 per cent. of its total assets as at 31 December 2022. The balance (after provision) of the Bank's loans and advances to customers increased by 11.22 per cent. to RMB7,136,677 million as at 31 December 2022 from RMB6,412,201 million as at 31 December 2021.

Distribution of Loans by Industry

The Bank's corporate loan portfolio represents a broad range of industries, but is concentrated in particular in the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate sectors. The following table sets forth the Bank's corporate loan portfolio by industry and as a percentage of its loan portfolio as at the dates indicated:

	31 December 2020		**31 December 2021**		**31 December 2022**	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)					
Corporate loans	3,707,471	63.39	4,138,582	63.09	4,711,353	64.58
Transportation, storage and postal services	708,649	12.12	763,419	11.64	823,156	11.28
Manufacturing	658,203	11.25	732,565	11.16	836,532	11.46
Leasing and commercial services	577,500	9.87	650,742	9.92	729,818	10.00
Water conservancy, environmental and other public services	334,399	5.72	382,201	5.83	429,222	5.88
Real estate	348,185	5.95	419,820	6.40	519,857	7.13
Wholesale and retail	204,856	3.50	215,554	3.29	254,447	3.49
Production and supply of electric power, heat, gas and water	221,313	3.78	268,772	4.10	342,617	4.70
Construction	135,732	2.32	157,729	2.40	176,696	2.42
Mining	125,367	2.14	120,216	1.83	118,246	1.62
Finance	118,702	2.03	132,633	2.02	148,747	2.04
Education, science, culture and public health	112,961	1.93	122,196	1.86	128,762	1.76
Others	85,570	1.48	77,884	1.19	94,839	1.31
Accommodation and catering	34,886	0.60	34,133	0.52	40,168	0.55
Information transmission, software and information technology services	41,148	0.70	60,718	0.93	68,246	0.94
Personal loans	1,980,882	33.87	2,285,096	34.83	2,366,507	32.43
Discounted bills	160,071	2.74	136,722	2.08	218,295	2.99
Total	5,848,424	100.00	6,560,400	100.00	7,296,155	100.00

In accordance with the disclosure standards in the published unaudited but reviewed consolidated financial statements as at and for the year ended 31 December 2022, loans to the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate generally account for a significant portion of the Bank's corporate loans. In the aggregate, they accounted for approximately 45.75 per cent. of the Bank's total loans as at 31 December 2022. As at 31 December 2022, the total amount of the Bank's corporate loan balance increased by RMB572,771 million or 13.84 per cent. from RMB4,138,582 million as at 31 December 2021 to RMB4,711,353 million. The Bank offers bill discounting by providing its customers with cash for their bills of exchange accepted by other financial institutions as well as corporations. Discounted bills represented 2.74 per cent., 2.08 per cent. and 2.99 per cent. of the Bank's total loans and advances to customers as at 31 December 2020, 2021 and 2022, respectively. Discounted bills increased by 59.66 per cent. from RMB136,722 million as at 31 December 2021 to RMB218,295 million as at 31 December 2022.

Personal Banking Loan Concentration by Product

The Bank's personal finance loan portfolio consists primarily of mortgage loans, credit card advances and others. The following table sets forth the Bank's personal finance loan portfolio by products and as a percentage of its personal finance loan portfolio as at the dates indicated:

	31 December 2020		31 December 2021		31 December 2022	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)					
Mortgage	1,293,773	65.31	1,489,517	65.18	1,512,648	63.92
Credit card	464,110	23.43	492,580	21.56	477,746	20.19
Personal business loans	120,985	6.11	188,293	8.24	239,271	10.11
Others	102,014	5.15	114,706	5.02	136,842	5.78
Total personal loans	1,980,882	100.00	2,285,096	100.00	2,366,507	100.00

The balance of the Bank's personal loans increased by RMB81,411 million or 3.56 per cent. per cent. from RMB2,285,096 million as at 31 December 2021 to RMB2,366,507 million as at 31 December 2022. The Bank's personal loans represented 34.83 per cent. and 32.43 per cent. of its gross loans and advances as at 31 December 2021 and 2022, respectively.

Mortgage loans represented 63.92 per cent. of the Bank's personal loans as at 31 December 2022. The Bank's mortgage loans increased 1.55 per cent. to RMB1,512,648 million as at 31 December 2022 from RMB1,489,517 million as at 31 December 2021.

As at 31 December 2020, 2021 and 2022, the Bank's credit card loans were RMB464,110 million, RMB492,580 million and RMB477,746 million, respectively, which represented 23.43 per cent., 21.56 per cent and 20.19 per cent., respectively, of its total personal loans.

Maturity of Loans

When a short-term loan is renewed following repayment within the credit term of the loan, no re-application for a credit line is required, provided such loan is drawn in accordance with relevant rules and within the effective credit line. Upon expiration of the credit term of a loan, a borrower must re-apply for a new loan, subject to the Bank's standard credit approval procedures. The interest rates for the Bank's Renminbi-denominated loans and advances are regulated by the PBOC, and banks have discretion to determine the interest rates for Renminbi-denominated loans and advances within a permitted range. The interest rate for discounted bills is determined with reference to the PBOC market re-discount interest rate.

Borrower Concentration

Under the current PRC banking regulations, the aggregate amount of the Bank's loan exposure to any single borrower may not exceed 10 per cent. of its net capital. The Bank is currently in compliance with this regulatory requirement.

Loans and Advances Balances by Geographical Segments

The following table sets forth the geographic distribution of the Bank's gross loans and advances as at the dates indicated:

	As at 31 December		
	2020	2021	2022
		(RMB in million)	
Yangtze River Delta	1,576,465	1,780,637	2,000,365
Pearl River Delta	701,865	857,521	978,749
Bohai Rim Economic Zone	831,454	965,957	1,137,282
Central China	958,527	1,092,985	1,196,075
Western China	680,088	774,445	875,476
North Eastern China	232,864	247,023	250,190
Overseas	359,368	348,948	376,277
Head Office [(1)]	507,793	492,884	481,741
Total	5,848,424	6,560,400	7,296,155

Note:

(1) Head Office included the Pacific Credit Card Centre.

The Bank's business is concentrated on the economically developed areas of China. As at 31 December 2022, the Bank's loans and advances balances from Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone and Central China accounted for 27.42 per cent., 13.41 per cent., 15.59 per cent. and 16.39 per cent., respectively, of its total loans and advances balances.

LOAN QUALITY

The Bank measures and monitors the asset quality of the Bank's loan portfolio through its loan classification system. The Bank classifies its loans using a five-category loan classification system, which complies with the applicable regulatory guidelines.

The Bank intends to continue to improve its loan quality and to generate stable profits while maintaining its credit risk exposure within acceptable parameters through a diversified loan portfolio. The Bank has established an integrated credit risk management system with comprehensive policies and procedures to identify, measure, monitor and control credit risk across its organisation. See the section headed "*Risk Management and Internal Control*".

Impaired loans are a concept under IFRS, which has been adopted by the Bank in the preparation of its financial statements set forth in the Offering Circular. A loan is impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of such loan. Non-performing loan is used to refer to a loan that is classified as "substandard", "doubtful" or "loss" under the five-category loan classification system established by the CBIRC.

Overdue loans are (1) for loans with a specific expiry date – these loans should be treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date; (2) for loans with regular instalments – these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.

Provision for Impairment Losses on Loans and Advances to Customers

Since 2017, for a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective from 1 January 2018, IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("**ECL**") model, which constitutes a change from the incurred loss model in the International Accounting Standards ("**IAS**") 39.

Under IFRS 9, ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the total cash flows that are due to the Group in accordance with the contract and the total cash flows that the Group expects to receive discounted at the original effective interest rate, i.e. the present value of the total cash flows shortage. Purchased or originated credit-impaired financial assets shall be discounted at the credit-adjusted effective interest rate. The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition. The Group measures the ECL of a financial instrument in a way that reflects (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (2) the time value of money; and (3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The following table sets forth certain information regarding the Bank's individually identified impaired loans and its loans overdue by more than 90 days as at the dates indicated:

	31 December 2020	31 December 2021	31 December 2022
	(RMB in million, except percentages)		
Non–performing loans	97,698	96,796	98,526
Loans overdue by more than 90 days	64,723	63,998	57,091
Non-performing loan ratio	1.67%	1.48%	1.35%

Impaired Loans by Industry

A significant portion of the Bank's impaired corporate loans is concentrated in the manufacturing, wholesale and retail and real estate sectors. The impaired loan concentration in the manufacturing sector is due primarily to the high proportion of corporate loans to the manufacturing sector, and to the intense competition and overcapacity exhibited by this sector. The impaired loan concentration in the wholesale and retail sector is due primarily to the intense competition and cyclicality exhibited by this sector during the global financial crisis. The Bank has recently adopted several measures as part of its on-going efforts to manage its credit risk across its industries by, among other things, adopting an industry risk rating system and an internal risk rating system to monitor those industries which are most affected by governmental policies or overcapacity, or those which are low-growth industries, so that the Bank can adjust timely its credit standards and select customers with a lower risk profile. The impaired loan concentration in the real estate sector is due primarily to the growth of the Bank's lending to the real estate sector. The Bank have tried to manage its credit risk in the real estate sector by paying close attention to the market environment and changes in governmental policies, by focusing its lending more heavily on large national and regional property development companies and limiting its lending to small-sized and medium-sized property development companies.

Distribution of non-performing loans by region

The following table sets forth the geographic distribution of the Bank's non-performing loans as at the dates indicated:

	As at 31 December 2020			As at 31 December 2021			As at 31 December 2022		
	Amount	*% of total loans*	*Non-performing loan ratio*	*Amount*	*% of total loans*	*Non-performing loan ratio*	*Amount*	*% of total loans*	*Non-performing loan ratio*
	(RMB in million, except percentages)								
Yangtze River Delta	20,149	20.79	1.29	22,399	23.14	1.26	21,107	21.42	1.06
Pearl River Delta	7,332	7.57	1.03	5,559	5.74	0.66	8,403	8.53	0.86
Bohai Rim Economic Zone	17,058	17.60	2.03	13,893	14.35	1.44	10,707	10.87	0.94
Central China	18,005	18.58	1.96	19,224	19.86	1.76	14,520	14.74	1.21
Western China	9,220	9.51	1.35	9,661	9.98	1.25	9,333	9.47	1.07
North Eastern China	10,998	11.35	4.72	12,090	12.49	4.89	13,595	13.80	5.43
Head Office[(1)]	10,567	10.90	2.08	10,831	11.19	2.20	9,310	9.45	1.93
Overseas	3,586	3.70	1.00	3,139	3.24	0.90	11,551	11.72	3.07
Total	96,915	100.00	1.67	96,796	100.00	1.48	98,526	100.00	1.35

Notes:

(2) Head Office included the Pacific Credit Card Centre.

TRADING ASSETS

The Bank invests in and trades Renminbi-denominated and foreign currency-denominated listed and unlisted debt and equity securities for its own account to (1) maintain the stability and diversification of the Bank's assets, (2) maintain adequate sources of back-up liquidity to match the Bank's funding requirements, and (3) supplement income from the Bank's core lending activities.

The Bank's investment securities include primarily securities issued by central governments and central banks, securities issued by banks and other financial institutions, securities issued by corporate entities, as well as a small portion of investment securities issued by public sector entities.

The Bank's trading assets include primarily listed and unlisted debt and equity securities, as well as derivative financial instruments, issued by banks and financial institutions, corporate entities, governments and central banks and public sector entities. The majority of the unlisted bonds in this category are traded in the interbank market in the PRC.

The Bank recorded its investment securities and trading assets on its statement of financial position as financial assets held for trading, loans and receivables investment securities, held-to-maturity investment securities and available-for-sale investment securities as at and for the year ended 31 December 2017. Debt securities with fixed or determinable payments that are not quoted in an active market, without the intent to sell immediately or in the short term are classified as loans and receivables. Investment securities with fixed maturity where the Bank's management has the intent and the ability to hold to maturity are classified as held-to-maturity investment securities. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investment securities. A trading asset is classified as financial assets held for trading if it is acquired principally for the purpose of selling in the near term or if it 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. From 1 January 2018, the Bank applied IFRS 9 and records and reclassifies its investment securities and trading assets on its statement of financial position as financial assets by measurement of fair value through profit or loss ("**FVPL**"), fair value through other comprehensive income ("**FVOCI**") or amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI.

The following table sets forth the Bank's debt securities at FVPL as analysed by issuer as at the dates indicated:

	31 December 2020	**31 December 2021**	**31 December 2022**
	Amount	*Amount*	*Amount*
		(RMB in million)	
Governments and central banks.........................	6,534	99,079	102,349
Public sector entities	1,585	1,302	560
Banks and other financial institutions................	99,671	100,898	80,601
Corporate entities	45,244	46,655	69,443

LIABILITIES AND SOURCES OF FUNDS

The Group's total liabilities as at 31 December 2022 were RMB11,956,679 million, which represents an increase of 11.86 per cent. from RMB10,688,521 million as at 31 December 2021. The amount of the Group's due to customers accounted for 66.48 per cent. of its total liabilities as at 31 December 2022. The Bank obtains funding for its lending and investment activities from a variety of sources, both domestic and international. The Bank's principal sources of funding are corporate and individual deposits. The Bank's funding operations are designed to ensure both a stable source of funds and effective liquidity management. The Bank continuously adjusts its funding operations to minimise funding costs and also endeavours to match currencies and maturities with those of its loan portfolio.

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

	31 December 2020		31 December 2021		31 December 2022	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)					
Corporate deposits						
Corporate demand deposits	2,005,934	30.35	2,061,672	29.29	1,989,383	25.03
Corporate time deposits	2,335,590	35.35	2,488,348	35.35	2,887,650	36.33
Sub-total	4,341,524	65.71	4,550,020	64.63	4,877,033	61.35
Personal deposits						
Personal demand deposits	812,534	12.30	850,831	12.09	885,013	11.13
Personal time deposits	1,379,697	20.88	1,551,981	22.04	2,070,711	26.05
Sub-total	2,192,231	33.18	2,402,812	34.13	2,955,724	37.18
Other deposits	5,499	0.08	3,359	0.05	4,227	0.05
Accrued interest	68,076	1.03	83,586	1.19	112,088	1.41
Total due to customers	6,607,330	100.00	7,039,777	100.00	7,949,072	100.00

DISTRIBUTION OF DEPOSITS BY GEOGRAPHY

The following table sets forth the distribution of the Bank's deposit balances as at the dates indicated:

	31 December 2020		31 December 2021		31 December 2022	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)					
Yangtze River Delta	1,786,446	27.03	1,878,481	26.68	2,157,812	27.15
Pearl River Delta	768,470	11.63	871,667	12.38	1,024,315	12.89
Bohai Rim Economic Zone	1,348,298	20.40	1,491,168	21.18	1,671,923	21.02
Central China	1,072,501	16.23	1,130,712	16.06	1,260,425	15.86
Western China	734,423	11.12	763,629	10.85	846,610	10.65
North Eastern China	330,087	5.00	360,775	5.12	391,719	4.93
Overseas	495,356	7.50	456,074	6.48	480,408	6.04
Head office(1)	3,673	0.06	3,685	0.05	3,772	0.05
Accrued interest	68,076	1.03	83,586	1.20	112,088	1.41
Total	6,607,330	100.00	7,039,777	100.00	7,949,072	100.00

Notes:

(1) Head Office included the Pacific Credit Card Centre.

SUBSTANTIAL SHAREHOLDERS

The table below sets forth certain information regarding ownership of outstanding shares of the Bank as at 31 December 2022 by those persons who hold or are beneficially interested in any substantial part of the share capital of the Bank.

Particulars of shareholdings disclosed pursuant to H shares regulatory requirements

As at 31 December 2022, to the knowledge of the directors, supervisors and chief executive of the Bank, the substantial shareholders and other persons (excluding the directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest(1)	Approximate percentage of total issued A shares	Approximate percentage of total issued shares
				(%)	
Ministry of Finance of the People's Republic of China	Beneficial owner	13,178,424,446 (2)	Long position	33.57	17.75
National Council for Social Security Fund..............................	Beneficial owner	3,105,155,568 (3)	Long position	7.91	4.18

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest(1)	Approximate percentage of total issued H shares(8)	Approximate percentage of total issued shares(8)
				(%)	
Ministry of Finance of the People's Republic of China	Beneficial owner	4,553,999,999(2)	Long position	13.01	6.13
HSBC Holding plc	Interest of controlled corporations	14,135,636,613(3)	Long position	40.37	19.03
National Council for Social Security Fund..............................	Beneficial owner	9,050,128,332(4)	Long position	25.85	12.19

Notes:

(1) Long positions held other than through equity derivatives.

(2) To the knowledge of the Bank, as at 31 December 2022, the Ministry of Finance of the People's Republic of China held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, respectively, representing 6.13 per cent. and 17.75 per cent. of the total ordinary shares issued by the Bank.

(3) HSBC Holdings plc wholly owns HSBC Asia Holdings Limited, which wholly owns HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the SFO, HSBC Holdings plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

(4) To the knowledge of the Bank, as at 31 December 2022, the SSF held a total of 9,050,128,332 H shares and 3,105,155,568 A shares (please refer to the details in Shareholdings of Top 10 Ordinary Shareholders and relevant notes) of the Bank, respectively representing 12.19% and 4.18% of the Bank's total ordinary shares issued.

Save as disclosed above, as at 31 December 2022, no other person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation were recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the HKSE pursuant to Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT OF THE BANK

GENERAL

The Board of the Bank currently comprises 16 members being two executive directors, eight non-executive directors and six independent non-executive directors. Each director of the Bank is elected at a shareholder meeting for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by a simple majority of the Board.

The business address of the directors, supervisors and senior management personnel named below is No. 188 Yinchengzhong Road, Pudong District, Shanghai, PRC, 200120.

DIRECTORS

The following table sets forth certain information concerning the directors of the Bank.

Name	Position
Mr. REN Deqi	Chairman and Executive Director
Mr. LIU Jun	Vice Chairman, Executive Director and President
Mr. LI Longcheng	Non-executive Director
Mr. WANG Linping	Non-executive Director
Mr. CHANG Baosheng	Non-executive Director
Mr. LIAO, Yi Chien David	Non-executive Director
Mr. CHAN Siu Chung	Non-executive Director
Mr. MU Guoxin	Non-executive Director
Mr. CHEN Junkui	Non-executive Director
Mr. LUO Xiaopeng	Non-executive Director
Mr. Raymond WOO Chin Wan	Independent Non-executive Director
Mr. CAI Haoyi	Independent Non-executive Director
Mr. SHI Lei	Independent Non-executive Director
Mr. ZHANG Xiangdong	Independent Non-executive Director
Ms. LI Xiaohui	Independent Non-executive Director
Mr. MA Jun	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. REN Deqi, Chairman, Executive Director and Senior Economist. Mr. Ren serves as the Chairman of the Board from 16 January 2020. He has been a Vice Chairman, Executive Director and President of the Bank since August 2018. Mr. Ren resigned as President of the Bank on 13 December 2019 and served as Acting President from 13 December 2019 to 6 July 2020. Mr. Ren worked successively in the Changling Sub-branch of Yueyang Branch, Yueyang City Central Sub-branch, Yueyang Branch, Credit Management Committee Office and Credit Risk Management Department of China Construction Bank ("**CCB**") from July 1988 to August 2003. He successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk

Control Department, General Manager of Credit Management Department, president of the Hubei Provincial Branch and General Manager of Risk Management Department of CCB from August 2003 to May 2014. He served as Executive Vice President of Bank of China ("**BOC**") from July 2014 to November 2016, and served as Executive Director and Executive Vice President of BOC from December 2016 to June 2018; during such period, he also served as Non-executive Director of BOC Hong Kong (Holdings) Limited from October 2015 to June 2018 and President of Shanghai RMB Trading Unit of BOC from September 2016 to June 2018. Mr. Ren obtained his Master's degree in Engineering from Tsinghua University in 1988.

Mr. LIU Jun, Vice Chairman and Executive Director. Mr. Liu has served as Vice Chairman of the Board and Executive Director of the Bank since 5 August 2020. Mr. Liu served as Executive Vice President of China Investment Corporation from November 2016 to May 2020, Deputy General Manager of China Everbright Group Ltd. from December 2014 to November 2016, and Executive Director and Deputy General Manager of China Everbright Group Limited from June 2014 to December 2014 (from June 2014 to November 2016, Mr. Liu successively served as Chairman of Sun Life Everbright Life Insurance Company Limited, Vice Chairman of China Everbright Holdings Company Limited., Executive Director and Vice Chairman of China Everbright Limited, Executive Director and Vice Chairman of China Everbright International Limited, and Chairman of China Everbright Industrial (Group) Co., Ltd.). He served as Assistant to the President and Executive Vice President of China Everbright Bank from September 2009 to June 2014 (during which he concurrently acted as president of Shanghai Branch of China Everbright Bank and General Manager of Financial Market Centre of China Everbright Bank). From July 1993 to September 2009, he successively worked at the International Business Department, Hong Kong Representative Office, the Treasury Department and the Investment Banking Department of China Everbright Bank. Mr. Liu received a Doctorate degree in business administration from Hong Kong Polytechnic University in 2003.

The Board considered and approved the appointments of Mr. Yin Jiuyong and Mr. Zhou Wanfu as Executive Directors and members of the special committees under the Board on 13 January 2023. Such appointments were approved by the shareholders at the Bank's 2023 first extraordinary general meeting on 1 March 2023 and are subject to the CBIRC's approval.

Mr. YIN Jiuyong*, Executive Director. Mr. Yin has been serving as Executive Vice President of the Bank since September 2019. Mr. Yin held various positions in Agricultural Development Bank of China, including Executive Vice President, Director of the General Office, President of the Henan Branch, General Manager and Deputy General Manager of the First Customer Department (During the period, Mr. Yin served a temporary position as Deputy Manager of Business Department and Executive Vice President of the Baoding Branch), Deputy Director of the First Credit Department, Division Chief of the Comprehensive Division, Deputy Division Chief of Comprehensive Division of the First Industrial and Commercial Credit Department and Deputy Division Chief of Purchase and Sale Division of the Industrial and Commercial Credit Department. Mr. Yin obtained his Doctoral degree in Agriculture from Beijing Agricultural University in 1993.

Mr. ZHOU Wanfu*, Executive Director. Mr. Zhou has been serving as Executive Vice President of the Bank since July 2020. Mr. Zhou held various positions in Agricultural Bank of China, including Secretary of the Board of Directors, General manager of the Asset and Liability Management Department, General Manager of the Strategic Planning Department, President of Tianjin Training Institute, Executive Vice President of Chongqing Branch, Deputy General Manager of the Planning and Finance Department, Deputy General Manager of the Asset and Liability Management Department, Executive Vice President of the Ningbo Branch, Division Chief of the Comprehensive Planning Department and Deputy Division Chief of the Development and Planning Department. Mr. Zhou obtained his Master's degree in Economics from the Graduate School of the People's Bank of China in 1988 and obtained his MBA degree from Nanyang Technological University in Singapore in 2003.

NON-EXECUTIVE DIRECTORS

Mr. LI Longcheng, Non-executive Director. Mr. Li has been a Non-executive Director since June 2020. Mr. Li served as the Director of Heilongjiang Supervision Bureau of the Ministry of Finance since April 2019, the Chief Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2015 to April 2019, the Chief Inspector of Liaoning Supervision & Inspection Office of the Ministry of Finance from August 2012 to August 2015, the Deputy Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2008 to August 2012; the Deputy Inspector of Zhejiang Supervision & Inspection Office of the Ministry of Finance from January 2006 to August 2008. From January 1995 to January 2006, Mr. Li successively served as a Staff Member of the General Division, a Senior Staff Member of the General Division, the Deputy Director of the General Division, the Director of the First Division and the Assistant Commissioner of Heilongjiang Supervision & Inspection Office of the Ministry of Finance. From August 1986 to January 1995, Mr. Li worked in Beijing Forestry Management Cadres College of the Ministry of Forestry and Heilongjiang Finance Department. Mr. Li obtained a Doctorate degree in management from Northeast Forestry University in 2003.

Mr. WANG Linping, Mr. Wang has served as level-one inspector of the Retired Cadres Bureau of the Ministry of Finance since December 2019, chairman of China Finance and Economic Media Group from June 2018 to December 2019, department level cadre of the Ministry of Finance from March 2018 to June 2018. From May 2004 to March 2018, he successively served as chief and director-level cadre of the Financial Division and vice minister and minister of the Department of Administrative Finance of the Liaison Office of the Central People's Government in Macao Special Administrative Region. From July 1994 to May 2004, Mr. Wang served successively as chief staff member, assistant researcher of the Management Division of Retirement Funds of Administrative Institutions, deputy director and researcher of Pension Security Division of the Social Security Department of Ministry of Finance, and from August 1986 to July 1994, he served successively as a staff member, deputy chief staff member and chief staff member of the Party Committee of the Ministry of Finance. Mr. Wang obtained his Bachelor's degree in philosophy from Zhongnan University of Finance and Economy in 1986.

Mr. CHANG Baosheng, Mr. Chang has served as deputy inspector and level-two inspector of Ningxia Supervision Bureau of the Ministry of Finance since April 2019. From January 1995 to April 2019, he successively served as a staff member and deputy chief staff member of the First Business Section, the chief staff member of the General Division, the deputy director of the General Office, deputy director of the Second Business Department, deputy director of the Third Business Department, assistant commissioner and deputy inspector of Ningxia Supervision and Inspection Office of the Ministry of Finance. From July 1989 to January 1995, Mr. Chang served as a staff member of the Chinese Enterprise Division of Ningxia Finance Department of the Ministry of Finance. Mr. Chang obtained his Bachelor's degree in economics from Zhongnan University of Finance and Economy in 1989.

Mr. LIAO, Yi Chien David, Mr. Liao has been Non-executive Director of the Bank since May 2021. Prior to his current role, Mr. Liao served as group general manager at HSBC, head of Asia Pacific Global Banking Coverage of HSBC, president and chief executive officer of HSBC China, head of Global Banking and Markets at HSBC China, executive vice president of HSBC China, treasurer of HSBC China and executive director of HSBC Group. Mr. Liao previously worked at IBJ International (now Mizuho International). Mr. Liao obtained a bachelor's degree with honours from the University of London in 1995.

Mr. CHAN Siu Chung, Non-executive Director. Mr. Chan has been a Non-executive Director since October 2019. Mr. Chan has been serving as the Co-head of Markets for Asia-Pacific at the Hong Kong and Shanghai Banking Corporation Limited since August 2013. Mr. Chan joined the Hong Kong and Shanghai Banking Corporation Limited in 1986, and from July 1986 to July 2013, Mr. Chan successively served as the Senior

Dealer, Senior Interest Rate Dealer, Head of Hong Kong Dollar Interest Rate and Derivatives Trading, Head of Trading in Hong Kong, and concurrently served as Deputy Head of Global Markets Asia Pacific and Head of Trading in Hong Kong. Mr. Chan graduated from the University of Hong Kong with a Bachelor's Degree in Electrical Engineering in 1986 and obtained his Master's degree from Macquarie University in Australia of Applied Finance in 1994.

Mr. MU Guoxin, Non-executive Director. Mr. Mu has been a Non-executive Director since August 2022. Mr. Mu is currently the Director of Fund Finance Department of the National Council for Social Security Fund, a substantial shareholder of the Bank. Mr. Mu served as the Director and the Deputy Director of the Fund Finance Department, Chief of the Accounting Division, the Deputy Chief of Accounting Division of Finance and Accounting Department of the National Council for Social Security Fund and Deputy Chief of the System Division II of the Accounting Department of the Ministry of Finance. Mr. Mu obtained a master's degree of public administration from a joint programme organised by Peking University and the National Institute of Administration in July 2008.

Mr. CHEN Junkui, Non-executive Director. Mr. Chen has been a Non-executive Director since June 2019. Mr. Chen has been serving as the Deputy Director-General of Financial Management and Supervision (internal audit) Department of the State Tobacco Monopoly Administration since February 2019. Mr. Chen successively served as the Deputy Head, Head of the Finance and Asset Department of China Tobacco Machinery Group Co., Ltd. from December 2005 to February 2019, the Principal Staff Member in Financial Management Department of China Tobacco Investment Management Co. from September 2005 to December 2005, a Cadre of Financial Department and the Senior Staff Member and Principal Staff Member of Financial Department of National Tobacco Commodity Company (Cigarette Filter Material Company) from September 2000 to September 2005, and worked in Beijing Bureau of Geology and Mineral from July 1997 to September 2000. Mr. Chen obtained his Master's degree in Management Science from Capital University of Economics and Business in July 2002.

Mr. LUO Xiaopeng, Non-executive Director. Mr. Luo has been a Non-executive Director since August 2022. Mr. Luo is currently the General Manager of Capital Operation Department of Capital Airport Group, a substantial shareholder of the Bank (as defined in the Interim Measures for the Management of Equity in Commercial Banks). He also serves as a Supervisor of Tianjin Binhai International Airport Co., Ltd., Jilin Civil Airport Group Co., Ltd. and Jiangxi Airport Group Co., Ltd. Mr. Luo was formerly the Financial Controller of Inner Mongolia Civil Aviation Airport Group Co., Ltd., Secretary of the Board of Directors and General Manager of Finance Department of Beijing Capital International Airport Co., Ltd. Mr. Luo obtained a master's degree of Finance from Jiangxi Finance and Economics University in 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Raymond WOO Chin Wan*[1], Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo serves as an Independent Non-executive Director of the Bank from November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he has been Senior Associate, Manager, Senior Manager, Partner and Managing Partner.

He served as Managing Partner of Ernst & Young Greater China from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also the member of Ernst & Young Greater China Management Committee from 1998 to 2015. Mr. Woo is currently an Independent Non-executive

[1] According to the resolution of the Board of the Bank on 28 April 2022, Mr. WOO will cease to hold his position of the Independent Director of the Bank after the approval of the CBIRC on Mr. Wang Tianze's qualification as the Independent Director.

Director of Dah Chong Hong Holdings Limited and Great Wall Pan Asia Holdings Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

Mr. CAI Haoyi, Independent Non-executive Director and Researcher. Mr. Cai has been Independent Non-executive Director of the Bank since August 2018. Mr. Cai currently serves as Master's Supervisor in PBC School of Finance, Tsinghua University, Doctoral Supervisor in University of International Business and Economics and Postdoctoral supervisor in Financial Research Institute of the PBOC. Mr. Cai served as Chairman of the Board of Supervisors in Everbright Bank of China from November 2012 to June 2015 and Non-executive Director in Bank of China from August 2007 to November 2012. Mr. Cai held various positions in Bank of China from July 1986 to March 2007, including Principal Staff of Graduate Department, Deputy Division Chief of Political Department, Division Chief of Political Department, Director, Deputy Director of the General Office of Financial Research Institute, Deputy Head of Financial Research Institute, Deputy Head of Research Bureau and Secretary General of Monetary Policy Committee. Mr. Cai obtained his Doctoral Degree from Financial Research Institute of the PBOC in 2001 and he obtained special government allowances from the State Council in 2003.

Mr. SHI Lei, Independent Non-executive Director. Mr. Shi has been Independent Non-executive Director of the Bank since December 2019. Mr. Shi currently serves as an independent director of Hangzhou Meideng Technology Co., Ltd., a Professor, a Doctoral Supervisor of Fudan University, and the Head of the Public Economic Research Centre of Fudan University. Mr. Shi joined Fudan University in 1993, since then, he subsequently served as the Head of the China Socialism Market Economy Research Centre, the Director of the Publicity Department of the Communist Party Committee of Fudan University, and the Secretary of the Communist Party Committee of Fudan University Economics College. Currently, Mr. Shi also serves as the Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd. Mr. Shi obtained his Doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi enjoys the special allowance of the State Council.

Mr. ZHANG Xiangdong, Independent Non-executive Director and Senior Economist. Mr. Zhang served as a Non-executive Director of Bank of China Limited from July 2011 to June 2018 and a Non-executive Director of China Construction Bank Corporation from November 2004 to June 2010 (acting as Chairman of the Risk Management Committee of the Board of Directors from April 2005 to June 2010). From January 2004 to December 2008, Mr. Zhang concurrently served as Member of China International Economic and Trade Arbitration Commission. From August 2001 to November 2004, he successively served as Vice President of Haikou Branch of the PBOC and Deputy Director General of Hainan Branch of the State Administration of Foreign Exchange concurrently, Deputy Director General and Inspector of the General Affairs Department of the State Administration of Foreign Exchange. From September 1999 to September 2001, Mr. Zhang concurrently served as a Member of the Issuance Approval Committee of China Securities Regulatory Commission. Mr. Zhang graduated from Renmin University of China with a Bachelor's degree in law in 1986, graduated with a Postgraduate degree in international economic law from Renmin University of China in 1988, and obtained a Master's degree in law in 1990.

Ms. LI Xiaohui, Independent Non-executive Director. Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics from September 2003. From July 2001 to August 2003, she worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. From April 1993 to August 1998, Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li is a national leading accountant, and a member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants, a member of the Audit Committee of the Accounting Society of China and a member of the Audit Standards Committee of the China Internal Audit Association. Ms. Li currently serves as Independent Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., Jizhong Energy Co., Ltd., and Camel Group Co., Ltd. Ms. Li previously served as Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd. and China U-Ton Holdings Limited. Ms. Li received a Doctorate degree in Economics from Central University of Finance and Economics in 2001.

Mr. MA Jun, Independent Non-executive Director. Mr. Ma is currently the President of the Beijing Institute of Green Finance and Sustainable Development. Mr. Ma served as a Member of the Monetary Policy Committee of the People's Bank of China; Director of the Finance and Development Research Center, Institute of International Finance, Tsinghua University and Director of the Green Finance Development Research Center; Chief Economist of the Research Bureau of the People's Bank of China. He also served as Chief Economist, Investment Strategist and Managing Director for Greater China of Deutsche Bank AG; Senior Economist and Adviser to the World Bank and Economist at the International Monetary Fund. Mr. Ma also served for the Development Research Center of the State Council. Mr. Ma currently serves as an Independent Director of China Taiping Life Insurance (Hong Kong), Independent Director of YOU+ BANK, Director of Green Finance Committee of China Institute of Finance, Co-Chairman of the G20 Working Group on Sustainable Finance, Member of the National Eco-environment Protection Expert Committee, Co-Chair of the Steering Committee for the Belt and Road Green Investment Principles, Co-Chair of the International Sustainable Finance Platform Standard Working Group, President of the Beijing Green Finance Association, Chairman of the Hong Kong Green Finance Association, Member of the Voluntary Carbon Market Council, Trustee of the China Environmental Protection Foundation, etc. Mr. Ma obtained his doctor's degree in Economics from Georgetown University, USA in 1994.

The Board considered and approved the appointment of Mr. Wang Tianze as Independent Director and a member of the special committees under the Board on 28 April 2023. Such appointment is subject to the shareholders' and the CBIRC's approval.

Mr. WANG Tianze*, Independent Non-executive Director. Mr. Wang is a member of The Institute of Chartered Accountants in England and Wales. Mr. Wang has been serving as the Chief Partner of Shanghai Dekun Tianyu Management Consulting Partnership LP and a member of Digital Economy Strategy of Professional Committee of Chinese Association of Development Strategy Studies since November 2022. Mr. Wang served as the Chief Commercial Officer and the Risk Advisory Lead Partner of Deloitte China, a member of Risk Advisory Management Committee of Deloitte (Asia Pacific) and a member of Management Committee of Deloitte China. Mr. Wang also served as the Deputy Lead Partner and the Partner of Audit and Assurance of Deloitte Hua Yong CPA and the Partner of Deloitte Touche Tohmatsu. Mr. Wang obtained his Bachelor's degree in Accounting and Economy from University of Hong Kong in 1988.

SENIOR MANAGEMENT

The senior management of the Bank comprises members of the senior management and secretary of the Board, of which, members of the senior management include the president, executive vice presidents, chief business officer, chief risk officer and HSBC strategic cooperation adviser, etc. The Bank adopts the system of accountability by the president under the leadership of the Board. The president is accountable to the Board, whereas various functional departments, branch offices and other members of senior management of the Bank are accountable to the president. The president has the right to organise, develop and operate management activities in accordance with laws, regulations, the Bank's Articles of Association and authorisation from the Board.

The following table sets forth certain information concerning members of the senior management of the Bank.

Name	Position
Mr. LIU Jun	President
Mr. YIN Jiuyong	Executive Vice President
Mr. HUANG Hongyuan	Executive Vice President
Mr. ZHOU Wanfu	Executive Vice President
Mr. HAO Cheng	Executive Vice President
Mr. QIAN Bin	Executive Vice President, Chief Information Officer
Mr. HE Zhaobin	Company Secretary
Mr. TU Hong	Chief Business Officer (Interbank and Market Business Sector)
Mr. LIN Hua	Chief Risk Officer
Mr. NG Siu On	Senior Management Member, BoCom-HSBC Strategic Cooperation Advisor

Mr. LIU Jun, please refer to details in "*Executive Directors*".

Mr. YIN Jiuyong, please refer to details in "*Executive Directors*".

Mr. HUANG Hongyuan, Executive Vice President. Mr. Huang has been Executive Vice President of the Bank since December 2022. Mr. Huang served as Chairman, General Manager and Deputy General Manager of the Board of Governors of Shanghai Stock Exchange, Director of Institutional Supervision Department and Director of Risk Control Office of Securities Companies under China Securities Regulatory Commission, Deputy Director of Shanghai Regulatory Bureau under China Securities Regulatory Commission, and Commissioner of Shanghai Securities Regulatory Commissioner's Office, Deputy Director of Shanghai Securities Regulatory Office, Member of Planning and Development Committee under China Securities Regulatory Commission, Deputy Director of Fund Supervision Department under China Securities Regulatory Commission, Chief of Overseas Listing Division of Overseas International Business Department under China Securities Regulatory Commission, Deputy Chief of Overseas Listing Division of Overseas Listing Department under China Securities Regulatory Commission. etc. Mr. Huang obtained his Doctoral Degree in Economics from School of Finance, Renmin University of China. Mr. Huang obtained his Master's Degree in Mathematics and Finance from Imperial College London. He also obtained a Master's Degree in Finance from Graduate School of People's Bank of China. Mr. Huang obtained his Bachelor's Degree in Electronics Engineering from Shanghai Jiao Tong University.

Mr. ZHOU Wanfu, please refer to details in "*Executive Directors*".

Mr. HAO Cheng, Executive Vice President. Mr. Hao has been Executive Vice President of the Bank since March 2021, Senior Engineer. Mr. Hao held various positions in China Development Bank, including President of the Jilin Branch, Deputy Director of the Personnel Bureau of the Head Office, Executive Vice President of the Tianjin Branch, Division Chief of the Comprehensive Division of the Personnel Bureau of the Head Office, Division Chief of the Policy Division of the Personnel Bureau of the Head Office, Division Chief of the System Personnel Division of the Personnel Bureau of the Head Office, Deputy Division Chief of Policy Division of the Personnel Bureau of the Head Office, Deputy Division Chief of the Second Credit Management Division and the Fourth Credit Management Division of the Credit Management Bureau of the Head Office. Mr. Hao obtained his Doctoral degree in Management from Beijing Jiaotong University in 2009.

Mr. QIAN Bin, Executive Vice President and Chief Information Officer. Mr. Qian has been Executive Vice President of the Bank since July 2021, senior engineer. He successively served as General Manager and Person-

In-Charge of Network Finance Department, General Manager of Data Center (Shanghai), Deputy General Manager of Private Banking Department, Deputy General Manager of Information Technology Department of Industrial and Commercial Bank of China Limited. Mr. Qian also served as General Manager (concurrently as Director of Technology Support Center), Deputy General Manager, and Assistant General Manager of Information Technology Department of Shanghai Branch of Industrial and Commercial Bank of China Limited. Mr. Qian Bin obtained his MBA degree from The University of Hong Kong – Fudan University IMBA Programme in 2004.

Mr. HE Zhaobin*[1], Company Secretary. Mr. He, China Certified Public Accountant, Senior Economist, has been serving as the director of the office of the Board since September 2020. Mr. He held various positions including Non-executive Director of the Bank, Deputy Director of National Agricultural Comprehensive Development Office, Deputy Director of Reform Group of Agriculture Comprehensive Development Office of the State Council, cadres (at Deputy Director General level, during which Mr. He took a temporary post as Vice Mayor in Huangshi municipal people's government in Hubei province), Deputy Division Chief and Division Chief of Supervision and Inspection Committee of the Ministry of Finance. Mr. He graduated from Shanghai University of Finance and Economics in 1990 with a Bachelor's Degree in Economics. In 2007, he obtained his Master's Degree in Public Administration in China National School of Administration and Peking University

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

Mr. LIN Hua, Chief Risk Officer. Mr. Lin has been the Chief Risk Officer of the Bank since June 2021, economist. Mr. Lin served as the President of Jiangsu Branch, President and Vice President (performing duties of the president) of Jiangxi Branch, Vice President and Senior Credit Executive of Shanghai Branch, Senior Manager of Credit Department, Division Chief of Credit Management Department, Director of the General Office, Deputy Director of the General Office (in charge of overall work), Assistant Manager of Marketing Department and Assistant Division Chief of Credit Department of Shanghai Branch. He has served the Bank for 33 years. Mr. Lin obtained a master's degree in business administration from Shanghai University of Finance and Economics in 2004.

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[1] Pursuant to the laws, regulations and the Articles of Association, the appointment of Mr. He will be effective upon the approval by the regulatory authority of the banking industry of the State Council on his qualification as secretary of the Board.

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

BOARD OF SUPERVISORS

In accordance with the requirements of the company law of the PRC and the Bank's Articles of Association, the board of supervisors of the Bank monitors the Board's execution of the resolutions approved at shareholders' meetings and decisions made within the Board's scope of power. The board of supervisors of the Bank also monitors the senior management's implementation of resolutions approved at shareholders' general meetings and Board's meetings, and the business activities that were carried out within the senior management's scope of power. The board of supervisors is also responsible for monitoring the performance of the directors and senior management, and for investigating the Bank's financial condition.

The board of supervisors of the Bank includes the following members:

Mr. XU Jiming, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since August 2021. Mr. Xu currently serves as the Deputy Secretary of the Party Committee of the Bank. Mr. Xu served as a member of the Party Group, Chief of the Discipline Inspection and Supervision Team, Chief of the Discipline Inspection Team of the Party Group of China National Petroleum Corporation. He also served in the National Audit Office of People's Republic of China as Director-General of the General Office, Director General of Administrative Audit Department, Director-General of Foreign Capital Utilisation Audit Department, Director of the Audit Cadre Training Center, Director of the Hygiene and Medicine Audit Bureau, Deputy Director of the Hygiene and Medicine Audit Bureau, Deputy Director-General of Foreign Capital Utilisation Audit Department, Commissioner Assistant of the Kunming Special Mission Office (Division Chief Level), Chief of the First Division of Foreign Capital Utilisation Audit Department, Chief of the Comprehensive Division of Foreign Capital Utilisation Audit Department, Deputy Division Level Auditor of the Second Division of Foreign Capital Utilisation Audit Department, Cadre of the Second Division of Foreign Capital Utilisation Audit Department. Mr. Xu obtained his Doctoral degree in Economics from the School of Advanced Studies in the Social Sciences of Paris in 1995.

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

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

Mr. CHEN Hanwen, External Supervisor. Mr. Chen has been an External Supervisor of the Bank since April 2019. Mr. Chen is currently an independent director of Shanghai Fuiou Payment Service Co., Ltd., a Tier 2 Professor and UIBE (Hui Yuan) distinguished Professor of the University of International Business and Economics ("**UIBE**"), Doctoral Supervisor, Coordinator of postdoctoral programs, Chair Professor of China Business Executives Academy, Dalian, Co-editor-in-chief of China Journal of Accounting Studies published by the Accounting Society of China, Editorial Board Member of the Audit Research published by China Audit Society, Member of the Professional Title Assessment Committee of the National Audit Office, Member of the Professional Steering Committee of the Chinese Institute of Certified Public Accountants, Executive Director of China Audit Society and selected for Accounting Master Training Project by the Ministry of Finance. Mr. Chen worked as the Secretary General of the Academic Committee of Xiamen University from January 2014 to June 2015, the Vice President of the Graduate School from August 2012 to June 2015, the vice president of School of Management from June 2008 to August 2012, Dean of the Accounting Department of Xiamen University from May 2004 to December 2008, and received the prestigious Xiamen University Nanqiang Award for outstanding contributions. Mr. Chen currently acts as an Independent Director of Yango Group Co., Ltd (form April 2017 to April 2020), Dalian Wanda Commercial Properties (from May 2017 to March 2022), Beijing Sanyuan Gene Pharmacy Co. Ltd. (from November 2018 to November 2021), Xiamen International Bank (from May 2013 to May 2019) and Xiamen Bank (from January 2015 to January 2021). Mr. Chen acted as independent non-executive director of Industrial Securities from September 2011 to November 2017 and Minsheng Holdings from December 2015 to December 2017. Mr. Chen received his Doctoral degree in Economics from Xiamen University in 1997.

Mr. SU Zhi, External Supervisor. Mr. Su has been an External Supervisor of the Bank since June 2022. Mr. Su is currently the Special Appointed Professor of "Longma Scholars", the Double Appointed Professor and the Tutor for Doctoral Students of the School of Statistics and Mathematics and the School of Finance, as well as the first Chief Dean of the Department of Financial Technology at Central University of Finance and Economics. He is also the Executive Director of Central University of Finance and Economics & University of Electronic Science and Technology of China Joint Research Data Centre, the Deputy Director of the Academic Committee of Institute of International Technology Development of Research Centre of the State Council of China, the Professional Consultant in Financial Technology of Beijing Xicheng District Government, the Special Appointed Expert of "Sci-Tech Finance Expert Think Tank" of Beijing Haidian District Financial Services Office, the Special Researcher of the International Monetary Institute of Renmin University of China, the Special Appointed Professor of the Business Model Innovation Centre of Tsinghua University School of Economics and Management, the Senior External Expert of Centralised Procurement Management Committee of Industrial and Commercial Bank of China, the Guiding Expert of Postdoctoral Fellow of Shenzhen Stock Exchange; the Co-Tutor of Postdoctoral Fellow of JD Finance, the Supervisor of Bank of Guizhou Co., Ltd. as well as the Independent Directors of Shanghai Haohai Biological Technology Co., Ltd., Fujian Start Group Co.,Ltd. and Changzhou Kaneken Steel Section Co., Ltd.. Mr. Su obtained his Doctoral degree in Quantitative Economics from Jilin University in 2006.

Mr. GUAN Xingshe, Employee Supervisor. Mr. Guan has been an Employee Supervisor of the Bank since October 2018 and Director of the Office of the Board of Supervisors since August 2018. From September 2011 to August 2018, Mr. Guan served as General Manager of Department of General Affairs of the Bank. Mr. Guan held various positions from May 2003 to September 2011, including Deputy Manager of Henan Branch (Zhengzhou), Secretary of the Commission for Discipline Inspection (from September 2007 to September 2011) and Senior Credit Executive (from May 2006 to June 2008). He also held several positions from December 1994 to May 2003, including Deputy Division Chief of Finance and Accounting Department of Zhengzhou Branch, Deputy Division Chief of Internal Audit Division (in charge of overall work), Deputy Director of Finance and Accounting Department (in charge of overall work), Division Chief of Finance and Accounting Department (during which he took a temporary post in Internal Audit Division of the Head Office from April 2002 to March 2003). From April 1993 to December 1994, Mr. Guan served as Deputy Division Chief of Financial Audit Department of Zhengzhou Audit Bureau. Mr. Guan obtained his Bachelor's Degree in Economics from Zhongnan University of Economics and Law in 1988 and his Master's Degree in Economics from Xiamen University in 1999.

Ms. LIN Zhihong, Employee Supervisor. Ms. Lin has been Employee Supervisor of the Bank since December 2020, Intermediate Accountant. Ms. Lin serves as Director of the Audit and Supervision Bureau of the Bank, Supervisor of the BoCom Financial Asset Investment Co., Ltd. Previously, she also served as Non-executive Director of BoCom International Holdings. Ms. Lin obtained her Master's degree in Business Administration from Shanghai University of Finance and Economics in 2010.

Ms. FENG Bing, Employee Supervisor. Mr. Feng has been Employee Supervisor of the Bank since December 2020, and serves as Director of the Office of Labour Union of the Bank, Senior Economist. Ms. Feng held various positions in the Bank, including League Secretary, Deputy General Manager, Senior Manager of Structural Planning, Senior Manager of Performance Management (During the period, she served a temporary position in the Jiaxing Branch of the Bank as Executive Vice President) and Deputy Senior Manager of Performance Management of the Human Resource Department of the Bank's Head Office, and she also served as Deputy Head of Economic Research Office of the Development Research Department of the Bank's Head Office, serving the Bank for 20 years. Ms. Feng obtained her Master's degree in National Economics from University of Shanghai for Science and Technology in 2000.

Ms. PO Ying, Employee Supervisor. Ms. Po, is a senior accountant. Ms. Po is currently the general manager of the Equity and Investment Management Department of the Bank, the Chairman of the board of supervisors of Bank of Communications International Trust Co., Ltd., a non-executive director of Bank of Communications International Holdings Company Limited, and a non-executive director of Bank of Communications (Brazil) Co., Ltd. Previously, she served as a non-executive director of Bank of Communications Financial Leasing Co., Ltd. She was the deputy general manager of the Budget and Finance Department (Data and Information Management Center) of the head office of the Bank and concurrently served as a non-executive director of Bank of Communications International Trust Co., Ltd. Ms. Po also served as the vice president of Suzhou Branch of the Bank, senior manager of management accounting, senior manager of management accounting and pricing management, senior manager of management accounting and pricing of the Budget and Finance Department of the head office of the Bank, deputy director of the Management Accounting Division of the Financial Accounting (Budget Finance) Department of the head office of the Bank, deputy director of the Finance Division of the Financial Accounting Department of the head office of the Bank and deputy director and assistant director of the Planning Division of Nanning Branch of the Bank. Ms. Po has been serving the

Bank for 25 years. She obtained a master's degree in economics from Southwestern University of Finance and Economics in 1996.

BOARD COMMITTEES

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

The Strategy Committee (Inclusive Finance Development Commission)

The Strategy Committee is primarily responsible for formulating the operations and management objectives as well as long-term development plans, regularly analysing and evaluating the results of capital management, conducting research and making recommendations on major equity investment plans. The committee supervises and inspects the implementation of the annual business plans, examines and assesses the implementation of corporate governance system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business and business operating plan, and also evaluates the achievements of inclusive finance business development. For the year ended 31 December 2022, the Committee held five meetings, reviewed and approved 29 proposals, and presented professional recommendations to the Board of Directors.

The Audit Committee

The Audit Committee is mainly responsible for proposing the appointments, changes or removals of the Bank's auditors, monitoring the Bank's internal audit system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and disclosure, examining the Bank's accounting policies, financial position and financial reporting procedures, and monitoring the implementation of the Bank's internal controls. The Audit Committee and the senior management have reviewed the Bank's accounting policies and practices and discussed issues relating to internal controls and financial reporting including reviewing interim financial reports. For the year ended 31 December 2022, the Committee held five meetings and reviewed and approved 31 proposals.

The Risk Management and Related Party Transaction Control Committee

The Committee is primarily responsible for monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations, compliance, case prevention, money laundering and terrorism financing; periodically assessing the risks, management status and risk tolerance level; supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, asset disposals, asset pledges or external guarantees; approving policies and procedures of money laundering risk management; reviewing anti-money laundering reports regularly, keeping abreast of major money laundering risk events and their resolutions, and evaluating the status of anti-money laundering risk management. For the year ended 31 December 2022, the Committee held four meetings, reviewed and approved 31 proposals, and presented professional recommendations to the Board of Directors.

The Personnel and Remuneration Committee

The Personnel & Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the operating results, the scale of assets and the structure of shareholding; approving and amending the policies on diversification of members of the Board of Directors; making recommendations to the Board of Directors on formulating the selection procedures and assessment criteria for the Bank's directors and senior management personnel and reviewing the basic systems and policies of remuneration management; proposing suggestions on the remuneration distribution plan of directors and senior management and submitting them to the Board of Directors for approval. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and a Remuneration Committee.

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

For the year ended 31 December 2022, the Committee held four meetings and reviewed and approved 16 proposals, and presented professional recommendations to the Board of Directors.

The Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee

The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the achievements of the social responsibility targets and submitting the Annual Social Responsibility Report to the Board of Directors; researching and assessing the measures of the ESG performance and promoting ESG information disclosure; reviewing the strategies, policies and goals on protecting the consumers' rights, studying key issues and significant policies on consumer's rights protection, approving external donations; reviewing credit policies concerning environmental and sustainable development. For the year ended 31 December 2022, the Committee held three meetings and reviewed and approved 12 proposals and reports, and presented professional recommendations to the Board of Directors.

OVERVIEW

The banking industry in the PRC is highly regulated. The principal regulatory authorities in the PRC banking industry include the CBRC, which has been incorporated in the newly-established China Bank and Insurance Regulatory Commission of the PRC (中國銀行保險監督管理委員會) ("**CBIRC**"), and the PBOC. The CBIRC is responsible for supervising and regulating banking institutions and insurance companies, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The principal laws and regulations relating to the PRC banking industry are the People's Bank of China Law of the People's Republic of China(中華人民共和國中國人民銀行法), the Commercial Banking Law of the People's Republic of China (中華人民共和國商業銀行法) and the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法), and the rules and regulations established thereunder.

CBIRC

Functions and Powers

The CBIRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking institutions and insurance companies operating within the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions, such as asset management companies, trust and investment companies, finance companies, financial leasing companies and other financial institutions that can only be set up with the CBIRC's approval. The CBIRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of such institutions. According to the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法) and relevant regulations, the CBIRC's primary regulatory responsibilities in relation to banking institutions include:

- formulating and issuing rules and regulations governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licences to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services offered;
- setting qualification requirements for, and approving and overseeing the nomination of, directors and senior management personnel of banking institutions;
- setting prudential guidelines and standards for risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;
- imposing integrated supervision on banking institutions;
- establishing emergency disposal mechanisms with relevant authorities in the banking sector and formulating emergency disposal plans;

- imposing corrective and punitive measures for violations of applicable banking regulations; and
- drafting and publishing statistics and financial reports of national banking institutions.

Supervision over Capital Adequacy

In February 2004, the CBRC (the predecessor of the CBIRC) issued the Capital Adequacy Measures applicable to all commercial banks in the PRC. The Capital Adequacy Measures provided for a phase-in period whereby all domestic banks must have met the minimum ratios of capital adequacy by 1 January 2007.

On 3 July 2007, the CBRC issued an amendment to the Capital Adequacy Measures to set forth new and more stringent capital adequacy guidelines that must be complied with from 3 July 2007 onwards.

On 7 June 2012, the CBRC announced the Capital Management Rules to replace the Capital Adequacy Measures, setting up a new capital adequacy regulatory system by reference to Basel III to replace the Capital Adequacy Measures. The Capital Management Rules have been in effect since 1 January 2013. In particular, the Capital Management Rules establish a unified and comprehensive capital adequacy regulatory system, redefine the meaning of capital, enlarge the scope of risks to be covered by capital, require the scientific classification and differentiated supervision of the capital adequacy levels of commercial banks and give commercial banks a transitional period for meeting the new capital adequacy requirements.

Under the Capital Management Rules, capital adequacy ratios are calculated according to the following formulae in accordance with CBRC requirements:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total capital - corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 capital - corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 capital - corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

On 29 November 2012, the CBRC released *The Guiding Opinions on Capital Instrument Innovation of Commercial Banks* (中國銀監會關於商業銀行資本工具創新的指導意見) (the "**Guiding Opinions**") which was further revised on 22 November 2019, allowing and encouraging commercial banks to develop capital instruments (including tier 2 capital instruments) that comply with the Capital Management Rules. Pursuant to the Guiding Opinions, Additional Tier 1 Capital instruments and tier 2 capital instruments issued by a commercial bank after 1 January 2013 must contain a provision that requires such instruments to be either written off or converted into common stock upon the occurrence of a triggering event. A triggering event for Additional Tier 1 Capital instruments occurs when the core tier 1 capital adequacy ratio of the commercial bank falls to 5.125 per cent. or below. A triggering event for tier 2 capital instruments occurs upon the earlier of: (i) a decision of write-down or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities. On 18 January, 2018, the CBRC, the PBOC, the CSRC, the China Insurance Regulatory Commission and the State Administration of Foreign Exchange jointly released The Opinions on Further Supporting Commercial Banks'

Innovation on Capital Instruments (中國銀監會、中國人民銀行、中國證監會、中國保監會、國家外匯管理局關於進一步支持商業銀行資本工具創新的意見) (the "**Opinions**"), further supporting the beneficial exploration of commercial banks for innovating capital instruments, expanding the channels for issuance of capital instruments, increasing capital instrument types, creating favourable conditions for commercial banks to issue capital bonds without fixed terms, Tier-2 capital bonds to be converted into shares, capital bonds containing regular share conversion clauses, bonds with total loss-absorbing capacity and other capital instruments and improving the approval of issuance of capital instruments.

Examination and Supervision

The CBIRC, through its headquarters in Beijing and its bureaus throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a bank's business premises, interviewing its employees, senior management and directors for an explanation of significant issues relating to its operations and risk management and reviewing relevant documents and materials kept by the bank. The CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by banks and monitoring banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks.

If a banking institution is not in compliance with an applicable banking regulation, the CBIRC is authorised to impose corrective and punitive measures, including imposing fines, ordering the suspension of certain business activities, imposing restrictions on dividends and other forms of distributions and asset transfers and suspending the opening of new branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by the CBIRC, the CBIRC may order the banking institution to suspend operations and may revoke its operating-business licence. In the event of a crisis or failure within a banking institution, the CBRC may assume control over, or facilitate the restructuring of, such banking institution.

PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the *People's Bank of China Law of the People's Republic of China* (中華人民共和國中國人民銀行法) and relevant regulations, the PBOC is empowered to:

- issue and implement orders and regulations in relation to its duties;
- formulate and implement monetary policy in accordance with laws;
- issue Renminbi and administer its circulation;
- regulate the inter-bank money market and the inter-bank bond market;
- implement foreign exchange controls and regulate the inter-bank foreign exchange market;
- supervise and regulate the gold market;
- hold, administer and manage state reserves of foreign exchange and gold;
- manage the national treasury;
- safeguard the normal operation of payment and clearing systems;
- guide and coordinate the financial industry in its anti-money laundering activities and take responsibility for monitoring capital in respect of anti-money laundering;
- take responsibility for financial industry statistics, surveys, analyses and forecasts;

- participate in international financial activities in its capacity as the central bank of the PRC; and
- undertake other duties as prescribed by the State Council.

On 15 August 2013, the State Council issued the Reply of the State Council on the Establishment of the Inter-departmental Coordination Joint Meeting System for Financial Supervision (國務院關於同意建立金融監管協調部際聯席會議制度的批覆), which aims to build up such system. The PBOC shall take the lead at the joint meetings, with the CBRC, the CSRC, the CIRC and the SAFE being the major members. The NDRC and the MOF may be invited to attend the joint meetings, if necessary.

On 13 January 2017, the PBOC promulgated the PBOC Notice on Issues Relating to the Macro-prudential Management of Overall Cross-border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) (the "**PBOC Notice**"), which came into effect from the date of promulgation and imposes certain filing, reporting and other requirements on PRC companies and financial institutions that engage in cross-border financing activities. According to the consultation with PBOC regarding the relevant filing and reporting requirements under the PBOC Notice, the PBOC hold the opinion that if (a) the proceeds raised from the issuance under the Programme are not repatriated into the PRC, and (b) the PRC parent bank takes the view that its offshore branch is not a PRC entity for the purpose of the PBOC Notice, then the PBOC Notice is not applicable to the notes issuance of its offshore branch. In connection with the update of the Programme or any issuance by an offshore branch under the Programme, the Bank holds the view that the PBOC Notice is not applicable and consequently has not made and does not intend to make any filing with the PBOC under the PBOC Notice. As advised by the PRC legal advisors, considering (a) the update of the Programme (without any issuance hereunder) and the entering into of the contracts solely in connection with the update does not amount to "cross-border financing activities" under the PBOC Notice; and (b) an issuance by an offshore branch where the proceeds will not be repatriated into the PRC does not involve any "cross-border financing activities" under the PBOC Notice, the update of the Programme and any issuance by the Issuer with its proceeds not being repatriated into the PRC shall not trigger filing requirements under the PBOC Notice. Furthermore, if the proceeds of the Notes are repatriated into the PRC, the PBOC Notice may be applicable for the issuance and thus the Issuer shall make filings with the PBOC regarding the Notes according to the requirements under the PBOC Notice. It should be noted that the PBOC Notice is new and the implementation rules have not yet been published, and if following the date of this Offering Circular, the relevant Issuer or the Bank is required to make any filing, reporting or take other steps to comply with the PBOC Notice, the relevant Issuer or the Bank will take the necessary steps to comply with such requirements.

NFRA

Pursuant to the Plan for the Institution Reform of the State Council issued by the National People's Congress on 10 March 2023, CBIRC will be incorporated into the National Financial Regulatory Administration, or the NFRA. The daily regulatory responsibilities of the PBOC for financial holding companies and other financial groups, as well as the responsibilities for consumer protection in the financial sector, and the investor protection responsibilities of the CSRC will also be transferred to the NFRA. CBIRC will no longer be retained. The proposed reform is expected to be completed before the end of 2023 at the central government level. On 18 May 2023, NFRA was officially established.

NDRC

On 14 September 2015, the NDRC published the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (關於推進企業發行外債備案登記制管理改革的通知) (the "**Circular 2044**"), which came into effect on the same date.

On 5 January 2023, the NDRC published the Administrative Measures for the Examination and Registration of Medium- and Long-Term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法) (the "**Order 56**"), which came into effect on 10 February 2023 and repealed the Circular 2044 on the same date. The Order 56 applies to medium and long-term foreign debts with a maturity of more than one year that are borrowed from overseas by enterprises within the territory of the PRC and by overseas enterprises or branches controlled by aforementioned PRC enterprises, denominated in local or foreign currency, and of which principal is repaid with payment of interest as agreed. For the purpose of the Order 56, the forms of foreign debts include but are not limited to senior bonds, perpetual bonds, capital bonds, medium-term notes, convertible bonds, exchangeable bonds, financial leasing, and commercial loans. Before borrowing any foreign debt, the Certificate of Examination and Registration of Foreign Debts Borrowed by Enterprises (企業借用外債審核登記證明) ("**Examination and Registration Certificate**") shall be obtained from the NDRC, and such certificate shall be valid for one year from the date of issuance and be automatically invalidated upon expiry. Apart from the foregoing pre-issuance requirement, the Order 56 stipulates post-issuance filing requirements as following: (1) filing the information of foreign debts within 10 business days after borrowing each foreign debt; (2) filing the information on the borrowing of foreign debts within 10 business days upon the expiration of the Examination and Registration Certificate; (3) filing the information on the use of proceeds raised from foreign debts, the repayment of principal with the payment of interest, plans and arrangements, and major business indicators, etc., within five business days prior to the end of January and the end of July each year. In addition, in case of any major event that may affect the normal performance of debt obligations, enterprises shall promptly report relevant information and take risk control measures to prevent the spill-over of onshore default risks and cross default risks. With respect to conducts in violation of the Order 56, legal liabilities and consequences to enterprises borrowing foreign debts have been stipulated in the Order 56. If any enterprise borrows foreign debts in violation of the Order 56, the NDRC will take disciplinary actions such as holding an interview and giving a public warning against the relevant enterprise and its principal liable person. If any application documents to apply for foreign debt approval submitted by enterprises contain concealing, false record, misleading statement, or material omission, the NDRC will give a warning to relevant enterprise and its principal liable person. If the approval is obtained by concealment, deception, bribery, or any other improper means, such approval will be revoked. For any enterprise failing to comply with filing and reporting requirements under the Order 56, the NDRC will order such enterprise to take rectification actions within a prescribed time limit; and if the circumstances are severe or the enterprise fails to take rectification action within the prescribed time limit, give a warning to the relevant enterprise and its principal liable person. Furthermore, conducts in violation of the Order 56 committed by enterprises will be publicised on, among others, the Credit China (信用中國) website and the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統).

Based on Q&As published by the NDRC on its official website, filings and registrations certificate of issuance by enterprises of foreign debt (企業借用外債備案登記證明) obtained by any enterprise under the Circular 2044 shall be valid within its validity period after the Order 56 takes effect, and such enterprise shall comply with regulations regarding risk management and interim and ex-post supervision of the Order 56.

The NDRC issued the Filings and Registrations Certificate of Issuance by Enterprises of Foreign Debt (企業借用外債備案登記證明) (發改辦外資備[2022]892 號) to the Bank on 28 September 2022 (the "**NDRC Certificate**"). The recipient may at its own discretion issue notes of any amount up to the granted amount under such annual foreign debt quota, although it still has to make post-issuance filing within 10 business days after the completion of the issuance of the relevant notes. The relevant Issuer is entitled to utilise the annual quota of the Bank under the NDRC Certificate. As such, the relevant Issuer is not required to carry out any pre-issuance registration in relation to the Notes pursuant to the Circular 2044 or the Order 56, as the issue size and other terms and conditions of the Notes will all fall within the scope of the NDRC Certificate. However, the relevant

Issuer and the Bank still have to comply with regulations regarding risk management and interim and ex-post supervision of the Order 56 and any other rules and regulations promulgated by the NDRC in relation with the supervision and management of foreign debt from time to time.

As new regulation, the Order 56 and the NDRC Certificate will be subject to interpretation and application by the relevant PRC authorities, and it remains unclear what impact non-compliance will have on the legality, enforceability and validity of the Notes.

TAXATION

The following summary of certain PRC and Hong Kong of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

PRC Taxation

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. If the Issuer is treated as a PRC tax resident enterprise, the interest payable by the Issuer may be considered as income sourced inside the PRC. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its income has no actual connection to its establishment inside the PRC may be subject to enterprise income tax at the rate of 10 per cent. on the passive incomes including interest payable sourced inside the PRC unless a lower tax treaty rate applies. Similarly, pursuant to the PRC Individual Income Tax Law, any non-resident individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the interest payable, which may be further decreased by an applicable tax treaty. Such income tax shall be withheld at source by the PRC entity making payment, who shall be obliged to withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise and individual Noteholders. However, notwithstanding the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax unless decreased or exempted by an applicable tax treaty. Further, non-PRC individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the capital gains, which may be decreased or exempted by an applicable tax treaty.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, *inter alia*, an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus involving the issue of Notes is registered under the

Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of Notes by the Bank is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In addition, the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 of Hong Kong (the "**Amendment Ordinance**") came into effect on 1 January 2023. Under the Amendment Ordinance, certain foreign-sourced interest on Notes accrued to an MNE entity (as defined in the Amendment Ordinance) carrying on a trade, profession or business in Hong Kong is regarded as arising in or derived from Hong Kong and subject to Hong Kong profits tax when it is received in Hong Kong. The Amendment Ordinance also provides for relief against double taxation in respect of certain foreign-sourced income and transitional matters.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp duty

Stamp duty will not be payable on the issue of Bearer Notes by the Bank, provided either:

(a) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable it is payable by the Bank on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

With effect from 1 August 2021, if stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

POTENTIAL FATCA WITHHOLDING AFTER 2019

Pursuant to certain provisions of U.S. law, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, is not clear at this time.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are published generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

PRC CURRENCY CONTROLS

Remittance of Renminbi into and outside the PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Program of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法) (the "**Measures**") and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 27 July 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades(關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the *Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods* (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知, 銀發 [2013] 168 號), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for the PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow the PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross-border remittance).

On 23 October 2019, the SAFE promulgated Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知, 匯發[2019]29 號) which became effective on 1 February 2020. SAFE has decided to review and integrate certain foreign exchange accounts and further reduce the types of accounts in order to further intensify the reform of foreign exchange administration, simplifying the relevant business operating procedures, and facilitate true and compliant foreign exchange transactions by banks, enterprises and other market participants, for example, "Current accounts -

foreign currency cash account" and "current accounts - foreign exchange account under current accounts of overseas institutions" are included in "current accounts - foreign exchange settlement account".

On the same day, the SAFE issued Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知, 匯發[2019]28號), based on which, for the revenue obtained by an enterprise from trade in goods, the enterprise may, on its own, decide whether to open a to-be-inspected account for export revenue ("to-be-inspected account"). If an enterprise has not opened a to-be-inspected account, the examined revenue from trade in goods by the bank in accordance with the existing provisions may be directly deposited into the foreign exchange account under current accounts or used for foreign exchange settlement.

The Measures and the subsequent circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital account item payments including proceeds from liquidation, transfer of shares, reduction of capital and principal repayment under foreign debt to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 3 June 2011, the PBOC promulgated the *Circular on Clarifying Issues concerning Cross-border Renminbi Settlement* (中國人民銀行關於明確跨境人民幣業務相關問題的通知) (the "**PBOC Circular**"). The PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the relevant local PBOC authorities which include, *inter alia*, requisite approval letters issued by the relevant MOFCOM authorities. The PBOC Circular only applies to cases where the receiving onshore enterprise is not a financial institution. On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures, to commence the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular is no longer necessary.

On 14 June 2012, the PBOC issued the Notice on Clarifying the implementation of Settlement of Cross-Border Renminbi Direct Investment (中國人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知), which provides more detailed rules for cross-border Renminbi direct investments and settlements.

On 3 December 2013, MOFCOM promulgated the Announcement on Issues Related to Cross-border RMB Direct Investment (关于跨境人民币直接投资有关问题的公告) (the "**MOFCOM RMB FDI Circular**"), which has become effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM RMB FDI Circular, the competent counterpart of MOFCOM will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM RMB FDI Circular removes the approval requirement for changes in the relevant joint venture contract or the articles of association of the joint venture company where foreign investors change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM RMB FDI Circular also clearly prohibits the FDI funds from being used for any direct or indirect investment in securities and financial derivatives (except for strategic investment in the PRC listed companies) or for entrustment loans in the PRC.

On 13 February 2015, the SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the "**2015 SAFE Circular**"), which became effective on 1 June 2015. The 2015 SAFE Circular aims to deepen the reform of foreign exchange administration of capital accounts, promote and facilitate the capital operation of enterprises in making cross-border investments, regulate the direct investment-related foreign exchange administration business, improve the administration efficiency. The 2015 SAFE Circular set forth the following reformation: (i) cancel the Administrative Examination and Approval Procedures relating to the Foreign Exchange Registration Approval under Domestic Direct Investment and the Foreign Exchange Registration Approval under Overseas Direct Investment; (ii) cancel the requirements to provide the confirmation, and apply for the registration, of foreign investors' non-monetary contribution and provide the confirmation, and apply for the registration, of foreign investors' contribution to purchasing the equity held by the party incorporated in the PRC under domestic direct investment; (iii) the requirements to provide the confirmation, and apply for the registration, of foreign investors' monetary contribution has been replaced by the requirement to apply for a book-entry registration of domestic direct investment monetary contribution.

On 9 June 2016, the SAFE issued the Notice on Reforming and Regulating the Policies for the Administration of Settlement of Foreign Exchange under Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知), which provided, among others, that the settlement of foreign exchange funds under capital accounts (including the foreign capital, debt financing and overseas listing repatriation of funds, etc.) that are subject to willingness settlement as already specified by relevant policies may be handled at banks based on the domestic institutions' actual requirements for business operation, and where there are restrictive provisions in any current regulations on the settlement of foreign exchange funds under capital accounts of domestic institutions, these provisions shall prevail.

On 26 January 2017, the SAFE issued the Notice on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知, 匯發 [2017] 3號) to further advance the reform of foreign exchange administration, such as:

- settlement of domestic foreign exchange loans is allowed for export trade in goods. A domestic institution shall repay loans with the foreign exchange funds received from export trade in goods, rather than, in principle, purchased foreign exchange;

- a debtor may directly or indirectly repatriate the funds under guarantee and use them domestically by, among others, granting loans and making equity investment domestically. Where a bank performs its guarantee obligation under overseas loans with domestic guarantee, relevant foreign exchange settlement and sale shall be managed as the bank's own foreign exchange settlement and sale;
- the deposits absorbed by a domestic bank through its principal international foreign exchange account and allowed to be used domestically are no more than 100 per cent. of the average daily deposit balance in the previous six months as opposed to the former 50 per cent.; and the funds used domestically are not included in the bank's outstanding short-term external debt quota;
- allowing foreign exchange settlement in the domestic foreign exchange accounts of overseas institutions within pilot free trade zones: Where funds are repatriated and used domestically after settlement, a domestic bank shall, under the relevant provisions on cross-border transactions, handle such funds by examining the valid commercial documents and vouchers of domestic institutions and domestic individuals; and
- where a domestic institution grants overseas loans, the total of the balance of overseas loans granted in domestic currency and the balance of overseas loans granted in foreign currency shall not exceed 30 per cent. of owner's equity in the audited financial statements of the previous year.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of foreign investors eligible to directly invest in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In 2018, CFETS further relaxed qualifications, application materials and the procedures for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

On 23 October 2019, the SAFE promulgated Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知, 匯發[2019]29 號) which became effective on 1 February 2020, according to which, several measures were taken to intensify, for example, "Capital accounts - special account for domestic reinvestment" is included in "capital accounts - foreign exchange capital account".

On the same day, the SAFE issued Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知, 匯發[2019]28 號) in order to further promote the reform of "simplification of administrative procedures and decentralisation of powers, combination of decentralisation and appropriate control, and optimisation of services". It cancelled restrictions on the use of funds in domestic asset realisation accounts for foreign exchange settlement and restrictions on the number of opened foreign exchange accounts under capital accounts.

As the MOFCOM RMB FDI Circular, the PBOC RMB FDI Measures and other normative documents mentioned above are relatively new rules, they will be subject to interpretation and application by the relevant PRC authorities.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the relevant Issuer nor the Arranger nor any Dealers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of Exchange Fund Bills and Notes Clearing and Settlement Service securities and capital markets instruments (together, "**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all financial institutions regulated by Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU's custodial services, please refer to the CMU Reference Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the "**income proceeds**") by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Reference Manual.

An investor holding an interest through an account with either Euroclear or Clearstream, in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, each have with the CMU.

Book-Entry Ownership

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream. Each Global Note will have an International Securities Identification Number ("**ISIN**") and a Common Code or, if lodged with a sub-custodian for the CMU, will have a CMU Instrument Number. An ISIN and a Common Code may also be provided upon request.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an ISIN and a Common Code or, if lodged with a sub-custodian for the CMU, will have a CMU Instrument Number. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable). An ISIN and a Common Code may also be provided upon request.

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

Dealer Agreement

Subject to the terms and on the conditions contained in the amended and restated dealer agreement dated 7 June 2023, as amended and/or supplemented and/or restated from time to time (the "**Dealer Agreement**") between Bank of Communications Co., Ltd. Hong Kong Branch (as an Issuer) and Bank of Communications Co., Ltd. Hong Kong Branch (as Arranger and Dealer), the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the relevant Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of the relevant Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The relevant Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Bank of Communications Co., Ltd. Hong Kong Branch has agreed to reimburse the Dealers for certain of their activities in connection with the Programme.

The relevant Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

In connection with the issue of the Notes, the relevant Dealer or Dealers (if any) named as the stabilisation manager(s) (the "**Stabilisation Manager**") or any person acting on behalf of the Stabilisation Manager may, to the extent permitted by applicable laws and directives, over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager shall act as principal and not as agent of the relevant Issuer. However, there is no assurance that the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager will undertake Stabilisation action. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the relevant Dealer(s).

The Arranger, the Dealers or any of their respective affiliates are financial institutions engaged in various activities which may include certain trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities advisory services for the relevant Issuer, the Bank and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the relevant Issuer, the Bank and/or their respective subsidiaries and affiliates in the ordinary course of the relevant Issuer's, the Bank's or their business. In the ordinary course of their various business activities, the Arranger, the Dealers and their respective affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the relevant Issuer, the Bank and/or their respective subsidiaries and affiliates, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Notes issued under the Programme may be purchased by or be allocated to any Dealer or its affiliate for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the offer and sale of the Notes, the Issuer, the Arranger, the Dealers and/or their respective affiliates may place orders, receive allocations and purchase Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the relevant Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the relevant Issuer, the Arranger, the Dealers and/or their respective affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see "*Risk Factors — Risks Relating to the Market Generally — Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity*"). The Issuer, the Arranger and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

SFC Code of Conduct – Important Notice to CMIs (including private banks) –

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the relevant Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the relevant Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the relevant Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the relevant Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Dealer(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code); and
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to: the Managers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the relevant Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

Selling Restrictions

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. If a jurisdiction requires that the offering of Notes be made by a licensed broker or dealer and any Dealer or any affiliate of that Dealer is a licensed broker in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the relevant Issuer in such jurisdiction.

United States

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 1" applies. The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented, and each further Dealer appointed under the Programme will be required to represent, that it has not offered or sold the Notes, and agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell, any Notes constituting part of its allotment in the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S.

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 2" applies. The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold, and shall offer and sell, any Series (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer has agreed to notify the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other relevant Dealers of the end of the distribution compliance period. Each Dealer has agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

> "The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act."

Unless the Pricing Supplement or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

(i) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) (the "**D Rules**"):

  (a) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

  (b) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6); and

(iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii).

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including the D Rules.

To the extent that the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**C Rules**"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including the C Rules and IRS Notice 2012-20.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Regulation; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restriction under the Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA (each a "**Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(a) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the relevant Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

United Kingdom

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the UK. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

 (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA;

 (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

 (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restriction under the UK Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the UK except that it may make an offer of such Notes to the public in the UK:

(a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the Financial Conduct Authority, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the relevant Issuer has consented in writing to its use for the purpose of that Public Offer;

(b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the UK, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(d) at any time in any other circumstances falling within section 86 of the FSMA.

provided that no such offer of Notes referred to in (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Other regulatory restrictions in the UK

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the relevant Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the UK.

Hong Kong

In relation to each Tranche of Notes issued by the relevant Issuer, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the SFO of Hong Kong and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the

Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.[1]

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, the relevant Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan) or to residents of the PRC unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

Taiwan

Unless the Notes have been registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan, the Notes may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer

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[1] Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

GENERAL INFORMATION

1. **Clearing Systems**: The Notes have been accepted for clearance through the Euroclear and Clearstream systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Legal Entity Identifier of the Bank**: 549300AX1UM10U30HK09

3. **Listing**: Application has been made to the HKSE for listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the HKSE. Notes to be listed on the HKSE are required to be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

4. **Litigation**: None of the Issuer nor any of its subsidiaries is involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.

5. **Authorisations**: Bank of Communications Co., Ltd. Hong Kong Branch has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment of the Programme have been duly authorised by a resolution of the Board of the Bank dated 27 October 2017 and the issue of Notes thereunder will be duly authorised the Bank's internal resolution from time to time. The Issuer has obtained and has agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issue of Notes under the Programme.

6. **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2022.

7. **Available Documents**: For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified office of the Fiscal Agent:

   (a) the Memorandum and Articles of Association of the Issuer;

   (b) the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2021 and a copy of the auditor's report of PricewaterhouseCoopers;

   (c) the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2022 and a copy of the related auditor's report of KPMG;

   (d) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;

(e) the Agency Agreement (which includes the form of the Global Notes, the Global Certificate, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Deed of Covenant;

(f) the Dealer Agreement;

(g) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular; and

(h) each Pricing Supplement (save that Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Fiscal Agent as to its holding of Notes and identity).

8. **Auditor**: PricewaterhouseCoopers, the Bank's independent auditor for the year ended 31 December 2021 has audited, and rendered unqualified audit reports on, the consolidated financial statements of the Bank for the year ended 31 December 2021. KPMG, the Bank's independent auditor for the year ended 31 December 2022 has audited, and rendered unqualified audit reports on, the consolidated financial statements of the Bank for the year ended 31 December 2022.

9. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

10. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issue of Notes.

INDEX TO FINANCIAL STATEMENTS

Notes:

(1) The independent auditor's report on the Group's consolidated financial information for the year ended 31 December 2021 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2021. Page references referred to in the abovenamed reports refer to pages set out in such annual report.

(2) The independent auditor's report on the Group's consolidated financial information for the year ended 31 December 2022 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2022. Page references referred to in the abovenamed reports refer to pages set out in such annual report.

APPENDIX – INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

Contents

INDEPENDENT AUDITOR'S REPORT

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

OPINION

What we have audited

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

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

Our opinion

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

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter

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

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

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

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

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

(1) Governance over ECL models, including the selection, approval and application of the accounting policies and ECL modelling methodology; and the internal controls relating to the ongoing monitoring and optimization of the models;

(2) Internal controls relating to significant management judgments and assumptions, including the assessment and approval of portfolio segmentation, model selections, parameters estimation, the judgement of significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;

(3) Internal controls over the accuracy and completeness of key inputs used by the models;

(4) Internal controls relating to estimation of future cash flows and calculations of present values of such cash flows for loans and advances to customers and financial investments at amortised cost using DCF to calculate loss allowances;

(5) Internal controls over the information systems for ECL measurement.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)	
The Group assesses whether or not loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees have a significant increase in credit risk, or a default was incurred, and applies a three-stage impairment model and discounted cash flow model ("DCF") to calculate their ECL. For loans and advances to customers, financial investments at amortised cost and credit related commitments and financial guarantees using the three-stage impairment model, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default and exposure at default. For loans and advances to customers and financial investments at amortised cost using DCF to calculate ECL, the management assesses loss allowance by estimating the cash flows from the business. The models of ECL involves significant management judgments and assumptions, primarily including: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;	The substantive procedures we performed primarily comprised: Based on the risk profile of the asset portfolio, we evaluated the reasonableness of the portfolio segmentation. By comparing with regulatory guidance and industry practice, we assessed the reasonableness of modelling methodologies for ECL measurement of different portfolios. We examined the calculation for the model measurement on selected samples, to test whether or not the models reflect the modelling methodologies documented by management. We also performed back-testing of the actual defaults against expected defaults generated from the model as at the end of previous year on sample basis to assess the reasonableness of the model. We examined key data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)	
(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (4) Management overlay adjustments due to significant uncertain factors not covered in the models; and (5) The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL. The Group established governance processes and controls for the measurement of ECL. For measuring ECL, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial investments at amortised cost, exposures of credit related commitments and financial guarantees and the related ECL allowance and provision involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's criteria of significant increase in credit risk, defaults and credit-impaired loans. For forward-looking measurements, we applied statistical methods to assess management's selection of economic indicators and their analysis of co-relations with credit risk portfolios. We further tested the reasonableness of the prediction of economic indicators by comparing with available external expert estimates. In addition, we performed sensitivity test of economic indicators and weightings of economic scenarios. For loans and advances to customers and financial investments at amortised cost that DCF model used to calculate ECL, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of ECL. Based on our procedures performed, we considered that the models, key parameters, significant judgements and assumptions adopted in the ECL measurement together with the measurement results were considered acceptable.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of structured entities	
Refer to Notes 2.2, 2.29(d), 44 and 45 to the Group's consolidated financial statements. The Group has managed or invested in a number of structured entities. As at 31 December 2021, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB245,245 million. In addition, as at 31 December 2021, the balances of the non-principal guaranteed wealth management products, funds, trust and asset management plans and others originated and managed by the Group amounted to RMB1,426,253 million, RMB547,188 million, and RMB721,946 million respectively. The management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated. We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.	We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities. In addition, we selected samples of the structured entities that the Group invested in or managed, and performed the following procedures on the management's assessment of consolidation of structured entities: (1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities; (2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed these information to the corresponding inputs used in the management's assessment; (3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms; (4) Assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it held in them, and the rights held by other parties, and compared our assessment results with the management's assessment outcomes. Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by the management acceptable.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of financial assets measured at fair value classified as level 3	
Refer to Notes 2.3, 2.29(b) and 3.4 to the Group's consolidated financial statements. Convertible bonds, unlisted equities, unlisted funds, certain trusts and asset management plans, equity derivatives and certain loans and advances to customers held by the Group, whose fair value are determined based on certain unobservable inputs, were classified by the Group as level 3 in fair value measurement. The management determines the fair value of these financial assets using a variety of techniques. The valuation methods mainly include discounted cash flow and comparable values, involving various unobservable inputs such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts, etc. As at 31 December 2021, financial assets measured at fair value classified as level 3 amounted to RMB78,951 million. Financial assets measured at fair value classified as level 3 involve significant amounts, and unobservable inputs adopted by the Group involve significant judgement. In view of these, valuation of these financial assets is identified as a key audit matter.	We understood, evaluated and validated the internal controls established by management over valuation on financial assets measured at fair valued classified as level 3, mainly comprising: (1) Internal controls relating to selection, approval and application of valuation methods; (2) Internal controls relating to the determination of the valuation inputs. The substantive procedures we performed, primarily included: (1) Assessed on sample basis the appropriateness of valuation methods adopted in the valuation of level 3 financial assets based on industry practice; (2) Leveraging our internal valuation specialists, evaluated the appropriateness and accuracy of various unobservable inputs involved in measuring financial assets measured at fair value classified as level 3, such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts on sample basis; (3) Tested the mathematical accuracy of the calculation of fair value of financial assets measured at fair value classified as level 3 on sample basis. Based on the work undertaken above, we found that the overall valuation of financial assets measured at fair value classified as level 3 performed by the management was acceptable.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2022

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

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

	Notes	Year ended 31 December 2021	2020
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers at fair value through other comprehensive income			
Amount recognised in equity		*459*	*19*
Amount reclassified to profit or loss		*(428)*	*(183)*
Debt investments at fair value through other comprehensive income			
Amount recognised in equity		*2,796*	*(920)*
Amount reclassified to profit or loss		*(442)*	*(825)*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity		*891*	*(1,362)*
Amount reclassified to profit or loss		*(463)*	*815*
Translation difference on foreign operations		(3,450)	(4,776)
Others		14	(8)
Subtotal		(623)	(7,240)
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		(1,555)	(1,204)
Actuarial losses on pension benefits		55	(132)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		(36)	7
Others		2	20
Subtotal		(1,534)	(1,309)
Other comprehensive income, net of tax	42	(2,157)	(8,549)
Total comprehensive income for the year		86,782	71,021
Net profit attributable to:			
Shareholders of the Bank		87,581	78,274
Non-controlling interests		1,358	1,296
		88,939	79,570
Total comprehensive income attributable to:			
Shareholders of the Bank		85,696	69,960
Non-controlling interests		1,086	1,061
		86,782	71,021
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	17	1.10	0.99

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

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

		Other equity instruments			Other reserves										Non-controlling interests		
	Share capital Note 35	Preference Shares Note 36	Perpetual bonds Note 36	Capital surplus Note 35	Statutory reserve Note 37	Discretionary reserve Note 37	Statutory general reserve Note 37	Revaluation reserve for financial assets at fair value through other comprehensive income Note 37	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 37,38	Attributable to the shareholders of the Bank	Attributable to non-controlling interests of ordinary shares	Attributable to non-controlling interests of other equity instruments Note 36	Total
As at 1 January 2021	74,263	44,952	88,340	111,428	72,431	139,930	123,163	456	12	(532)	(3,517)	(142)	1,375	214,448	866,607	8,763	3,258	878,628
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	87,581	87,581	1,236	122	88,939
Other comprehensive income	-	-	-	-	-	-	-	1,019	(36)	428	(3,367)	55	16	-	(1,885)	(179)	(93)	(2,157)
Total comprehensive income	-	-	-	-	-	-	-	1,019	(36)	428	(3,367)	55	16	87,581	85,696	1,057	29	86,782
Capital contribution by other equity instruments holders	-	-	41,498	-	-	-	-	-	-	-	-	-	-	-	41,498	-	-	41,498
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,541)	(23,541)	(396)	-	(23,937)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,755)	(1,755)	-	-	(1,755)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,858)	(3,858)	-	-	(3,858)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(122)	(122)
Transfer to reserves	-	-	-	-	7,536	92	7,117	-	-	-	-	-	-	(14,745)	-	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	56	-	-	-	-	-	(56)	-	-	-	-
As at 31 December 2021	74,263	44,952	129,838	111,428	79,967	140,022	130,280	1,531	(24)	(104)	(6,884)	(87)	1,391	258,074	964,647	9,424	3,165	977,236

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

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

		Other equity instruments					Other reserves								Non-controlling interests		
	Share capital Note 35	Preference Shares Note 36	Perpetual bonds Note 36	Capital surplus Note 35	Statutory reserve Note 37	Discretionary reserve Note 37	Statutory general reserve Note 37	Revaluation reserve for financial assets at fair value through other comprehensive income Note 37	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 37,38	Attributable to the shareholders of the Bank	Attributable to non-controlling interests of ordinary shares	Attributable to non-controlling interests of other equity instruments Note 36	Total
As at 1 January 2020	74,263	59,876	39,994	113,663	64,897	139,853	117,567	3,421	5	15	1,199	(10)	1,363	177,141	793,247	7,665	-	800,912
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	78,274	78,274	1,231	65	79,570
Other comprehensive income	-	-	-	-	-	-	-	(2,938)	7	(547)	(4,716)	(132)	12	-	(8,314)	(35)	(200)	(8,549)
Total comprehensive income	-	-	-	-	-	-	-	(2,938)	7	(547)	(4,716)	(132)	12	78,274	69,960	1,196	(135)	71,021
Capital contribution by other equity instruments holders	-	(14,924)	48,346	(2,201)	-	-	-	-	-	-	-	-	-	-	31,221	-	3,458	34,679
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,393)	(23,393)	(132)	-	(23,525)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,714)	(2,714)	-	-	(2,714)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,680)	(1,680)	-	-	(1,680)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(65)	(65)
Transfer to reserves	-	-	-	-	7,534	77	5,596	-	-	-	-	-	-	(13,207)	-	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	(27)	-	-	-	-	-	27	-	-	-	-
Others	-	-	-	(34)	-	-	-	-	-	-	-	-	-	-	(34)	34	-	-
As at 31 December 2020	74,263	44,952	88,340	111,428	72,431	139,930	123,163	456	12	(532)	(3,517)	(142)	1,375	214,448	866,607	8,763	3,258	878,628

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

		Year ended 31 December	
	Notes	2021	2020
Cash flows from operating activities:			
Profit before tax:		93,959	86,425
Adjustments for:			
Provision for impairment losses		66,371	62,059
Provision for other assets impairment losses		2,320	484
Provision for insurance contracts reserve		15,518	15,495
Depreciation and amortisation		14,839	14,776
(Reversal)/provision for outstanding litigation and unsettled obligation		(199)	32
Net gains on the disposal of property, equipment and other assets		(454)	(166)
Interest income from financial investments		(88,262)	(90,683)
Accreted interests on impaired financial assets		(1,251)	(1,369)
Fair value gains		(1,474)	(5,951)
Share of profit of associates and joint ventures		(277)	(222)
Net gains arising from financial investments		(1,311)	(1,177)
Interest expense on debt securities issued		16,341	14,566
Operating cash flows before movements in operating assets and liabilities		116,120	94,269
Net decrease in balances with central banks		14,515	29,357
Net (increase)/decrease in due from and placements with banks and other financial institutions		(106,359)	127,404
Net increase in financial assets at fair value through profit or loss		(128,020)	(83,695)
Net increase in loans and advances to customers		(776,234)	(597,926)
Net (increase)/decrease in other assets		(22,218)	7,907
Net increase/(decrease) in due to and placements from banks and other financial institutions		161,477	(113,503)
Net increase in financial liabilities at fair value through profit or loss		2,317	8,899
Net increase in due to customers and certificates of deposits issued		674,635	669,890
Net increase in other liabilities		26,622	19,878
Net increase/(decrease) in value-added tax and surcharge payable		1,431	(328)
Income tax paid		939	(12,754)
Net cash flows (used in)/generated from operating activities		(34,775)	149,398

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

	Notes	Year ended 31 December 2021	2020
Cash flows from investing activities:			
Cash payments for financial investments		(896,387)	(838,096)
Cash received on disposal or redemption of financial investments		750,323	671,877
Dividends received		2,936	1,562
Interest received from financial investments		86,558	89,464
Cash payments for acquisition of intangible assets and other assets		(2,467)	(2,735)
Cash received on disposal of intangible assets and other assets		507	372
Cash payments for purchase and construction of property and equipment		(20,480)	(21,414)
Cash received on disposal of property and equipment		3,462	4,379
Net cash flows used in investing activities		(75,548)	(94,591)
Cash flows from financing activities:			
Cash received from issuing other equity instruments		41,498	51,804
Cash received on debt securities issued		96,121	177,486
Repayment of principals and interests of lease liabilities		(2,413)	(2,415)
Cash payments for distribution of dividends		(88,834)	(27,785)
Repayment of principals of debt securities issued		(15,350)	(80,476)
Cash payments for interest on debt securities		–	(13,050)
Cash payments for redemption of other equity instruments		(29,152)	(17,125)
Dividends and others paid to non-controlling interests		(564)	(162)
Net cash flows generated from financing activities		1,306	88,277
Effect of exchange rate changes on cash and cash equivalents		(3,795)	(3,699)
Net (decrease)/increase in cash and cash equivalents		(112,812)	139,385
Cash and cash equivalents at the beginning of the year		307,120	167,735
Cash and cash equivalents at the end of the year	43	194,308	307,120
Net cash flows from operating activities include:			
Interest received		291,450	285,937
Interest paid		(185,593)	(205,169)

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

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

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a national state-owned joint-stock commercial bank headquartered in Shanghai, which was reorganised on 1 April 1987 upon the approval of Notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and Notice Yin Fa (1987) No. 40 issued by the People's Bank of China (the "PBOC").

The Bank possesses the *Finance Permit* No. B0005H131000001 issued by the China Banking and Insurance Regulatory Commission (the "CBIRC") of the PRC and a Business License for Enterprise Legal Person with the registration number of 9131000010000595XD. The Bank has a registered capital of RMB74.263 billion, whose legal representative is Ren Deqi.

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

As at 31 December 2021, the Bank operates 248 branches in Mainland China and 23 branches, subsidiary banks and representative offices overseas. The Bank manages domestic branches and sub-branches by province upon the 3-level general structure of Head Office—provincial (directly managed) branches—provincially managed branches (sub-branches).

The main business scope of the Bank includes: absorbing public deposits; issuing short-term, medium-term and long-term loans; handling domestic and foreign settlements; handling bill acceptance and discounting; issuing financial bonds; agency issuance, agency redemption, and underwriting government bonds; buying and selling government bonds and financial bonds; engaging in interbank lending; buying and selling foreign exchange; engaging in bank card business; providing letter of credit services and guarantees; agent collection and payment services; providing safe deposit box services; other businesses approved by various regulatory agencies or institutions (as stated on the approval documents); operating foreign exchange settlement, foreign exchange sales and business approved by the relevant regulatory agencies where overseas institutions are located.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.1.1 New and amended standards adopted by the Group

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform —Phase 2
Amendments to IFRS 16	COVID-19-related Rent Concessions

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Continued)

The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial instruments (that is, financial instruments classified as amortised cost and debt instruments at FVOCI), lease receivables and lease liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness.

The amendment provides a provisional exemption. When a company expects reasonably that the alternative benchmark interest rate will meet the separately identifiable requirements within 24 months from the date when it is designated as a non-contractually clear risk component, it shall be deemed to meet the separately identifiable requirements. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

Amendments to IFRS 16

The International Accounting Standards Board (IASB) has published 'Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)' that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification, and the changes in Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) amend IFRS 16 to:

- permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021);
- require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021;
- require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and
- specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8.

The adoption of these standards and amendments does not have a material effect on the Group's consolidated financial information.

2.1.2 *Standards and amendments issued but not yet effective*

		Effective for annual period commencing on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018– 2020	1 January 2022
IFRS 17 and its amendments	Insurance Contracts	1 January 2023
Amendments to IAS 8	Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

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

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

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

Amendments to IFRS 3
The amendments to IFRS 3, 'Business combinations', referred to the 2018 Conceptual Framework for Financial Reporting, are in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendments add a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The amendments also clarify that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

Amendments to IAS 37
The amendment clarifies the meaning of 'costs to fulfil a contract' and explains that the direct cost of fulfilling a contract comprises:

- The incremental costs of fulfilling that contract (for example, direct labour and materials); and

- An allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of PP&E used to fulfil the contract).

The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

Annual Improvements to IFRS Standards 2018 – 2020 Cycle
The Annual Improvements to IFRSs 2018 – 2020 Cycle include a number of amendments to various IFRSs:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

IFRS 17 and its amendments

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

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

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

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

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

- Effective date

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

- Expected recovery of insurance acquisition cash flows

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

- Contractual service margin attributable to investment services

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

IFRS 17 and its amendments (Continued)

- Reinsurance contracts held – recovery of losses

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

- Other amendments to IFRS 17 include:

– Scope exclusions for some credit card (or similar) contracts, and some loan contracts;

– Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups;

– Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;

– An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17;

– Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows;

– Selected transition reliefs and other minor amendments.

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

Amendments to IAS 8

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.

- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

Amendments to IAS 1 and IFRS Practice Statement 2

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- The amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

Amendments to IAS 12

The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph IAS 12.22A.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognises deferred tax for all temporary differences related to leases and decommissioning obligations and recognises the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Except for the above-mentioned impact of IFRS 17 and its amendments, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's consolidated financial information.

2.2 Consolidation

2.2.1 Subsidiary undertakings

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.1 Subsidiary undertakings *(Continued)*

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

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

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

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

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

2.2.2 Transactions with non-controlling interests

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

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

2.2.3 Structured entities

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

2.2.4 Investment in associates and joint ventures

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

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

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

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

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

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

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

2.2.5 Goodwill

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

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

2.3 Financial instruments

Initial recognition and measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

Initial recognition and measurement *(Continued)*

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

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

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

The method of determining fair value

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

Measurement methods

Amortised cost and effective interest rate

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

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

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

2.3.1 Financial assets

Classification and subsequent measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

(ii) The cash flow characteristics of the asset.

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

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

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

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

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

Equity instruments

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

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

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

Impairment

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 ***Financial assets*** *(Continued)*

Classification and subsequent measurement (Continued)

Write-off

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

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

Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change in the interest rate.

- Change in the currency the loan is denominated in.

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Derecognition other than on a modification

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

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

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

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

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

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

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

Asset securitisation

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

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

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.1 Financial assets *(Continued)*

Asset securitisation (Continued)

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

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

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

2.3.2 Financial liabilities

Classification and subsequent measurement

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

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

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

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

Derecognition

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.2 *Financial liabilities* (Continued)

Derecognition (Continued)

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

Equity instruments

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

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

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

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

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

2.3.3 *Derivative financial instruments and hedge accounting*

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

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

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

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

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.3 Derivative financial instruments and hedge accounting *(Continued)*

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

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

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

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

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

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

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

Possible sources of ineffectiveness are as follows:

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

(ii) Significant changes in counterparties' credit risk.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.3 *Derivative financial instruments and hedge accounting* *(Continued)*

(a) Fair value hedge

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

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

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

(b) Cash flow hedge

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

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

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

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

(c) Impact of the Interbank Offered Rate Reform (hereinafter referred to as the "IBOR reform") on hedge accounting

In view of the potential impact of IBOR reform on financial reporting, targeted exemptions are provided for financial instruments eligible for hedge accounting until the IBOR reform is completed. The major changes are as follows:

- The specific requirements for hedge accounting have been modified so that the Group, when applying such hedge accounting requirements, can assume that the benchmark rate used in the measurement of the hedged cash flows and the cash flows from the hedging instruments will not be affected by the changes due to the IBOR reform;

- When performing forward-looking tests, the Group assumes that the benchmark applicable to the cash flows of the hedged item, hedging instrument or the hedged risk will not change along with the IBOR reform;

- Provided that the Group reasonably expects ibor to be separately identifiable within 24 months since the first designation, even if it is not separately identifiable at the date when it is designated, the Group shall designate it as a non-contractually clear risk component of hedged items or of the hedged risk.

- The nominal amount of the hedging instruments to which the above provisions apply and any significant assumptions or judgments made pursuant to the above provisions shall be disclosed. The Group's impact by the IBOR reform and its management during the transition period shall also be disclosed qualitatively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Financial instruments *(Continued)*

2.3.4 Offsetting financial assets and financial liabilities

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

2.4 Interest income and expense

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

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

2.5 Fee and commission income

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

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

2.6 Dividend income

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

2.7 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

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

(b) Financial assets purchased under repurchase agreements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Precious metals

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

2.9 Property and equipment

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

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

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

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

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

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the economic useful lives		

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

2.11 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.12 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecongnised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecongnised.

2.13 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of assets

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

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

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

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

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

(a) Testing CGU with goodwill for impairment

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

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

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

(b) Impairment loss

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of assets *(Continued)*

(c) Reversing an impairment loss

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

An impairment loss in respect of goodwill is not reversed.

2.15 Leases

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

(a) The Group as Lessee

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Leases *(Continued)*

(a) The Group as Lessee (Continued)

For rent concessions that are directly related to COVID-19 and applicable only before 30 June 2022, the Group uses a expedient, with the undiscounted concessions recognised in profit or loss and lease liabilities adjusted accordingly when original payments are exempted upon agreement.

(b) The Group as Lessor

Operating Lease

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

Finance Lease

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

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

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

2.16 Cash and cash equivalents

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

2.17 Provisions

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

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

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

2.18 Income taxes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Income taxes *(Continued)*

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

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

2.20 Dividend distribution

(a) Dividends on ordinary shares

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

(b) Dividends on preference shares

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

(c) Distribution on perpetual bonds

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

2.21 Acceptances

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

2.22 Staff costs and benefits

(a) Staff costs

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

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

(b) Post-employment benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Staff costs and benefits *(Continued)*

(b) Post-employment benefits *(Continued)*

Basic retirement insurance

Employees of the Group have joined basic retirement insurance arranged by local ministry of labour and social security. The Group makes monthly contributions to the retirement insurance according to the base and proportion set by local government. When employees retire, local ministry of labour and social security is responsible for the payment of the basic pension to the retired employees. Such basic retirement insurance is a defined contribution plan. During the reporting period in which employees have rendered services, the Group recognises the amounts payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

Annuity plan

Employees of domestic branches who retire at or after 1 January 2009 participate in the annuity plan established by the Group. The Group contributes a certain portion of employees' gross salaries to the annuity plan. Such annuity plan is a defined benefit plan. Related expenses are recognised in profit or loss when incurred.

Supplementary retirement benefits

The Group pays supplementary retirement benefits to employees of domestic branches who retired at or before 31 December 2008. Such supplementary retirement benefits are defined benefit plans. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains or losses in other comprehensive income. Such actuarial gains or losses will not be reversed to profit or loss subsequently. Past service costs are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability and recognised in profit or loss when incurred.

(c) Early retirement expenses

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

2.23 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Foreign currency translation *(Continued)*

At the reporting date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the spot exchange rates at the date of the transactions or a rate that approximates the spot exchange rates of the date of the transaction. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates and joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

2.25 Insurance contracts

(a) Insurance contracts classification and division

Insurance contracts are those contracts under which the Group has undertaken significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Insurance contracts *(Continued)*

(a) Insurance contracts classification and division *(Continued)*

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be distinguished and separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

(b) Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

(i) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(ii) The related economic benefits are likely to flow to the Group; and

(iii) Related income can be reliably measured.

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2.26 Credit related commitments and financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Credit related commitments and financial guarantees *(Continued)*

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For credit related commitments and financial guarantees, the loss allowance is recognised as an provision.However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

2.27 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors and the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone, Central China, Western China, Northeastern China, Overseas and Head Office.

2.29 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, debt investment measured at fair value through other comprehensive income and credit related commitments and financial guarantees, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.1.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3.4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(c) Income taxes

The Group is subject to income tax various jurisdictions; principally, in Mainland China and Hong Kong Special Administrative Region of the PRC. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of tax legislation and items of uncertainty taking into account existing tax legislation and past practice. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

(d) Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitisation is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group derecognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

(f) Impairment of non-financial assets

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

Fair value is usually based on market prices, and the management obtains it from professional appraisal agencies. Disposal costs include legal fees and taxes related to the asset disposal. When estimating the present value of the expected future cash flow of fixed assets leased out by the subsidiary, the management takes the rents agreed in the leasing contracts and the asset value at the end of the lease term as the basis of estimation and uses appropriate discount rates to determine the present value of future cash flows. Since the outbreak of the pandemic influenced the liquidity of some lessees, the Group considers various scenarios of these lessees under the circumstances of the pandemic and makes estimations of future cash flows under different scenarios. The asset value at the end of the lease term is obtained from professional appraisal agencies. Due to the uncertainty over the development and prevention of the pandemic, there remains uncertainty over the future cash flows and pre-tax discount rates of the rents in the calculation of the present value of future cash flow.

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3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department/Internal Control and Crime Prevention Office at Head Office serves as the chief department for the Group's risk management and leads the overall risk management duties, of which the crucial ones would be further designated to specific leading departments. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk, integrated into the comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

3.1.1 Credit risk management

The Group's credit risk management is assumed by major functions such as Retail Credit Department, Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Management Department, Credit Authorisation Department, Risk Management Department/Internal Control and Crime Prevention Office, Asset Preservation Department, Financial institution Department and Financial Market Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

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

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration; (5) disposal.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

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

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for personal loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, reduces risk exposure to high risk customers through subsequent credit investigation and enters into the intervention process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(b) Treasury business (Continued)

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

(d) Credit risk quality

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the CBIRC, the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-mention: Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.

Loss: Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income("FVOCI"). The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition to recognise ECL.

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

(1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(2) the time value of money;

(3) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Stage classification

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

Definition of credit-impaired and default

The criteria adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators.

In general, the Group considers a financial instrument to be credit-impaired or otherwise in default when one or more of the following criteria have been met:

(1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;

(2) The issuer or obligor is in significant financial difficulty, or has already become insolvent;

(3) It is becoming probable that the obligor will enter bankruptcy;

(4) An active market for that financial asset has disappeared because of financial difficulties of issuers;

(5) Other objective evidence indicating impairment of the financial asset.

A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

(1) Principal or interest of the instrument is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards; (b) The non-retail assets' internal ratings are downgraded by 3 ranks or above upon initial recognition;

(3) Significant adverse issues have negative impacts on obligator's repayment ability;

(4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk and could cause losses of financial assets to the Group.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Definition of credit-impaired and default (Continued)

A significant increase in credit risk *(Continued)*

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

After the outbreak of the pandemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group provided relief measures to those clients meeting specific criteria by extending the maturity and so on. The Group has assessed whether the relief measures would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of "probability of default (PD)", "loss given default (LGD)", "exposure at default (EAD)" under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely "Basic Scenario", "Optimistic Scenario" and "Pessimistic Scenario". The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

In 2021, The Group forecasts the 2022 year-on-year growth rate of GDP to be 5.0% in the Basic Scenario, 7.0% in the Optimistic Scenario and 4.3% in the Pessimistic Scenario. The Group fully considered the the macroeconomic forecast for 2022 when evaluating the forecast information used in the impairment models, and made prudential adjustments to the macro scenario settings.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques (Continued)

Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

Sensitivity analysis

As at the balance sheet date, the basic scenario weighting is higher than the non-basic scenario weighting. The probability-weighted impairment allowance under three scenarios is higher than the basic scenario impairment allowance by the following amounts:

	As at 31 December 2021	As at 31 December 2020
Corporate loans	(167)	337
Personal loans	203	96
Debt investments at amortised cost and fair value through other comprehensive income	1	10

If the optimistic scenario weighting increases by 10%, and the basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will decrease by RMB813 million (31 December 2020: RMB484 million), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will decrease by RMB6 million (31 December 2020: RMB6 million). If the Pessimistic scenario weighting increases by 10%, and the Basic scenario weighting decreases by 10%, the impairment allowance of loans and advances will increase by RMB849 million (31 December 2020: RMB1,402 million), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will increase by RMB7 million (31 December 2020: RMB23 million).

3.1.3 Maximum exposure to credit risk

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments that are likely to incur expected credit losses as "Low risk", "Medium risk", "High risk" and "Impaired". "Low risk" refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors. "Medium risk" refers to counterparty with certain repayment ability, but business, finance, and economic conditions that are continuously unstable and worsening will potentially cause its repayment ability to descend. "High risk" refers to counterparty with adverse factors that are likely to impact its repayment ability significantly or with high probability of impairment in the future. And "Impaired" refers to the assets met the Group's definition of credit-impaired.

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

As at 31 December 2021	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance for impairment losses	Group carrying amount
On-balance sheet item									
Cash and balances with central banks (Stage 1)	667,440	–	–	–	667,440	53,990	721,430	–	721,430
Loans and advances to customers (Corporate)									
– at amortised cost	2,066,574	1,376,123	73,821	69,992	3,586,510	504,061	4,090,571	(121,252)	3,969,319
Stage 1	2,064,723	1,291,448	8,132	–	3,364,303	479,277	3,843,580	(37,786)	3,805,794
Stage 2	1,851	84,675	65,689	–	152,215	17,158	169,373	(34,382)	134,991
Stage 3	–	–	–	69,992	69,992	7,626	77,618	(49,084)	28,534
– at FVOCI	137,735	39,981	4,466	10	182,192	2,514	184,706	–	184,706
Stage 1	137,735	38,773	2,003	–	178,511	2,514	181,025	–	181,025
Stage 2	–	1,208	2,463	–	3,671	–	3,671	–	3,671
Stage 3	–	–	–	10	10	–	10	–	10
Loans and advances to customers (Personal)									
– at amortised cost	1,555,659	613,486	44,146	18,932	2,232,223	52,873	2,285,096	(38,837)	2,246,259
Stage 1	1,555,409	612,762	33,941	–	2,202,112	52,329	2,254,441	(19,617)	2,234,824
Stage 2	250	724	10,205	–	11,179	308	11,487	(4,510)	6,977
Stage 3	–	–	–	18,932	18,932	236	19,168	(14,710)	4,458
Due from and placements with banks and other financial institutions	411,544	419	–	–	411,963	223,051	635,014	(2,306)	632,708
Stage 1	411,544	419			411,963	219,552	631,515	(2,304)	629,211
Stage 2						3,499	3,499	(2)	3,497
Financial investments at amortised cost	2,097,849	26,999	–	1,088	2,125,936	80,059	2,205,995	(2,958)	2,203,037
Stage 1	2,097,849	23,277	–	–	2,121,126	77,343	2,198,469	(1,695)	2,196,774
Stage 2	–	3,722	–	–	3,722	515	4,237	(371)	3,866
Stage 3	–	–	–	1,088	1,088	2,201	3,289	(892)	2,397
Debt investments at FVOCI	247,469	3,497	–	–	250,966	414,501	665,467	–	665,467
Stage 1	247,469	3,497	–	–	250,966	410,700	661,666	–	661,666
Stage 2	–	–	–	–	–	3,772	3,772	–	3,772
Stage 3	–	–	–	–	–	29	29	–	29
Other financial assets at amortised cost	40,235	10,683	144	2,901	53,963	14,148	68,111	(3,460)	64,651
Stage 1	40,060	10,475	–	–	50,535	14,106	64,641	(182)	64,459
Stage 2	54	95	38	–	187	–	187	(119)	68
Stage 3	121	113	106	2,901	3,241	42	3,283	(3,159)	124
On-balance sheet total	7,224,505	2,071,188	122,577	92,923	9,511,193	1,345,197	10,856,390	(168,813)	10,687,577
Credit related commitments and financial guarantees									
Stage 1	1,470,719	379,185	3,058	–	1,852,962	45,815	1,898,777	(8,736)	1,890,041
Stage 2	–	2,943	3,973	–	6,916	732	7,648	(506)	7,142
Off-balance sheet total	1,470,719	382,128	7,031	–	1,859,878	46,547	1,906,425	(9,242)	1,897,183
Total	8,695,224	2,453,316	129,608	92,923	11,371,071	1,391,744	12,762,815	(178,055)	12,584,760

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

As at 31 December 2020	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance for impairment losses	Group carrying amount
On-balance sheet item									
Cash and balances with central banks (Stage 1)	731,772	–	–	–	731,772	70,436	802,208	–	802,208
Loans and advances to customers (Corporate)									
– at amortised cost	1,862,280	1,155,378	70,714	72,874	3,161,246	495,804	3,657,050	(104,425)	3,552,625
Stage 1	1,860,944	1,077,691	5,140	–	2,943,775	475,755	3,419,530	(27,418)	3,392,112
Stage 2	1,336	77,687	65,574	–	144,597	14,093	158,690	(29,034)	129,656
Stage 3	–	–	–	72,874	72,874	5,956	78,830	(47,973)	30,857
– at FVOCI	94,543	106,440	9,335	95	210,413	79	210,492	–	210,492
Stage 1	94,542	105,458	3,627	–	203,627	79	203,706	–	203,706
Stage 2	1	982	5,708	–	6,691	–	6,691	–	6,691
Stage 3	–	–	–	95	95	–	95	–	95
Loans and advances to customers (Personal)									
– at amortised cost	1,341,584	542,393	31,885	18,610	1,934,472	46,410	1,980,882	(34,849)	1,946,033
Stage 1	1,341,429	541,708	24,607	–	1,907,744	46,020	1,953,764	(16,008)	1,937,756
Stage 2	155	685	7,278	–	8,118	227	8,345	(3,836)	4,509
Stage 3	–	–	–	18,610	18,610	163	18,773	(15,005)	3,768
Due from and placements with banks and other financial institutions (Stage 1)	370,162	259	–	–	370,421	201,957	572,378	(1,248)	571,130
Financial investments at amortised cost	1,936,199	26,277	793	465	1,963,734	58,845	2,022,579	(3,050)	2,019,529
Stage 1	1,936,199	20,930	–	–	1,957,129	56,207	2,013,336	(1,844)	2,011,492
Stage 2	–	5,347	793	–	6,140	2,309	8,449	(682)	7,767
Stage 3	–	–	–	465	465	329	794	(524)	270
Debt investments at FVOCI	291,786	2,515	–	–	294,301	429,572	723,873	–	723,873
Stage 1	291,786	2,515	–	–	294,301	429,222	723,523	–	723,523
Stage 2	–	–	–	–	–	278	278	–	278
Stage 3	–	–	–	–	–	72	72	–	72
Other financial assets at amortised cost	14,624	8,560	127	3,842	27,153	13,908	41,061	(4,088)	36,973
Stage 1	14,455	8,353	–	–	22,808	13,838	36,646	(166)	36,480
Stage 2	45	83	28	10	166	–	166	(115)	51
Stage 3	124	124	99	3,832	4,179	70	4,249	(3,807)	442
On-balance sheet total	6,642,950	1,841,822	112,854	95,886	8,693,512	1,317,011	10,010,523	(147,660)	9,862,863
Credit related commitments and financial guarantees									
Stage 1	1,283,391	319,352	2,499	–	1,605,242	61,620	1,666,862	(6,858)	1,660,004
Stage 2	–	4,422	5,031	–	9,453	397	9,850	(3,642)	6,208
Off-balance sheet total	1,283,391	323,774	7,530	–	1,614,695	62,017	1,676,712	(10,500)	1,666,212
Total	7,926,341	2,165,596	120,384	95,886	10,308,207	1,379,028	11,687,235	(158,160)	11,529,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	31 December 2021	31 December 2020
Financial assets at fair value through profit or loss		
Derivative financial instruments	39,220	54,212
Loans and advances to customers	27	–
Debt securities	247,934	153,034
Fund investments and other asset management products	305,176	252,098
Precious metal contracts	21,924	19,975
Total	614,281	479,319

3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

(a) Collaterals *(Continued)*

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

Collaterals	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and personal customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

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

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2021				
Credit-impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	96,786	(63,794)	32,992	46,184
Loans and advances to customers at fair value through other comprehensive income	10	–	10	10
Financial investments				
Financial investments at amortised cost	3,289	(892)	2,397	4,876
Debt investments at fair value through other comprehensive income	29	–	29	–

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For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

(a) Collaterals *(Continued)*

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2020				
Credit-impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	97,603	(62,978)	34,625	46,264
Loans and advances to customers at fair value through other comprehensive income	95	–	95	95
Financial investments				
Financial investments at amortised cost	794	(524)	270	2
Debt investments at fair value through other comprehensive income	72	–	72	–

(b) Master netting arrangements

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

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

Credit risk-weighted amounts

	As at 31 December 2021	As at 31 December 2020
Counterparty credit risk-weighted amount	**53,789**	50,052

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Foreclosed assets

	As at 31 December 2021	As at 31 December 2020
Buildings	1,424	1,085
Land use rights	8	10
Others	5	14
Gross	1,437	1,109
Less: Impairment allowances	(407)	(142)
Net	1,030	967

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Concentration risk for geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2021				
Financial assets				
Balances with central banks	670,925	28,814	21,387	721,126
Due from and placements with banks and other financial institutions	463,774	68,572	100,362	632,708
Derivative financial assets	26,989	9,284	2,947	39,220
Financial investments at FVPL	511,854	6,511	56,669	575,034
Loans and advances to customers	6,065,792	206,433	139,976	6,412,201
Debt investments at FVOCI	394,613	58,562	212,292	665,467
Financial investments at amortised cost	2,161,046	6,621	35,370	2,203,037
Other financial assets	52,737	11,201	3,567	67,505
	10,347,730	395,998	572,570	11,316,298
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	917,943	6,458	12,073	936,474
Loan commitments and other credit related commitments	943,804	23,598	2,549	969,951
	1,861,747	30,056	14,622	1,906,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Concentration risk for geographical sectors (Continued)

	Mainland China	Hong Kong	Others	Total
As at 31 December 2020				
Financial assets				
Balances with central banks	733,895	33,431	34,562	801,888
Due from and placements with banks and other financial institutions	365,731	113,071	92,328	571,130
Derivative financial assets	42,150	9,617	2,445	54,212
Financial investments at FVPL	375,565	7,813	41,729	425,107
Loans and advances to customers	5,362,745	194,300	163,523	5,720,568
Debt investments at FVOCI	373,966	120,315	229,592	723,873
Financial investments at amortised cost	1,967,344	6,195	45,990	2,019,529
Other financial assets	28,229	15,436	2,772	46,437
	9,249,625	500,178	612,941	10,362,744
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	796,707	9,979	9,151	815,837
Loan commitments and other credit related commitments	825,973	25,552	9,350	860,875
	1,622,680	35,531	18,501	1,676,712

(a) *Geographical risk concentration for loans and advances to customers*

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

Note: The definitions of geographical operating segments are set out in Note 48.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

(b) Industry analysis for loans and advances to customers

	As at 31 December 2021		As at 31 December 2020	
		%		%
Corporate loans				
Mining	120,216	1.83	125,367	2.14
Manufacturing	732,565	11.16	658,203	11.25
– Petroleum and chemical	*126,354*	*1.93*	*118,387*	*2.02*
– Electronics	*168,825*	*2.57*	*130,836*	*2.24*
– Steel	*40,781*	*0.62*	*41,680*	*0.71*
– Machinery	*102,338*	*1.56*	*100,571*	*1.72*
– Textile and clothing	*26,817*	*0.41*	*27,057*	*0.46*
– Other manufacturing	*267,450*	*4.07*	*239,672*	*4.10*
Production and supply of power, heat, gas and water	268,772	4.10	221,313	3.78
Construction	157,729	2.40	135,732	2.32
Transportation, storage and postal service	763,419	11.64	708,649	12.12
Information transmission, software and IT services	60,718	0.93	41,148	0.70
Wholesale and retail	215,554	3.29	204,856	3.50
Accommodation and catering	34,133	0.52	34,886	0.60
Finance	132,633	2.02	118,702	2.03
Real estate	419,820	6.40	348,185	5.95
Leasing and commercial services	650,742	9.92	577,500	9.87
Water conservancy, environmental and other public services	382,201	5.83	334,399	5.72
Education, science, culture and public health	122,196	1.86	112,961	1.93
Others	77,884	1.19	85,570	1.48
Discounted bills	136,722	2.08	160,071	2.74
Total corporate loans	4,275,304	65.17	3,867,542	66.13
Personal loans				
Mortgages	1,489,517	22.70	1,293,773	22.12
Credit cards	492,580	7.51	464,110	7.94
Others	302,999	4.62	222,999	3.81
Total personal loans	2,285,096	34.83	1,980,882	33.87
Gross amount of loans and advances before impairment allowances	6,560,400	100.00	5,848,424	100.00

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR *(Continued)*

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

Items	Year ended 31 December 2021			
	31 December 2021	**Average**	**Maximum**	**Minimum**
VaR	**261**	**381**	**746**	**256**
Including: Interest rate risk	**269**	**306**	**453**	**197**
Foreign exchange risk	**133**	**209**	**743**	**100**

Items	Year ended 31 December 2020			
	31 December 2020	Average	Maximum	Minimum
VaR	594	501	617	423
Including: Interest rate risk	268	296	472	127
Foreign exchange risk	464	485	555	417

3.2.3 Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 31 December 2021	As at 31 December 2020
+100 basis points parallel shift in yield curves	**10,562**	13,551
– 100 basis points parallel shift in yield curves	**(10,562)**	(13,551)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 31 December 2021	As at 31 December 2020
+100 basis points parallel shift in yield curves	**(12,995)**	(11,882)
– 100 basis points parallel shift in yield curves	**14,012**	12,363

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

Interest rate sensitivity analysis (Continued)

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 31 December 2021	As at 31 December 2020
5% appreciation of RMB	**(1,803)**	(1,662)
5% depreciation of RMB	**1,803**	1,662

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2021	As at 31 December 2020
5% appreciation of RMB	**(1,403)**	(1,397)
5% depreciation of RMB	**1,403**	1,397

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis (Continued)

Foreign exchange sensitivity analysis (Continued)

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China (the "PBOC"). On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

The Group pays high attention to the transition of interest rate benchmark and has established a task force to speed up the launch and implementation of this LIBOR reform project. At the current stage, the progress of this reform is basically on schedule. According to the overall timetable of the LIBOR reform, libors in sterling, euro, Swiss franc and Japanese yen, as well as one week and 2-month libors in US dollars, have exited the market on 1 January 2022. The business scale of the Group's contracts in reference to LIBOR with the above currencies and maturities is relatively small, ready for orderly transition according to repricing periods of each business, and the impact of the methods of benchmark transition on interest rate risk is generally under control, which has a relatively limited substantial impact on the operations.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2021							
Assets							
Cash and balances with central banks	714,689	–	–	–	–	20,039	734,728
Due from and placements with banks and other financial institutions	274,884	105,476	212,107	28,423	7,950	3,868	632,708
Derivative financial assets	–	–	–	–	–	39,220	39,220
Financial investments at FVPL	32,659	52,942	90,657	35,428	45,306	381,491	638,483
Loans and advances to customers	1,752,819	740,873	2,904,431	442,783	259,155	312,140	6,412,201
Financial investments at FVOCI	49,415	109,842	91,364	227,236	181,312	22,560	681,729
Financial investments at amortised cost	18,908	35,803	262,899	1,009,017	846,114	30,296	2,203,037
Other assets	458	–	–	–	–	323,193	323,651
Total assets	2,843,832	1,044,936	3,561,458	1,742,887	1,339,837	1,132,807	11,665,757
Liabilities							
Due to and placements from banks and other financial institutions	(1,167,169)	(261,570)	(486,143)	(20,848)	(2,889)	(9,149)	(1,947,768)
Financial liabilities at FVPL	(24,954)	(1,995)	(10,196)	(1,266)	–	(11,637)	(50,048)
Derivative financial liabilities	–	–	–	–	–	(36,074)	(36,074)
Due to customers	(3,787,796)	(534,784)	(1,020,946)	(1,607,059)	(39)	(89,153)	(7,039,777)
Other liabilities	(125,188)	(183,613)	(722,988)	(224,408)	(216,154)	(142,503)	(1,614,854)
Total liabilities	(5,105,107)	(981,962)	(2,240,273)	(1,853,581)	(219,082)	(288,516)	(10,688,521)
Total interest sensitivity gap	(2,261,275)	62,974	1,321,185	(110,694)	1,120,755	844,291	977,236

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2020							
Assets							
Cash and balances with central banks	795,102	–	–	–	–	22,459	817,561
Due from and placements with banks and other financial institutions	291,121	97,782	162,611	13,718	2,792	3,106	571,130
Derivative financial assets	–	–	–	–	–	54,212	54,212
Financial investments at FVPL	22,761	21,369	34,378	31,955	51,251	320,874	482,588
Loans and advances to customers	1,661,920	749,592	2,420,672	334,404	260,828	293,152	5,720,568
Financial investments at FVOCI	82,187	134,536	83,786	237,760	179,006	17,945	735,220
Financial investments at amortised cost	41,734	49,906	258,697	962,447	678,347	28,398	2,019,529
Other assets	466	–	–	–	–	296,342	296,808
Total assets	2,895,291	1,053,185	2,960,144	1,580,284	1,172,224	1,036,488	10,697,616
Liabilities							
Due to and placements from banks and other financial institutions	(913,880)	(265,073)	(537,732)	(47,277)	(13,181)	(10,348)	(1,787,491)
Financial liabilities at FVPL	(6,291)	(8,254)	(7,384)	(134)	–	(7,216)	(29,279)
Derivative financial liabilities	–	–	–	–	–	(55,942)	(55,942)
Due to customers	(3,515,457)	(552,070)	(924,291)	(1,529,725)	(2)	(85,785)	(6,607,330)
Other liabilities	(90,687)	(214,973)	(366,449)	(329,911)	(192,715)	(144,211)	(1,338,946)
Total liabilities	(4,526,315)	(1,040,370)	(1,835,856)	(1,907,047)	(205,898)	(303,502)	(9,818,988)
Total interest sensitivity gap	(1,631,024)	12,815	1,124,288	(326,763)	966,326	732,986	878,628

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 31 December 2021, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.3757 (31 December 2020: RMB6.5249) and 1 HK dollar to RMB0.8176 (31 December 2020: RMB0.8416), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2021					
Assets					
Cash and balances with central banks	659,377	32,034	30,113	13,204	734,728
Due from and placements with banks and other financial institutions	316,755	276,807	19,944	19,202	632,708
Derivative financial assets	32,268	5,982	482	488	39,220
Financial investments at FVPL	539,513	79,414	727	18,829	638,483
Loans and advances to customers	5,882,592	294,495	164,923	70,191	6,412,201
Financial investments at FVOCI	309,518	283,663	37,699	50,849	681,729
Financial investments at amortised cost	2,169,831	29,760	812	2,634	2,203,037
Other assets	173,258	137,483	7,292	5,618	323,651
Total assets	10,083,112	1,139,638	261,992	181,015	11,665,757
Liabilities					
Due to and placements from banks and other financial institutions	(1,496,464)	(389,507)	(22,857)	(38,940)	(1,947,768)
Financial liabilities at FVPL	(34,217)	(3,196)	(41)	(12,594)	(50,048)
Derivative financial liabilities	(27,910)	(7,021)	(614)	(529)	(36,074)
Due to customers	(6,341,729)	(387,816)	(262,148)	(48,084)	(7,039,777)
Other liabilities	(1,392,157)	(176,573)	(20,418)	(25,706)	(1,614,854)
Total liabilities	(9,292,477)	(964,113)	(306,078)	(125,853)	(10,688,521)
Net position	790,635	175,525	(44,086)	55,162	977,236
Credit related commitments and financial guarantees	1,721,510	137,769	19,797	27,349	1,906,425

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For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk *(Continued)*

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2020					
Assets					
Cash and balances with central banks	729,631	31,298	35,151	21,481	817,561
Due from and placements with banks and other financial institutions	218,074	319,227	16,750	17,079	571,130
Derivative financial assets	46,761	4,082	2,669	700	54,212
Financial investments at FVPL	407,126	41,616	2,484	31,362	482,588
Loans and advances to customers	5,248,201	240,514	149,366	82,487	5,720,568
Financial investments at FVOCI	329,481	305,772	49,133	50,834	735,220
Financial investments at amortised cost	2,000,225	15,357	50	3,897	2,019,529
Other assets	153,647	130,805	8,453	3,903	296,808
Total assets	9,133,146	1,088,671	264,056	211,743	10,697,616
Liabilities					
Due to and placements from banks and other financial institutions	(1,421,873)	(299,201)	(7,899)	(58,518)	(1,787,491)
Financial liabilities at FVPL	(7,703)	(1,251)	(6,419)	(13,906)	(29,279)
Derivative financial liabilities	(41,556)	(10,217)	(2,360)	(1,809)	(55,942)
Due to customers	(5,894,179)	(378,083)	(301,781)	(33,287)	(6,607,330)
Other liabilities	(1,101,641)	(188,070)	(23,211)	(26,024)	(1,338,946)
Total liabilities	(8,466,952)	(876,822)	(341,670)	(133,544)	(9,818,988)
Net position	666,194	211,849	(77,614)	78,199	878,628
Credit related commitments and financial guarantees	1,534,447	106,293	20,787	15,185	1,676,712

3.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.2 Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2021									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(816,423)	(339,984)	(249,157)	(500,344)	(47,994)	(8,049)	(1,961,951)
Financial liabilities at FVPL	–	–	(11,631)	(24,958)	(1,999)	(10,248)	(1,287)	–	(50,123)
Due to customers	–	–	(2,917,674)	(896,297)	(548,993)	(1,062,886)	(1,719,819)	(40)	(7,145,709)
Certificates of deposit issued	–	–	–	(102,215)	(159,431)	(627,356)	(15,167)	(29)	(904,198)
Debt securities issued	–	–	–	(8,495)	(12,810)	(125,943)	(243,207)	(177,668)	(568,123)
Other financial liabilities	–	–	(47,545)	(157)	(719)	(1,547)	(27,187)	(64,710)	(141,865)
Total liabilities (contractual maturity dates)	–	–	(3,793,273)	(1,372,106)	(973,109)	(2,328,324)	(2,054,661)	(250,496)	(10,771,969)
Assets									
Cash and balances with central banks	–	630,776	103,648	–	304	–	–	–	734,728
Due from and placements with banks and other financial institutions	–	–	88,993	171,571	89,939	229,521	47,273	11,908	639,205
Financial investments at FVPL	–	376,060	2,697	25,865	47,830	96,235	53,221	56,240	658,148
Loans and advances to customers	50,266	–	–	526,302	331,408	1,600,584	1,962,475	4,708,281	9,179,316
Financial investments at FVOCI	29	16,262	–	17,767	57,326	129,941	327,239	205,699	754,263
Financial investments at amortised cost	2,397	–	–	18,705	41,124	328,799	1,216,983	983,448	2,591,456
Other financial assets	4,198	–	63,307	–	–	–	–	–	67,505
Assets held for managing liquidity risk (contractual maturity dates)	56,890	1,023,098	258,645	760,210	567,931	2,385,080	3,607,191	5,965,576	14,624,621
Net position	56,890	1,023,098	(3,534,628)	(611,896)	(405,178)	56,756	1,552,530	5,715,080	3,852,652

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2020									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(664,483)	(249,435)	(272,305)	(555,383)	(51,554)	(13,537)	(1,806,697)
Financial liabilities at FVPL	–	–	(7,107)	(6,323)	(7,692)	(8,131)	(137)	–	(29,390)
Due to customers	–	–	(2,826,645)	(720,090)	(564,855)	(961,376)	(1,633,891)	(2)	(6,706,859)
Certificates of deposit issued	–	–	–	(88,752)	(209,113)	(315,930)	(27,036)	(42)	(640,873)
Debt securities issued	–	–	–	(2,459)	(7,700)	(65,629)	(327,846)	(165,290)	(568,924)
Other financial liabilities	–	–	(50,017)	(173)	(783)	(1,675)	(20,363)	(55,710)	(128,721)
Total liabilities (contractual maturity dates)	–	–	(3,548,252)	(1,067,232)	(1,062,448)	(1,908,124)	(2,060,827)	(234,581)	(9,881,464)
Assets									
Cash and balances with central banks	–	641,025	176,216	–	320	–	–	–	817,561
Due from and placements with banks and other financial institutions	–	–	111,953	175,013	92,064	158,106	39,227	7,165	583,528
Financial investments at FVPL	314	316,982	2,100	9,963	13,373	39,918	49,113	65,737	497,500
Loans and advances to customers	44,408	–	–	503,713	357,214	1,451,002	1,677,966	4,134,699	8,169,002
Financial investments at FVOCI	72	11,347	–	29,004	47,520	136,836	368,919	204,359	798,057
Financial investments at amortised cost	270	–	–	41,759	52,029	315,772	1,148,818	799,669	2,358,317
Other financial assets	4,432	–	42,005	–	–	–	–	–	46,437
Assets held for managing liquidity risk (contractual maturity dates)	49,496	969,354	332,274	759,452	562,520	2,101,634	3,284,043	5,211,629	13,270,402
Net position	49,496	969,354	(3,215,978)	(307,780)	(499,928)	193,510	1,223,216	4,977,048	3,388,938

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

(a) Derivative settled on a net basis (Continued)

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2021						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	10	1	23	–	–	34
– Interest rate contracts and others	416	823	2,880	7,044	647	11,810
Total	426	824	2,903	7,044	647	11,844
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	(34)	(27)	–	–	(61)
– Interest rate contracts and others	(408)	(900)	(3,096)	(6,989)	(381)	(11,774)
Total	(408)	(934)	(3,123)	(6,989)	(381)	(11,835)

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2020						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	3	2	54	–	–	59
– Interest rate contracts and others	215	590	2,730	5,990	247	9,772
Total	218	592	2,784	5,990	247	9,831
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(44)	(51)	(29)	–	–	(124)
– Interest rate contracts and others	(291)	(751)	(3,825)	(10,349)	(1,173)	(16,389)
Total	(335)	(802)	(3,854)	(10,349)	(1,173)	(16,513)

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives.The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2021						
Derivative financial instruments settled on a gross basis						
– Cash outflow	(1,094,721)	(879,191)	(1,402,398)	(109,071)	(15,480)	(3,500,861)
– Cash inflow	1,095,392	879,647	1,404,576	111,697	14,918	3,506,230
Total	671	456	2,178	2,626	(562)	5,369

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

(b) *Derivative settled on a gross basis (Continued)*

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2020						
Derivative financial instruments settled on a gross basis						
– Cash outflow	(775,033)	(567,895)	(979,175)	(86,979)	(5,464)	(2,414,546)
– Cash inflow	776,108	567,520	981,843	88,209	7,732	2,421,412
Total	1,075	(375)	2,668	1,230	2,268	6,866

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2021									
Assets									
Cash and balances with central banks	103,648	–	304	–	–	–	–	630,776	734,728
Due from and placements with banks and other financial institutions	88,993	171,428	89,547	225,329	45,687	11,724	–	–	632,708
Derivative financial assets	–	6,099	7,172	13,032	11,052	1,865	–	–	39,220
Financial investments at FVPL	2,697	25,684	47,293	92,313	43,656	50,780	–	376,060	638,483
Loans and advances to customers	–	504,850	289,612	1,435,771	1,309,429	2,837,626	34,913	–	6,412,201
Financial investments at FVOCI	–	17,504	56,506	120,183	289,879	181,366	29	16,262	681,729
Financial investments at amortised cost	–	18,227	37,752	284,065	1,014,207	846,389	2,397	–	2,203,037
Other assets	93,428	150	18	505	35,656	2,509	4,198	187,187	323,651
Total assets	288,766	743,942	528,204	2,171,198	2,749,566	3,932,259	41,537	1,210,285	11,665,757
Liabilities									
Due to and placements from banks and other financial institutions	(816,423)	(339,771)	(247,890)	(491,785)	(44,522)	(7,377)	–	–	(1,947,768)
Financial liabilities at FVPL	(11,631)	(24,954)	(1,995)	(10,202)	(1,266)	–	–	–	(50,048)
Derivative financial liabilities	–	(5,493)	(6,739)	(11,698)	(10,266)	(1,878)	–	–	(36,074)
Due to customers	(2,917,672)	(892,406)	(544,620)	(1,043,211)	(1,641,829)	(39)	–	–	(7,039,777)
Other liabilities	(59,181)	(113,511)	(198,029)	(739,771)	(285,206)	(219,156)	–	–	(1,614,854)
Total liabilities	(3,804,907)	(1,376,135)	(999,273)	(2,296,667)	(1,983,089)	(228,450)	–	–	(10,688,521)
Net amount on liquidity gap	(3,516,141)	(632,193)	(471,069)	(125,469)	766,477	3,703,809	41,537	1,210,285	977,236

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis (Continued)

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2020									
Assets									
Cash and balances with central banks	176,216	–	320	–	–	–	–	641,025	817,561
Due from and placements with banks and other financial institutions	111,953	174,623	91,078	153,121	33,242	7,113	–	–	571,130
Derivative financial assets	–	9,718	11,570	22,283	9,068	1,573	–	–	54,212
Financial investments at FVPL	2,100	9,722	12,857	37,651	44,167	58,795	314	316,982	482,588
Loans and advances to customers	–	484,371	319,698	1,305,770	1,103,053	2,476,035	31,641	–	5,720,568
Financial investments at FVOCI	–	28,930	46,507	126,501	339,517	182,346	72	11,347	735,220
Financial investments at amortised cost	–	41,210	49,086	278,043	972,565	678,355	270	–	2,019,529
Other assets	61,973	286	19	15,410	16,448	4,047	4,432	194,193	296,808
Total assets	352,242	748,860	531,135	1,938,779	2,518,060	3,408,264	36,729	1,163,547	10,697,616
Liabilities									
Due to and placements from banks and other financial institutions	(664,483)	(247,467)	(268,704)	(544,824)	(48,745)	(13,268)	–	–	(1,787,491)
Financial liabilities at FVPL	(7,107)	(6,291)	(7,636)	(8,111)	(134)	–	–	–	(29,279)
Derivative financial liabilities	–	(8,357)	(10,798)	(20,858)	(12,210)	(3,719)	–	–	(55,942)
Due to customers	(2,826,643)	(716,981)	(560,281)	(942,581)	(1,560,842)	(2)	–	–	(6,607,330)
Other liabilities	(68,467)	(94,306)	(235,723)	(374,652)	(367,189)	(198,609)	–	–	(1,338,946)
Total liabilities	(3,566,700)	(1,073,402)	(1,083,142)	(1,891,026)	(1,989,120)	(215,598)	–	–	(9,818,988)
Net amount on liquidity gap	(3,214,458)	(324,542)	(552,007)	47,753	528,940	3,192,666	36,729	1,163,547	878,628

3.3.6 Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 1 year	1 – 5 years	Over 5 years	Total
As at 31 December 2021				
Loan commitments and other credit related commitments	**924,244**	**30,785**	**14,922**	**969,951**
Guarantees, acceptances and letters of credit	**796,027**	**138,818**	**1,629**	**936,474**
Total	**1,720,271**	**169,603**	**16,551**	**1,906,425**
As at 31 December 2020				
Loan commitments and other credit related commitments	813,687	26,668	20,520	860,875
Guarantees, acceptances and letters of credit	682,540	126,206	7,091	815,837
Total	1,496,227	152,874	27,611	1,676,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and restricted shares. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value through other comprehensive income, trust and asset management plan at fair value through profit or loss, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(a) Determination of fair value and valuation techniques (Continued)

For convertible bonds, unlisted equities, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 31 December 2021		As at 31 December 2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Financial investments at amortised cost	**2,203,037**	**2,234,814**	2,019,529	2,031,222
Financial liabilities				
Debt securities issued	**(491,372)**	**(496,082)**	(484,382)	(485,175)

Fair value hierarchy of financial instruments not measured at fair value

As at 31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial investments at amortised cost	**7,757**	**2,138,742**	**88,315**	**2,234,814**
Financial liabilities				
Debt securities issued	**–**	**(496,082)**	**–**	**(496,082)**

As at 31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments at amortised cost	2,530	1,920,866	107,826	2,031,222
Financial liabilities				
Debt securities issued	–	(485,175)	–	(485,175)

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) *Financial assets and financial liabilities measured at fair value on a recurring basis*

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

As at 31 December 2021	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities				
– Governments and central banks	2,719	96,360	–	99,079
– Public sector entities	–	1,302	–	1,302
– Banks and other financial institutions	7,272	93,464	162	100,898
– Corporate entities	3,317	40,347	2,991	46,655
Fund investments and other asset management products	685	287,847	16,644	305,176
Equity securities and others	7,826	5,081	50,542	63,449
Precious metal contracts	–	21,924	–	21,924
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	27,196	–	27,196
– Interest rate contracts and others	–	10,987	1,037	12,024
Loans and advances to customers	–	27	–	27
	21,819	584,535	71,376	677,730
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	50,353	254,012	–	304,365
– Public sector entities	1,422	3,148	–	4,570
– Banks and other financial institutions	114,620	139,981	–	254,601
– Corporate entities	72,810	28,825	296	101,931
Investments in equity instruments designated at FVOCI	7,357	1,636	7,269	16,262
Loans and advances to customers at FVOCI	–	184,696	10	184,706
	246,562	612,298	7,575	866,435
Total assets	268,381	1,196,833	78,951	1,544,165
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(1,400)	–	(1,400)
– Financial liabilities related to precious metal contracts	–	(15,247)	–	(15,247)
– Short position of securities held for trading	–	(134)	–	(134)
– Notes issued	–	(1,385)	–	(1,385)
– Others	–	(31,882)	–	(31,882)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(24,898)	–	(24,898)
– Interest rate contracts and others	–	(11,176)	–	(11,176)
Debt securities issued	–	(12,153)	–	(12,153)
Total liabilities	–	(98,275)	–	(98,275)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) *Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)*

As at 31 December 2020	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities				
– Governments and central banks	3,191	3,343	–	6,534
– Public sector entities	–	1,585	–	1,585
– Banks and other financial institutions	7,673	91,904	94	99,671
– Corporate entities	2,312	39,642	3,290	45,244
Fund investments and other asset management products	370	238,963	12,765	252,098
Equity securities and others	6,270	3,233	47,978	57,481
Precious metal contracts	–	19,975	–	19,975
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	44,435	–	44,435
– Interest rate contracts and others	–	8,880	897	9,777
	19,816	451,960	65,024	536,800
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	72,209	268,514	–	340,723
– Public sector entities	1,273	2,103	–	3,376
– Banks and other financial institutions	123,223	181,467	–	304,690
– Corporate entities	49,033	25,687	364	75,084
Investments in equity instruments designated at FVOCI	1,798	1,842	7,707	11,347
Loans and advances to customers at FVOCI	–	210,397	95	210,492
	247,536	690,010	8,166	945,712
Total assets	267,352	1,141,970	73,190	1,482,512
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(7,868)	–	(7,868)
– Financial liabilities related to precious metal contracts	–	(16,104)	–	(16,104)
– Notes issued	–	(417)	–	(417)
– Others	–	(4,890)	–	(4,890)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(40,914)	–	(40,914)
– Interest rate contracts and others	–	(15,028)	–	(15,028)
Debt securities issued	–	(13,373)	–	(13,373)
Total liabilities	–	(98,594)	–	(98,594)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

Reconciliation of Level 3 items

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2021	65,024	8,166
Total gains or losses		
– Net gains/(losses) arising from trading activities	4,951	48
– Other comprehensive income	–	(1,233)
Additions	10,723	975
Disposals and settlement	(9,286)	(381)
Transfer to other levels	(36)	–
Balance at 31 December 2021	71,376	7,575
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2021		
– Realised gains	1,998	46
– Unrealised losses	2,000	(1,231)

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2020	63,696	7,520
Total gains or losses		
– Net gains/(losses) arising from trading activities	1,291	(40)
– Other comprehensive income	–	(1,696)
Additions	11,587	2,932
Disposals and settlement	(11,550)	(550)
Balance at 31 December 2020	65,024	8,166
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2020		
– Realised gains	2,218	2
– Unrealised losses	(975)	(1,738)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earnings ratio and liquidity discounts.

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 31 December 2021, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management

The "capital" in capital management is a broader concept than "shareholders' equity" on the statement of financial position. The Group's objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group's ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The *Administrative Measures for the Capital of Commercial Banks (Provisional)* specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 0.75% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management *(Continued)*

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Group. In this approach, the Group elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal model approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on *Administrative Measures for the Capital of Commercial Banks (Provisional)* are as follows:

Item	As at 31 December 2021	As at 31 December 2020
Core tier-1 capital adequacy ratio (%)	10.62	10.87
Tier-1 capital adequacy ratio (%)	13.01	12.88
Capital adequacy ratio (%)	15.45	15.25
Core tier-1 capital	789,887	732,863
Core tier-1 capital deductions	(6,010)	(5,252)
Net core tier-1 capital	783,877	727,611
Additional tier-1 capital	176,348	134,610
Net tier-1 capital	960,225	862,221
Tier-2 capital	179,732	159,025
Net capital	1,139,957	1,021,246
Risk-weighted assets	7,379,912	6,695,462

4 NET INTEREST INCOME

	Year ended 31 December	
	2021	2020
Interest income		
Loans and advances to customers	266,419	251,468
Financial investments	88,262	90,683
Due from and placements with banks and other financial institutions	12,266	16,180
Balances with central banks	10,699	10,770
	377,646	369,101
Interest expense		
Due to customers	(140,982)	(139,142)
Due to and placements from banks and other financial institutions	(38,581)	(46,653)
Certificates of deposit issued	(20,049)	(15,404)
Debt securities issued	(16,341)	(14,566)
	(215,953)	(215,765)
Net interest income	161,693	153,336
Including:		
Interest income on impaired financial assets	1,251	1,369

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

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2021	2020
Bank cards	20,136	20,107
Wealth management business	11,775	9,856
Custody and other fiduciary business	7,484	7,033
Agency services	5,664	4,200
Investment banking	3,120	3,706
Guarantee and commitment	2,527	2,617
Settlement services	1,296	1,531
Others	283	248
	52,285	49,298

	Year ended 31 December	
	2021	2020
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	1,576	1,342
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	3,758	3,458

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2021	2020
Bank card business	2,560	2,473
Settlement and agency services	1,744	1,321
Others	408	418
	4,712	4,212

	Year ended 31 December	
	2021	2020
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	–	–

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2021	2020
Financial instruments at FVPL	20,621	14,277
Foreign exchange	2,539	1,100
Interest rate instruments and others	184	(1,533)
	23,344	13,844

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

7 NET GAINS ARISING FROM TRADING ACTIVITIES *(Continued)*

Net gains arising from trading activities for the year ended 31 December 2021 included a gain of RMB227 million (for the year ended 31 December 2020: a loss of RMB184 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 INSURANCE BUSINESS INCOME

	Year ended 31 December	
	2021	2020
Premiums earned	**17,141**	15,731
Less: Premiums ceded	**(626)**	(561)
	16,515	15,170

9 OTHER OPERATING INCOME

	Year ended 31 December	
	2021	2020
Leasing income	**13,843**	13,436
Income from sales of precious metal merchandise	**2,020**	1,848
Revaluation of investment properties	**183**	180
Net gain on the disposal of fixed and foreclosed assets	**454**	166
Other miscellaneous income	**2,535**	2,259
	19,035	17,889

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

10 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2021	2020
Due from and placements with banks and other financial institutions	**1,085**	225
Loans and advances to customers at amortised cost	**63,339**	55,303
Loans and advances to customers at FVOCI	**158**	(12)
Credit related commitments and financial guarantees	**1,998**	4,874
Financial investments at amortised cost	**(124)**	(129)
Debt investments at FVOCI	**(87)**	316
Others	**2**	1,482
	66,371	62,059

11 OTHER ASSETS IMPAIRMENT LOSSES

	Year ended 31 December	
	2021	2020
Impairment losses on operating lease assets	**1,981**	485
Impairment losses on precious metal	**55**	–
Impairment losses on foreclosed assets	**284**	(1)
	2,320	484

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

12 INSURANCE BUSINESS EXPENSE

	Year ended 31 December	
	2021	2020
Change in insurance reserves	15,643	13,282
Less: Change in insurance reserves recovered from reinsurers	958	(401)
Surrenders	1,084	2,288
Others	(631)	560
	17,054	15,729

13 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2021	2020
Staff costs and benefits (Note 14)	36,825	32,749
General operating and administrative expenses	29,621	25,367
Depreciation and amortisation	8,099	7,888
Costs of operating lease business	9,108	9,518
Tax and surcharges	3,001	2,823
(Reversal)/provision for outstanding litigations	(199)	32
Others	3,589	3,650
	90,044	82,027

Since the presentation of “Staff costs and benefits” and “General operating and administrative expenses” has been changed, we have restated the comparative information of the year before

14 STAFF COSTS AND BENEFITS

	Year ended 31 December	
	2021	2020
Salaries, bonuses, allowances and subsidies	25,383	22,920
Post-employment benefit (a)	4,093	3,062
Other social security and benefit costs	7,349	6,767
	36,825	32,749

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees’ basic salary for the year. The Group’s contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees’ gross salary which is recognised in profit or loss as incurred.

As at 31 December 2021, there are no forfeited contributions under the Group’s retirement benefit plans which can be used to deduct contributions payable for future years.

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For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined contribution plans *(Continued)*

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2021	2020
Expenses incurred for retirement benefit plans and unemployment insurance	2,494	1,577
Expenses incurred for annuity plan	1,575	1,468
Total	4,069	3,045

The amount payable at the end of the year is as follows:

	As at 31 December 2021	As at 31 December 2020
Expenses incurred for retirement benefit plans and unemployment insurance	105	69
Expenses incurred for annuity plan	50	73
Total	155	142

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at 31 December 2021	As at 31 December 2020
Statement of financial position		
– Obligations for pension benefits	385	467

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2021	2020
Components of defined benefit costs recognised in profit or loss	24	17
Components of defined benefit costs recognised in other comprehensive income	(55)	132
Total	(31)	149

Past service cost and interest expense are recognised in other operating expenses in the income statement.

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

14 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plans *(Continued)*

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2021	2020
Present value of unfunded obligations at the beginning of the year	467	399
Retirement benefits paid during the year	(51)	(81)
Interest expense	21	14
Past service cost	3	3
Net actuarial losses recognised in the current year	(55)	132
Present value of unfunded obligations at the end of the year	385	467

The average duration of the supplementary retirement benefits plan at 31 December 2021 is 12.31 years (31 December 2020: 13.20 years).

The Group expects to make a contribution of RMB39 million (2020: RMB40 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.07% (31 December 2020: 3.51%) and 0.81% (31 December 2020: 2.87%) respectively as at 31 December 2021. In the meantime, assumptions regarding future mortality rate are set based on published statistics by the CBIRC. As at 31 December 2021, an average longevity of a pensioner after retirement at age 60 for male is 23.13 years (31 December 2020: 23.13 years) while a pensioner after retirement at age 55 for female is 33.13 years (31 December 2020: 33.13 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB35 million (increase by RMB40 million).

(2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB39 million (decrease by RMB35 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB29 million (decrease by RMB30 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value at the end of the reporting period of the unfunded obligation has been calculated in the same method as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis in prior years.

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For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB)	Year ended 31 December 2021			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	619	210	829
Mr. Liu, Jun	–	619	206	825
Non-executive directors				
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Li, Longcheng	–	–	–	–
Independent non-executive directors				
Jason Yeung Chi Wai	310	–	–	310
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	330	–	–	330
Supervisors				
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	280	–	280
Mr. Chen, Hanwen	–	260	–	260
Mr. Ju, Jiandong	–	260	–	260
Mr. Guan, Xingshe	–	956	211	1,167
Ms. Lin, Zhihong	–	962	211	1,173
Ms. Po,Ying	–	79	18	97
Mr. Xu, Jiming	–	258	87	345
Ms. Feng, Bing	–	819	211	1,030
Total	1,260	5,112	1,154	7,526

(in thousands of RMB)	Year ended 31 December 2021			
Name	Emoluments	Remuneration	Other benefits	Total
Former directors and supervisors				
Mr. Du, Yarong	–	416	84	500
Mr. Cai, Yunge	–	103	34	137
Mr. He, Zhaobin	–	73	22	95
Total	–	592	140	732

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2020			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	783	161	944
Mr. Liu, Jun	–	457	93	550
Non-executive directors				
Mr. He, Zhaobin	–	866	161	1,027
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Li, Longcheng	–	–	–	–
Mr. Wang, Linping	–	–	–	–
Mr. Chang, Baosheng	–	–	–	–
Independent non-executive directors				
Jason Yeung Chi Wai	310	–	–	310
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	39	–	–	39
Supervisors				
Mr. Cai, Yunge	–	155	41	196
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	270	–	270
Mr. Chen, Hanwen	–	260	–	260
Mr. Ju, Jiandong	–	130	–	130
Mr. Du, Yarong	–	946	167	1,113
Mr. Guan, Xingshe	–	905	167	1,072
Ms. Lin, Zhihong	–	–	–	–
Ms. Feng, Bing	–	–	–	–
Total	969	4,772	790	6,531

(in thousands of RMB)	Year ended 31 December 2020			
Name	Emoluments	Remuneration	Other benefits	Total
Former directors and supervisors				
Mr. Hou, Weidong	–	235	52	287
Mr. Wang, Taiyin	–	444	75	519
Mr. Song, Guobin	–	574	101	675
Ms. Li, Jian	–	211	–	211
Mr. Liu, Li	–	291	–	291
Ms. Tang, Xinyu	–	–	–	–
Ms. Chen, Qing	–	569	91	660
Mr. Wang, Xuewu	–	921	167	1,088
Total	–	3,245	486	3,731

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For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(1) The total compensation package for directors and supervisors for the year ended 31 December 2021 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's financial statements for the year ended 31 December 2021. The final compensation will be disclosed in a separate announcement when determined. The final total compensation for the year ended 31 December 2020 was disclosed in the Information on the Second Extraordinary General Meeting of Shareholders in 2021 issued on 10 September 2021.

(2) Employee supervisors Mr. Du Yarong, Mr. Guan Xingshe, Ms. Lin Zhihong and Ms. Feng Bing received compensation according to their positions as employees of the Bank and did not receive additional compensation as employee supervisors.

(3) During 2021 and 2020, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(4) Other benefits include social insurance, housing allowances, enterprise annuity paid by the Bank.

(5) Mr. Wang Linping and Mr. Chang Baosheng begin to assume office on the 8 January 2021.

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2021	2020
Salary	**15**	14
Discretionary bonuses	**13**	15
Employer's contribution to pension scheme and other benefits	**2**	2
Total	**30**	31

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of individuals As at 31 December	
	2021	2020
HKD4,500,001 – 5,000,000	**1**	2
HKD5,000,001 – 5,500,000	**3**	2
HKD5,500,001 – 6,000,000	**–**	–
HKD6,000,001 – 6,500,000	**–**	–
HKD6,500,001 – 7,000,000	**–**	–
HKD7,000,001 – 7,500,000	**–**	–
HKD7,500,001 – 8,000,000	**–**	–
HKD8,000,001 – 8,500,000	**–**	–
HKD8,500,001 – 9,000,000	**–**	–
HKD9,000,001 – 9,500,000	**–**	–
HKD9,500,001 – 10,000,000	**–**	–
HKD10,000,001 – 10,500,000	**1**	–
HKD10,500,001 – 11,000,000	**–**	–
HKD11,000,001 – 11,500,000	**–**	1
	5	5

During 2021 and 2020, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

16 INCOME TAX

	Year ended 31 December 2021	2020
Current income tax		
– Mainland China enterprise income tax	7,522	8,247
– Hong Kong profits tax	608	630
– Income tax arising in Macao, Taiwan and other countries or regions	753	577
Subtotal	8,883	9,454
Deferred income tax (Note 27)	(3,863)	(2,599)
Total	5,020	6,855

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2020: 25%) of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the difference between tax paid by overseas branches and the accrued tax under the regulation of Mainland China shall be compensated by the head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25% (2020: 25%). The major reconciliation items are as follows:

	Year ended 31 December 2021	2020
Profit before tax	93,959	86,425
Tax calculated at statutory rate of 25%	23,490	21,606
Effects of different tax rates prevailing in Hong Kong, Macao, Taiwan and other countries or regions	(207)	(152)
Effects of non-deductible expenses (1)	2,445	3,644
Effects of non-taxable income (2)	(19,663)	(17,393)
Others	(934)	(420)
Adjustments for income tax filing of prior years	(111)	(430)
Income tax	5,020	6,855

(1) Non-deductible expenses primarily represent non-deductible write-offs.

(2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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17 BASIC AND DILUTED EARNINGS PER SHARE

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

	Year ended 31 December	
	2021	2020
Net profit attributable to shareholders of the Bank	**87,581**	78,274
Less: Dividends paid to preference shareholders	**(1,755)**	(2,714)
Interest paid to perpetual bond holders	**(3,858)**	(1,680)
Net profit attributable to ordinary shareholders of the Bank	**81,968**	73,880
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the year	**74,263**	74,263
Basic and diluted earnings per share (expressed in RMB per share)	**1.10**	0.99

For the purpose of calculating basic earnings per share, a cash dividend of RMB1,755 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to shareholders of the Bank. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2021, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

For the calculation of basic earnings per share, distributions on non-cumulative perpetual bonds declared for the period was deducted from the amounts attributable to shareholders of the Bank. The Bank has declared an interest of RMB3,858 million on perpetual bonds during the year ended 31 December 2021.

18 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2021	As at 31 December 2020
Cash	**13,298**	15,353
Mandatory reserve deposits	**624,340**	634,239
Excess reserve deposits	**90,350**	160,863
Fiscal deposits and others	**6,436**	6,786
Accrued interest	**304**	320
	734,728	817,561

The Group places mandatory reserves with the PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

	As at 31 December 2021 %	As at 31 December 2020 %
Domestic mandatory reserve rate for deposits denominated in RMB	**10.00**	11.00
Domestic mandatory reserve rate for deposits denominated in foreign currencies	**9.00**	5.00

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

18 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2021	As at 31 December 2020
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	83,372	90,965
– Banks and other financial institutions operating outside Mainland China	36,422	68,274
Accrued interest	298	196
Less: Allowance for impairment losses	(202)	(265)
Financial assets purchased under repurchase agreements		
Securities		
– Governments	15,410	6,332
– Policy banks	13,040	3,657
– Financial institutions	31,498	27,905
– Corporates	16	–
Bills	13,512	3,670
Accrued interest	33	26
Less: Allowance for impairment losses	(141)	(34)
Placements with and loans to banks		
– Banks operating in Mainland China	111,677	113,890
– Banks operating outside Mainland China	77,490	95,886
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	194,502	118,172
– Placements with and loans to other financial institutions outside Mainland China	54,176	40,515
Accrued interest	3,568	2,890
Less: Allowance for impairment losses	(1,963)	(949)
	632,708	571,130

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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20 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2021	As at 31 December 2020
Government bonds		
– Listed in Hong Kong	1,246	2,370
– Listed outside Hong Kong (a)	97,132	3,043
– Unlisted	701	1,121
Other debt securities		
– Listed in Hong Kong	42,371	23,853
– Listed outside Hong Kong (a)	90,909	109,422
– Unlisted – corporate entities	3,002	4,445
– Unlisted – banks	12,573	8,780
Equity securities and others		
– Listed in Hong Kong	1,823	1,419
– Listed outside Hong Kong	11,493	7,956
– Unlisted	50,133	48,106
Fund investments and other asset management products		
– Listed in Hong Kong	42	–
– Listed outside Hong Kong	663	474
– Unlisted	304,471	251,624
Precious metal contracts	21,924	19,975
Total	638,483	482,588

(a) Debt securities traded in the China domestic inter-bank bond market are included in "Listed outside Hong Kong".

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2021	As at 31 December 2020
– Banks and other financial institutions	100,898	99,671
– Corporate entities	46,655	45,244
– Governments and central banks	99,079	6,534
– Public sector entities	1,302	1,585
	247,934	153,034

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the Solely Payments of Principal and Interest Test("SPPI test").

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

21 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (i.e. fixed-for-floating swaps) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the buyer (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the buyer in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

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

	Contractual/ Notional	**Fair values**	
As at 31 December 2021	**Amount**	**Assets**	**Liabilities**
Foreign exchange and commodity contracts	**3,501,041**	**27,195**	**(24,899)**
Interest rate contracts and others	**3,626,588**	**12,025**	**(11,175)**
Total amount of derivative financial instruments recognised	**7,127,629**	**39,220**	**(36,074)**

	Contractual/ Notional	Fair values	
As at 31 December 2020	Amount	Assets	Liabilities
Foreign exchange and commodity contracts	2,435,423	44,435	(40,914)
Interest rate contracts and others	3,101,818	9,777	(15,028)
Total amount of derivative financial instruments recognised	5,537,241	54,212	(55,942)

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21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, mitigate or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2021	As at 31 December 2020
RMB	4,686,806	3,772,066
USD	1,981,299	1,387,805
HKD	231,035	247,659
Others	228,489	129,711
Total	7,127,629	5,537,241

Hedge accounting

The above derivative financial instruments including those designated as hedging instruments by the Group are as follows:

As at 31 December 2021	Contractual/ Notional Amount	Fair values Assets	Fair values Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	141,731	1,871	(1,274)
Derivative financial instruments designated as hedging instruments in cash flow hedges	71,805	519	(973)
Total	213,536	2,390	(2,247)

As at 31 December 2020	Contractual/ Notional Amount	Fair values Assets	Fair values Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	139,555	184	(4,689)
Derivative financial instruments designated as hedging instruments in cash flow hedges	58,382	268	(1,901)
Total	197,937	452	(6,590)

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

21 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

	Year ended 31 December	
	2021	2020
Net gains/(losses) from fair value hedges:		
Hedging instruments	4,405	(4,314)
Hedged items attributable to the hedged risk	(4,386)	4,462
Total	19	148

(b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the year ended 31 December 2021, the Group recognised a profit of RMB1,133 million (31 December 2020: a loss of RMB1,761 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies a loss of RMB617 million from other comprehensive income to profit or loss(31 December 2020: a profit of RMB1,085 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

22 LOANS AND ADVANCES TO CUSTOMERS

22.1 Loans and advances to customers

	As at 31 December 2021	As at 31 December 2020
Loans and advances to customers		
– Carried at amortised cost	6,375,667	5,637,932
– Carried at FVOCI	184,706	210,492
– Carried at FVPL	27	–
Less: Allowance for impairment losses	(160,089)	(139,274)
	–	–
Accrued interest	13,985	12,980
Less: Allowance for impairment losses of accrued interest	(2,095)	(1,562)
	6,412,201	5,720,568

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22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.2 Loans and advances to customers analysed by security type

	As at 31 December 2021	As at 31 December 2020
Unsecured loans	2,085,835	1,812,785
Guaranteed loans	1,056,138	990,248
Collateralised and other secured loans	3,418,427	3,045,391
Including: Loans secured by collateral	*2,488,276*	*2,191,847*
Pledged loans	*930,151*	*853,544*
Total	6,560,400	5,848,424

22.3 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	3,419,530	158,690	78,830	3,657,050
Addition, net	563,949	(76,364)	(13,664)	473,921
Written-offs and disposals	–	–	(32,518)	(32,518)
Transfers:	(132,463)	87,398	45,065	–
Transfer between Stage 1 and Stage 2, net	*(111,830)*	*111,830*	-	-
Transfer between Stage 1 and Stage 3, net	*(20,633)*	-	*20,633*	-
Transfer between Stage 2 and Stage 3, net	-	*(24,432)*	*24,432*	-
Exchange differences	(7,436)	(351)	(95)	(7,882)
As at 31 December 2021	3,843,580	169,373	77,618	4,090,571

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	3,114,979	139,701	59,416	3,314,096
Addition, net	466,884	(70,303)	(11,437)	385,144
Written-offs and disposals	–	–	(33,214)	(33,214)
Transfers:	(153,797)	89,415	64,382	–
Transfer between Stage 1 and Stage 2, net	*(131,542)*	*131,542*	-	-
Transfer between Stage 1 and Stage 3, net	*(22,255)*	-	*22,255*	-
Transfer between Stage 2 and Stage 3, net	-	*(42,127)*	*42,127*	-
Exchange differences	(8,536)	(123)	(317)	(8,976)
As at 31 December 2020	3,419,530	158,690	78,830	3,657,050

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

22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.3 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Corporate loan at amortised cost:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	**27,418**	**29,034**	**47,973**	**104,425**
Addition/(Reversal), net	**7,072**	**(12,343)**	**(3,338)**	**(8,609)**
Written-offs and disposals	**–**	**–**	**(32,518)**	**(32,518)**
Transfers:	**(823)**	**(6,046)**	**6,869**	**–**
Transfer between Stage 1 and Stage 2, net	***(708)***	***708***	***-***	***-***
Transfer between Stage 1 and Stage 3, net	***(115)***	***-***	***115***	***-***
Transfer between Stage 2 and Stage 3, net	***-***	***(6,754)***	***6,754***	***-***
Remeasurement	**4,198**	**23,500**	**26,739**	**54,437**
Exchange and other differences	**(79)**	**237**	**3,359**	**3,517**
As at 31 December 2021	**37,786**	**34,382**	**49,084**	**121,252**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	23,125	39,960	42,085	105,170
Addition/(Reversal), net	2,477	(7,358)	(7,717)	(12,598)
Written-offs and disposals	–	–	(33,214)	(33,214)
Transfers:	(838)	(15,668)	16,506	–
Transfer between Stage 1 and Stage 2, net	*(762)*	*762*	*-*	*-*
Transfer between Stage 1 and Stage 3, net	*(76)*	*-*	*76*	*-*
Transfer between Stage 2 and Stage 3, net	*-*	*(16,430)*	*16,430*	*-*
Remeasurement	2,805	11,452	28,208	42,465
Exchange and other differences	(151)	648	2,105	2,602
As at 31 December 2020	27,418	29,034	47,973	104,425

Movements of principal gross carrying amount – Personal loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	**1,953,764**	**8,345**	**18,773**	**1,980,882**
Addition, net	**323,943**	**(1,673)**	**(2,411)**	**319,859**
Written-offs and disposals	**–**	**–**	**(14,633)**	**(14,633)**
Transfers:	**(22,259)**	**4,814**	**17,445**	**–**
Transfer between Stage 1 and Stage 2, net	***(8,772)***	***8,772***	***-***	***-***
Transfer between Stage 1 and Stage 3, net	***(13,487)***	***-***	***13,487***	***-***
Transfer between Stage 2 and Stage 3, net	***-***	***(3,958)***	***3,958***	***-***
Exchange differences	**(1,007)**	**1**	**(6)**	**(1,012)**
As at 31 December 2021	**2,254,441**	**11,487**	**19,168**	**2,285,096**

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22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.3 Movements of gross carrying amount and ECL allowance *(Continued)*

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	1,727,106	9,085	18,574	1,754,765
Addition, net	254,353	(2,056)	(2,943)	249,354
Written-offs and disposals	–	–	(20,580)	(20,580)
Transfers:	(25,057)	1,328	23,729	–
Transfer between Stage 1 and Stage 2, net	*(6,125)*	*6,125*	*-*	*-*
Transfer between Stage 1 and Stage 3, net	*(18,932)*	*-*	*18,932*	*-*
Transfer between Stage 2 and Stage 3, net	*-*	*(4,797)*	*4,797*	*-*
Exchange differences	(2,638)	(12)	(7)	(2,657)
As at 31 December 2020	1,953,764	8,345	18,773	1,980,882

Movements of ECL allowance – Personal loan at amortised cost:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2021	**16,008**	**3,836**	**15,005**	**34,849**
Addition/(Reversal), net	**1,854**	**(93)**	**(1,379)**	**382**
Written-offs and disposals	**–**	**–**	**(14,633)**	**(14,633)**
Transfers:	**290**	**(1,410)**	**1,120**	**–**
Transfer between Stage 1 and Stage 2, net	***566***	***(566)***	***-***	***-***
Transfer between Stage 1 and Stage 3, net	***(276)***	***-***	***276***	***-***
Transfer between Stage 2 and Stage 3, net	***-***	***(844)***	***844***	***-***
Remeasurement	**1,469**	**2,179**	**12,929**	**16,577**
Exchange and other differences	**(4)**	**(2)**	**1,668**	**1,662**
As at 31 December 2021	**19,617**	**4,510**	**14,710**	**38,837**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	8,394	3,193	15,962	27,549
Addition/(Reversal), net	2,001	(100)	(1,102)	799
Written-offs and disposals	–	–	(20,580)	(20,580)
Transfers:	270	(1,078)	808	–
Transfer between Stage 1 and Stage 2, net	*378*	*(378)*	*-*	*-*
Transfer between Stage 1 and Stage 3, net	*(108)*	*-*	*108*	*-*
Transfer between Stage 2 and Stage 3, net	*-*	*(700)*	*700*	*-*
Remeasurement	5,349	1,823	18,443	25,615
Exchange and other differences	(6)	(2)	1,474	1,466
As at 31 December 2020	16,008	3,836	15,005	34,849

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

22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.3 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	203,706	6,691	95	210,492
Addition, net	(22,530)	(3,020)	303	(25,247)
Written-offs and disposals	–	–	(368)	(368)
Transfers:	(1)	–	1	–
Transfer between Stage 1 and Stage 2, net	-	-	-	-
Transfer between Stage 1 and Stage 3, net	*(1)*	-	*1*	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Changes in the fair value	(150)	–	(21)	(171)
As at 31 December 2021	181,025	3,671	10	184,706

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	228,957	6,404	53	235,414
Addition, net	(18,373)	(6,209)	(134)	(24,716)
Written-offs and disposals	–	–	(34)	(34)
Transfers:	(6,833)	6,603	230	–
Transfer between Stage 1 and Stage 2, net	*(6,763)*	*6,763*	-	-
Transfer between Stage 1 and Stage 3, net	*(70)*	-	*70*	-
Transfer between Stage 2 and Stage 3, net	-	*(160)*	*160*	-
Changes in the fair value	(45)	(107)	(20)	(172)
As at 31 December 2020	203,706	6,691	95	210,492

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	878	47	362	1,287
Addition/(Reversal), net	34	(47)	(2)	(15)
Written-offs and disposals	–	–	(368)	(368)
Transfers:	(84)	64	20	-
Transfer between Stage 1 and Stage 2, net	*(64)*	*64*	-	-
Transfer between Stage 1 and Stage 3, net	*(20)*	-	*20*	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Remeasurement	109	(16)	80	173
Exchange and other differences	–	–	(4)	(4)
As at 31 December 2021	937	48	88	1,073

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22 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

22.3 Movements of gross carrying amount and ECL allowance *(Continued)*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	839	205	289	1,333
Addition/(Reversal), net	(10)	(121)	(32)	(163)
Written-offs and disposals	–	–	(34)	(34)
Transfers:	(114)	(42)	156	-
Transfer between Stage 1 and Stage 2, net	*(75)*	*75*	-	-
Transfer between Stage 1 and Stage 3, net	*(39)*	-	*39*	-
Transfer between Stage 2 and Stage 3, net	-	*(117)*	*117*	-
Remeasurement	163	5	(17)	151
As at 31 December 2020	878	47	362	1,287

22.4 Overdue loans analysed by security type

	As at 31 December 2021				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**10,351**	**10,096**	**5,215**	**1,035**	**26,697**
Guaranteed loans	**3,315**	**7,693**	**6,853**	**2,364**	**20,225**
Collateralised and other secured loans	**9,498**	**11,644**	**15,096**	**4,002**	**40,240**
Including: Loans secured by collateral	***7,729***	***8,925***	***12,324***	***3,419***	***32,397***
Pledged loans	***1,769***	***2,719***	***2,772***	***583***	***7,843***
Total	**23,164**	**29,433**	**27,164**	**7,401**	**87,162**

	As at 31 December 2020				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	8,850	13,686	694	217	23,447
Guaranteed loans	5,867	8,904	12,222	1,415	28,408
Collateralised and other secured loans	10,763	11,555	13,000	3,030	38,348
Including: Loans secured by collateral	*8,640*	*9,825*	*10,661*	*2,856*	*31,982*
Pledged loans	*2,123*	*1,730*	*2,339*	*174*	*6,366*
Total	25,480	34,145	25,916	4,662	90,203

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23 FINANCIAL INVESTMENTS

	As at 31 December 2021	As at 31 December 2020
Financial investments at amortised cost		
– Listed in Hong Kong	13,474	7,743
– Listed outside Hong Kong	2,044,176	1,864,919
– Unlisted	120,387	121,740
Accrued interest	27,958	28,177
Less: Allowance for impairment losses	(2,958)	(3,050)
Total	2,203,037	2,019,529
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	168,690	161,286
– Listed outside Hong Kong	417,119	435,675
– Unlisted	73,382	120,306
Accrued interest	6,276	6,606
Subtotal	665,467	723,873
Equity investments at FVOCI		
– Listed in Hong Kong	3,238	158
– Listed outside Hong Kong	5,755	3,473
– Unlisted	7,269	7,716
Subtotal	16,262	11,347
Total	681,729	735,220

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

For the year ended 31 December 2021, the Group's cash dividends received from equity investments at FVOCI was RMB615 million (for the year ended 31 December 2020: RMB49 million).

Debt securities analysed by issuer are as follows:

	As at 31 December 2021	As at 31 December 2020
Bond investments at amortised cost		
– Governments and central banks	1,922,479	1,710,428
– Banks and other financial institutions	117,156	148,404
– Corporate entities	47,035	29,983
– Public sector entities	21,201	21,979
Total	2,107,871	1,910,794
Debt investments at FVOCI		
– Governments and central banks	304,365	340,723
– Banks and other financial institutions	254,601	304,690
– Corporate entities	101,931	75,084
– Public sector entities	4,570	3,376
Total	665,467	723,873

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23 FINANCIAL INVESTMENTS *(Continued)*

The movements in the gross carrying amount of financial investments at amortised cost are summarised as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	2,013,336	8,449	794	2,022,579
New financial assets originated or purchased	529,086	1,219	2,481	532,786
Financial assets derecognised during the year	(344,577)	(1,844)	(2,025)	(348,446)
Transfers:	1,550	(3,575)	2,025	–
Transfer between Stage 1 and Stage 2, net	*1,550*	*(1,550)*	-	-
Transfer between Stage 1 and Stage 3, net	-	-	-	-
Transfer between Stage 2 and Stage 3, net	-	*(2,025)*	*2,025*	-
Changes in accrual interest	(222)	(12)	14	(220)
Exchange differences	(704)	–	–	(704)
As at 31 December 2021	2,198,469	4,237	3,289	2,205,995

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	1,930,072	1,497	1,383	1,932,952
New financial assets originated or purchased	408,635	–	–	408,635
Financial assets derecognised during the year	(317,005)	(5)	(615)	(317,625)
Transfers:	(6,956)	6,956	–	–
Transfer between Stage 1 and Stage 2, net	*(6,956)*	*6,956*	-	-
Transfer between Stage 1 and Stage 3, net	-	-	-	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Changes in accrual interest	(414)	1	26	(387)
Exchange differences	(996)	–	–	(996)
As at 31 December 2020	2,013,336	8,449	794	2,022,579

The movements in the gross carrying amount of debt investments at FVOCI are summarised as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	723,523	278	72	723,873
New financial assets originated or purchased	362,679	–	–	362,679
Financial assets derecognised during the year	(411,717)	(553)	(39)	(412,309)
Transfers:	(4,006)	4,006	–	–
Transfer between Stage 1 and Stage 2, net	*(4,006)*	*4,006*	-	-
Transfer between Stage 1 and Stage 3, net	-	-	-	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Changes in accrual interest	(368)	41	(4)	(331)
Exchange differences	(6,694)	–	–	(6,694)
Changes in fair value	(1,751)	–	–	(1,751)
As at 31 December 2021	661,666	3,772	29	665,467

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

23 FINANCIAL INVESTMENTS *(Continued)*

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	660,711	–	–	660,711
New financial assets originated or purchased	429,354	–	–	429,354
Financial assets derecognised during the year	(356,820)	–	–	(356,820)
Transfers:	(350)	278	72	–
Transfer between Stage 1 and Stage 2, net	*(278)*	*278*	-	-
Transfer between Stage 1 and Stage 3, net	*(72)*	-	*72*	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Changes in accrual interest	147	–	–	147
Exchange differences	(10,513)	–	–	(10,513)
Changes in fair value	994	–	–	994
As at 31 December 2020	723,523	278	72	723,873

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2021	**1,844**	**682**	**524**	**3,050**
Addition/(Reversal), net	**45**	**19**	**91**	**155**
Transfer out	**–**	**258**	**(223)**	**35**
Written-offs	**–**	**–**	**–**	**–**
Recovery after written-offs	**–**	**–**	**–**	**–**
Transfers:	**274**	**(673)**	**399**	**–**
Transfer between Stage 1 and Stage 2, net	***274***	***(274)***	-	-
Transfer between Stage 1 and Stage 3, net	-	-	-	-
Transfer between Stage 2 and Stage 3, net	-	***(399)***	***399***	-
Remeasurement	**(465)**	**85**	**101**	**(279)**
Exchange differences	**(3)**	**–**	**–**	**(3)**
As at 31 December 2021	**1,695**	**371**	**892**	**2,958**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	2,455	178	630	3,263
Addition/(Reversal), net	(602)	–	(26)	(628)
Transfer out	–	–	(83)	(83)
Written-offs	–	–	–	–
Recovery after written-offs	–	–	–	–
Transfers:	(191)	191	–	–
Transfer between Stage 1 and Stage 2, net	*(191)*	*191*	-	-
Transfer between Stage 1 and Stage 3, net	-	-	-	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Remeasurement	183	313	3	499
Exchange differences	(1)	–	–	(1)
As at 31 December 2020	1,844	682	524	3,050

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23 FINANCIAL INVESTMENTS *(Continued)*

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	**670**	**11**	**563**	**1,244**
Addition/(Reversal), net	(4)	–	–	(4)
Transfer out	–	(11)	(116)	(127)
Written-offs	–	–	–	–
Recovery after written-offs	–	–	–	–
Transfers:	(9)	9	–	–
Transfer between Stage 1 and Stage 2, net	*(9)*	*9*	-	-
Transfer between Stage 1 and Stage 3, net	-	-	-	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Remeasurement	(111)	1	27	(83)
Exchange differences	9	–	(18)	(9)
As at 31 December 2021	**555**	**10**	**456**	**1,021**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	660	–	393	1,053
Addition/(Reversal), net	84	–	–	84
Transfer out	–	–	(27)	(27)
Written-offs	–	–	–	–
Recovery after written-offs	–	–	–	–
Transfers:	(28)	3	25	–
Transfer between Stage 1 and Stage 2, net	*(3)*	*3*	-	-
Transfer between Stage 1 and Stage 3, net	*(25)*	-	*25*	-
Transfer between Stage 2 and Stage 3, net	-	-	-	-
Remeasurement	31	8	193	232
Exchange differences	(77)	–	(21)	(98)
As at 31 December 2020	670	11	563	1,244

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

24 PRINCIPAL SUBSIDIARIES

24.1 Details of the principal subsidiaries

Name of subsidiaries	Legal representative/ Principal	Registered capital	Nature of entity	Place of operation	Place of registration	Nature of business	Principal business	Proportion of shares held		Means of acquisition
								Direct	Indirect	
Bank of Communications Financial Leasing Co., Ltd.	Zhao Jiong	RMB14,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial leasing	100.00	–	Establishment
Bank of Communications International Trust Co., Ltd.	Tong Xuewei	RMB5,764,705,882	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Trust investment	85.00	–	Investment
Bank of Communications Schroder Fund Management Co., Ltd.	Ruan Hong	RMB200,000,000	Limited liability company	No. 8 Century Avenue, Pudong New District, Shanghai	Mainland China	Financial industry	Fund management	65.00	–	Establishment
BOCOM MSIG Life Insurance Company Limited	Zhang Hongliang	RMB5,100,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Life Insurance	62.50	–	Investment
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Tan Yueheng	HKD2,734,392,000	Foreign legal entity	No. 68 Des Voeux Road Central, Central, Hong Kong	Hong Kong China	Financial industry	Securities dealing and brokerage	73.14	–	Establishment
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	FENG WANG	HKD400,000,000	Foreign legal entity	No. 8 Cotton Tree Drive, Central, Hong Kong	Hong Kong China	Financial industry	General insurance and reinsurance	100.00	–	Establishment
Dayi BoCom Xingmin Rural Bank Ltd.	Sun Jian	RMB230,000,000	Limited liability company	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province	Mainland China	Financial industry	Commercial banking	97.29	–	Establishment
Zhejiang Anji BoCom Rural Bank Ltd.	Xu Tong	RMB180,000,000	Joint stock company	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province	Mainland China	Financial industry	Commercial banking	51.00	–	Establishment
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Yang Xiaohui	RMB150,000,000	Joint stock company	No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region	Mainland China	Financial industry	Commercial banking	51.00	–	Establishment
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Sheng Liang	RMB150,000,000	Joint stock company	Room 101, Building 1, No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong	Mainland China	Financial industry	Commercial banking	51.00	–	Establishment
Bank of Communications (Luxemburg) Limited	Zhang Shuren	EUR350,000,000	Foreign legal entity	7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg	Luxembourg	Financial industry	Commercial banking	100.00	–	Establishment
Bank of Communications Financial Assets Investment Co., Ltd.	Zheng Zhiyang	RMB10,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Debt-to-equity swaps	100.00	–	Establishment
Bank of Communications (Hong Kong) Limited	Wu Ye	HKD37,900,000,000	Foreign legal entity	20 Pedder Street, Central, Hong Kong	Hong Kong China	Financial industry	Commercial banking	100.00	–	Establishment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

24 PRINCIPAL SUBSIDIARIES *(Continued)*

24.1 Details of the principal subsidiaries *(Continued)*

Name of subsidiaries	Legal representative/ Principal	Registered capital	Nature of entity	Place of operation	Place of registration	Nature of business	Principal business	Proportion of shares held		Means of acquisition
								Direct	Indirect	
BOCOM Wealth Management Co., Ltd.	Tu Hong	RMB8,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial products issuing and financial consulting	100.00	–	Establishment
Bocom Brazil Holding Company Ltda	Sun Xu	BRL533,377,877	Foreign legal entity	Rua Voluntários daPátria, 89 – 1st floor – room 103 and 104, Botafogo, Rio de Janeiro, Brazil	Brazil	Non-financial industry	Investment	100.00	–	Establishment
BANCO BoCom BBM S.A.	Alexandre Lowenkron	BRL313,686,111	Foreign legal entity	Av Barão de Tefé, 34-20th, Rio de Janeiro, Brazil, 20220-460	Brazil	Financial industry	Commercial banking	–	80.00	Investment

As at 31 December 2021, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

24.2 Auditors of subsidiaries

For the year ended 31 December 2021, PricewaterhouseCoopers Limited was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2020: PricewaterhouseCoopers).

For the year ended 31 December 2021, PricewaterhouseCoopers ZhongTian LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2020: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2021, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2020: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2021, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP(for the year ended 31 December 2020: PricewaterhouseCoopers LLP).

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 31 December 2021	As at 31 December 2020
Investments in associates		
Investment cost	**4,062**	3,312
Share of net profit of associates for the year	**1,599**	1,328
Share of other equity changes of associates for the year	**93**	77
Dividend income	**(204)**	(147)
Subtotal	**5,550**	4,570
Investments in joint ventures	**229**	111
Total	**5,779**	4,681

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

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(Continued)*

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2021 (31 December 2020: 9.01%).

There are 14 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2021 (31 December 2020: 10.60%).

There are 11 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

26 PROPERTY AND EQUIPMENT

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Property improvement	Total
Cost						
As at 1 January 2021	62,743	3,369	26,655	136,705	9,654	239,126
Additions	36	1,351	3,486	16,758	200	21,831
Disposals	(422)	–	(2,687)	(9,596)	(150)	(12,855)
Construction in progress transfer in/(out)	1,334	(1,727)	–	–	393	–
Transfer in from investment properties	899	–	–	–	–	899
Transfer into investment properties	–	–	–	–	–	–
Other transfers out	–	(30)	–	–	–	(30)
As at 31 December 2021	64,590	2,963	27,454	143,867	10,097	248,971
Accumulated depreciation						
As at 1 January 2021	(20,459)	–	(20,679)	(21,241)	(6,485)	(68,864)
Charge for the year	(2,007)	–	(2,242)	(6,738)	(731)	(11,718)
Disposals	183	–	2,592	2,430	104	5,309
Transfer into investment properties	–	–	–	–	–	–
As at 31 December 2021	(22,283)	–	(20,329)	(25,549)	(7,112)	(75,273)
Allowance for impairment losses						
As at 1 January 2021	–	(16)	–	(775)	–	(791)
Provision for impairment	–	–	–	(1,981)	–	(1,981)
Decrease	–	–	–	268	–	268
As at 31 December 2021	–	(16)	–	(2,488)	–	(2,504)
Net book value						
As at 31 December 2021	42,307	2,947	7,125	115,830	2,985	171,194

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26 PROPERTY AND EQUIPMENT *(Continued)*

As at 31 December 2021, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB57,988 million (31 December 2020: RMB58,496 million).

As at 31 December 2021, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2020: RMB198 million). However, this registration process does not affect the rights of the Bank to these assets.

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Property improvement	Total
Cost						
As at 1 January 2020	61,764	2,625	26,034	133,756	9,378	233,557
Additions	70	1,870	2,822	18,424	98	23,284
Disposals	(293)	–	(2,201)	(15,475)	(156)	(18,125)
Construction in progress transfer in/(out)	616	(950)	–	–	334	–
Transfer in from investment properties	589	–	–	–	–	589
Transfer into investment properties	(3)	–	–	–	–	(3)
Other transfers out	–	(176)	–	–	–	(176)
As at 31 December 2020	62,743	3,369	26,655	136,705	9,654	239,126
Accumulated depreciation						
As at 1 January 2020	(18,678)	–	(20,644)	(16,876)	(5,824)	(62,022)
Charge for the year	(1,982)	–	(2,027)	(6,882)	(783)	(11,674)
Disposals	200	–	1,992	2,517	122	4,831
Transfer into investment properties	1	–	–	–	–	1
As at 31 December 2020	(20,459)	–	(20,679)	(21,241)	(6,485)	(68,864)
Allowance for impairment losses						
As at 1 January 2020	–	(16)	–	(340)	–	(356)
Provision for impairment	–	–	–	(485)	–	(485)
Decrease	–	–	–	50	–	50
As at 31 December 2020	–	(16)	–	(775)	–	(791)
Net book value						
As at 31 December 2020	42,284	3,353	5,976	114,689	3,169	169,471

27 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2021 (for the year ended 31 December 2020: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2020: 16.5%).

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

27 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2021		As at 31 December 2020	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Changes in fair value of financial assets at FVOCI	(6,240)	(1,560)	(6,272)	(1,568)
Changes in fair value of financial assets and liabilities at FVPL	(3,464)	(866)	(3,724)	(931)
Changes in fair value of derivative instruments	(39,220)	(9,667)	(54,212)	(13,648)
Changes in fair value of investment properties	(3,020)	(755)	(2,836)	(709)
Others	(6,764)	(1,691)	(3,014)	(754)
	(58,708)	(14,539)	(70,058)	(17,610)
Deferred income tax assets				
Allowance for impairment of assets	119,972	29,993	101,480	25,370
Provisions	9,672	2,418	8,672	2,168
Changes in fair value of financial assets at FVOCI	5,132	1,283	4,292	1,073
Changes in fair value of derivative instruments	36,074	9,250	55,942	13,740
Others	7,067	1,767	7,885	1,964
	177,917	44,711	178,271	44,315
Net deferred income tax assets	119,209	30,172	108,213	26,705

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 31 December 2021	As at 31 December 2020
Deferred income tax assets	32,061	27,991
Deferred income tax liabilities	(1,889)	(1,286)

	As at 31 December 2021	As at 31 December 2020
Net opening balance	26,705	23,147
Including: Deferred income tax assets	44,315	33,452
Deferred income tax liabilities	(17,610)	(10,305)
Net change in deferred income tax recognised in income tax expense in the current period/ year	3,863	2,599
Net changes in deferred income tax recognised in other comprehensive income in the current period/year	(396)	959
Net ending balance	30,172	26,705
Including: Deferred income tax assets	44,711	44,315
Deferred income tax liabilities	(14,539)	(17,610)

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28 OTHER ASSETS

	As at 31 December 2021	As at 31 December 2020
Accounts receivable and temporary payments	66,062	44,950
Less: Allowance for impairment losses (a)	(3,265)	(2,764)
Advance payments	16,328	11,865
Investment properties (b)	6,340	7,353
Right-of-use assets (c)	6,777	6,669
Precious metal	4,878	10,631
Interest receivable [(1)]	4,250	3,784
Land use rights and others	2,077	2,057
Intangible assets (d)	1,797	1,550
Long-term deferred expenses	721	599
Foreclosed assets	1,030	967
Goodwill (e)	395	401
Refundable deposits	458	466
Unsettled assets	31	33
Others	6,738	6,104
	114,617	94,665

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

(a) Allowance for impairment losses

	As at 1 January 2021	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2021
Other receivables and prepayments	(2,764)	(2,137)	1,020	1,111	(356)	(140)	1	(3,265)

	As at 1 January 2020	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2020
Other receivables and prepayments	(2,717)	(1,972)	1,117	929	–	(107)	(14)	(2,764)

(b) Investment properties

	As at 1 January 2021	Increases/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2021
Investment properties	7,353	(899)	183	(297)	6,340

	As at 1 January 2020	Increases/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2020
Investment properties	7,894	(577)	180	(144)	7,353

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

28 OTHER ASSETS *(Continued)*

(b) Investment properties *(Continued)*

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2021, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	As at 31 December 2021
Commercial property units located in Hong Kong	–	–	770	**770**
Commercial property units located outside Hong Kong	–	–	5,570	**5,570**

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(c) Right-of-use assets

	As at 31 December 2021	As at 31 December 2020
Cost		
Opening balance	**13,693**	13,513
Additions	**2,946**	3,030
Decreases	**(2,659)**	(2,850)
As at the end of the year	**13,980**	13,693
Accumulated depreciation:		
Opening balance	**(7,024)**	(6,992)
Additions	**(2,416)**	(2,445)
Decreases	**2,237**	2,413
As at the end of the year	**(7,203)**	(7,024)
Net book value	**6,777**	6,669
Lease liabilities	**6,640**	6,532

As at 31 December 2021, committed by leases but not yet commenced amount to RMB158 million (as at 31 December 2020: RMB136 million).

The Group's right-of-use assets include the above assets and land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
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28 OTHER ASSETS *(Continued)*

(d) Intangible assets

	Software
Cost	
As at 1 January 2021	3,888
Additions	633
Transfers in	–
Disposals	(17)
As at 31 December 2021	4,504
Accumulated amortisation	
As at 1 January 2021	(2,338)
Amortisation expense	(376)
Transfers in	–
Disposals	7
As at 31 December 2021	(2,707)
Net book value	1,797

	Software
Cost	
As at 1 January 2020	3,386
Additions	522
Transfers in	–
Disposals	(20)
As at 31 December 2020	3,888
Accumulated amortisation	
As at 1 January 2020	(2,018)
Amortisation expense	(326)
Transfers in	–
Disposals	6
As at 31 December 2020	(2,338)
Net book value	1,550

(e) Goodwill

	As at 1 January 2021	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2021
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A.	79	–	–	(6)	73
Total	401	–	–	(6)	395

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

28 OTHER ASSETS *(Continued)*

(e) Goodwill *(Continued)*

	As at 1 January 2020	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2020
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A.	108	–	–	(29)	79
Total	430	–	–	(29)	401

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

29 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2021	As at 31 December 2020
Borrowing from central banks	334,794	472,460
Accrued interest	4,564	6,285
Due to banks		
– Banks operating in Mainland China	242,492	200,025
– Banks operating outside Mainland China	11,871	28,084
Due to other financial institutions		
– Other financial institutions operating in Mainland China	831,784	664,299
– Other financial institutions operating outside Mainland China	6,810	9,548
Accrued interest	3,683	3,002
Placements from banks		
– Banks operating in Mainland China	284,232	164,583
– Banks operating outside Mainland China	170,980	153,341
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	2,364	2,500
– Other financial institutions operating outside Mainland China	8,583	9,124
Accrued interest	860	1,019
Financial assets sold under repurchase agreements		
Securities		
– Governments	9,782	9,706
– Policy banks	801	3,283
– Financial institutions	32,411	25,515
– Corporates	1,716	9,312
Bills	–	25,363
Accrued interest	41	42
Total	1,947,768	1,787,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2021	As at 31 December 2020
Short position of securities held for trading	134	–
Certificates of deposit issued	1,400	7,868
Financial liabilities related to precious metal contracts	15,247	16,104
Notes issued	1,385	417
Others(a)	31,882	4,890
Total	50,048	29,279

(a) As at 31 December 2021, others mainly are liabilities of consolidated structured entities and shares held by other parties rather than the Group.

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited, and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities designated at fair value through profit or loss

	As at 31 December 2021	As at 31 December 2020
Difference between carrying amount and maturity amount		
Fair values	34,667	13,175
Amount payable at maturity	34,709	12,962
	(42)	213

For the year ended 31 December 2021 and the year ended 31 December 2020, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

31 DUE TO CUSTOMERS

	As at 31 December 2021	As at 31 December 2020
Corporate demand deposits	2,061,672	2,005,934
Corporate time deposits	2,488,348	2,335,590
Personal demand deposits	850,831	812,534
Personal time deposits	1,551,981	1,379,697
Other deposits	3,359	5,499
Due to customers	6,956,191	6,539,254
Accrued interest	83,586	68,076
Total	7,039,777	6,607,330
Including:		
Deposits pledged as collateral	220,878	229,546

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

32 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London and Luxembourg, Bank of Communications (Luxemburg) Limited, Bank of Communications (Hong Kong) Limited and BANCO Bocom BBM S.A., which were measured at amortised cost.

33 DEBT SECURITIES ISSUED

		As at 31 December 2021	As at 31 December 2020
Carried at amortised cost:			
Subordinated bonds			
The Bank	33.1	–	25,950
Subsidiaries	33.1	4,800	–
Tier-2 capital bonds			
The Bank	33.2	139,971	113,945
Subsidiaries	33.2	8,371	1,995
Bonds			
The Bank	33.3	256,571	251,580
Subsidiaries	33.3	75,501	85,767
Accrued interest		6,158	5,145
Subtotal		491,372	484,382
Carried at fair value:			
Bonds			
The Bank	33.3	12,153	13,373
Total		503,525	497,755

Note: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding derivative assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2021 and the year ended 31 December 2020, there were no significant changes that were attributable to the Group's changes in credit risks.

33.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(a)	–	25,950
Subtotal								–	25,950
Subsidiary									
21 Insurance 01	RMB	Mainland China	4.30	3,000	2021/03/25	10 years	(b)	3,000	–
21 Insurance 02	RMB	Mainland China	3.93	1,800	2021/07/27	10 years	(c)	1,800	–
Subtotal								4,800	–
Total								4,800	25,950

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

33 DEBT SECURITIES ISSUED *(Continued)*

33.1 Subordinated bonds *(Continued)*

(a) The Group has redeemed full face value of 11 BoComm 01 by exercising redemption option on 24 October 2021.

(b) BOCOM MSIG Life Insurance Company Limited has an option to redeem 21 Insurance 01 at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.

(c) BOCOM MSIG Life Insurance Company Limited has an option to redeem 21 Insurance 02 at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.

33.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
The Bank									
14 BoComm 01-Euro	EUR	Hong Kong China	3.625	500	2014/10/03	12 years	(a)	–	3,984
17 BoComm	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(b)	29,978	29,973
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(c)	29,998	29,993
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(d)	9,999	9,999
20 BoComm	RMB	Mainland China	3.24	40,000	2020/05/19	10 years	(e)	39,996	39,996
21 BoComm	RMB	Mainland China	3.65	30,000	2021/09/23	10 years	(f)	30,000	–
Subtotal								139,971	113,945
Subsidiaries									
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(g)	1,996	1,995
21 BoComm Hong Kong	USD	Hong Kong China	2.304	1,000	2021/07/08	10 years	(h)	6,375	–
Subtotal								8,371	1,995
Total								148,342	115,940

(a) The Group has redeemed full face value of 14 BoComm 01-Euro by exercising redemption option on 3 October 2021.

(b) The Group has an option to redeem 17 BoComm at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(c) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(d) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

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

33 DEBT SECURITIES ISSUED *(Continued)*

33.2 Tier 2 capital bonds *(Continued)*

(e) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(f) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 27 September 2026, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(g) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(h) The Group has an option to redeem 21 BoComm Hong Kong as a whole on on 8 July 2026. If the issuer does not exercise the redemption right by 8 July 2026, the interest rate will be readjusted based on the 5-year U.S. Treasury rate plus 140 basis points initial rate differential.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

33.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
The Bank								
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	–	20,000
18 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/28	3 years	–	10,000
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/25	3 years	50,000	50,000
19 Bocomm 02	RMB	Mainland China	3.35	40,000	2019/12/11	3 years	40,000	40,000
20 Bocomm 01	RMB	Mainland China	3.18	50,000	2020/08/05	3 years	50,000	50,000
20 Bocomm 02	RMB	Mainland China	3.50	40,000	2020/11/11	3 years	40,000	40,000
21 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.40	40,000	2021/04/06	3 years	40,000	–
14 Formosa Bond C	RMB	Taiwan China	4.15	500	2014/06/23	7 years	–	500
17 medium-term notes 02	USD	Hong Kong China	3MLibor+0.88	300	2017/05/15	5 years	1,912	1,957
17 medium-term notes 04	USD	Hong Kong China	3MLibor+0.90	600	2017/12/04	5 years	3,825	3,915
18 medium-term notes 01	USD	Hong Kong China	3MLibor+0.75	600	2018/05/17	3 years	–	3,915
18 medium-term notes 02	USD	Hong Kong China	3MLibor+0.85	700	2018/05/17	5 years	4,462	4,567
20 Hong Kong medium-term notes 01	HKD	Hong Kong China	2.25	2,800	2020/01/22	2 years	2,289	2,357
20 Hong Kong medium-term notes 02	USD	Hong Kong China	3MLibor+0.58	1,300	2020/01/22	3 years	8,287	8,482
20 Hong Kong medium-term notes 04	USD	Hong Kong China	3MLibor+0.75	100	2020/06/05	3 years	637	651
20 Hong Kong medium-term notes 05	USD	Hong Kong China	3MLibor+0.8	650	2020/07/20	3 years	4,143	4,241
20 Hong Kong medium-term notes 06	USD	Hong Kong China	3MLibor+0.9	400	2020/07/20	5 years	2,550	2,610
20 Hong Kong medium-term notes 07	USD	Hong Kong China	1.20	800	2020/09/10	5 years	5,084	5,199
20 Hong Kong medium-term notes 08	USD	Hong Kong China	3MLibor+0.8	350	2020/09/10	3 years	2,231	2,284
21 Macau PA-medium-term notes	MOP	Macau China	0.85	1,200	2021/12/15	2 years	951	–

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33 DEBT SECURITIES ISSUED *(Continued)*

33.3 Bonds *(Continued)*

Detailed information of bonds held at amortised cost is as follows: *(Continued)*

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
P14JHTP1C	RMB	Taiwan China	3.90	700	2014/12/04	7 years	–	702
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	200	200
Subtotal							256,571	251,580
Subsidiaries								
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,187	3,260
5 Year USD bond	USD	Hong Kong China	2.625	600	2016/03/15	5 years	–	3,914
3 Year USD bond	USD	Hong Kong China	3.50	300	2018/01/25	3 years	–	1,957
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,047	6,179
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,580	1,614
19 Brazil bonds	BRL	Brazil	110%SELIC	200	2019/01/30	5 years	46	48
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	–	449
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	–	3,998
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	–	3,997
19 Leasing 01	RMB	Mainland China	3.68	5,000	2019/05/20	3 years	4,998	4,994
19 Leasing 02	RMB	Mainland China	3.65	5,000	2019/07/08	3 years	4,998	4,994
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/22	3 years	3,498	3,495
20 Leasing 01	RMB	Mainland China	3.65	3,000	2020/11/05	3 years	2,996	2,915
21 Leasing 01	RMB	Mainland China	3.62	4,000	2021/03/01	3 years	3,993	–
21 Leasing 02	RMB	Mainland China	3.45	3,000	2021/04/22	3 years	2,625	–
Azure Nova	USD	Hong Kong China	2.625	1,000	2016/10/25	5 years	–	6,514
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	6,692	6,843
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,589	1,626
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	3,693	3,726
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	2,766	2,713
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.20	120	2019/04/12	3 years	765	783
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.175	400	2019/09/05	5 years	1,129	1,319
19 USD medium-term notes 05	USD	Hong Kong China	2.625	200	2019/09/05	5 years	723	767
19 USD medium-term notes 06	USD	Hong Kong China	3MLibor+1.05	180	2019/10/25	3 years	1,148	1,174
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.075	600	2019/12/10	5 years	1,585	1,773
20 USD medium-term notes 01	USD	Hong Kong China	3MLibor+0.95	500	2020/03/02	5 years	1,710	2,021
20 USD medium-term notes 02	USD	Hong Kong China	3MLibor+0.83	300	2020/03/02	3 years	1,492	1,602
20 USD medium-term notes 03	USD	Hong Kong China	1.750	350	2020/07/08	3 years	1,515	1,650
20 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.70	450	2020/07/08	5 years	1,348	1,457
21 USD medium-term notes 01	USD	Hong Kong China	1.125	500	2021/06/16	3 years	1,865	–
21 USD medium-term notes 02	USD	Hong Kong China	1.07	100	2021/09/27	3 years	634	–
21 Bocomm International 01	USD	Hong Kong China	1.75	500	2021/06/22	5 years	2,890	–
20 Financial Investing 01	RMB	Mainland China	2.70	3,000	2020/03/11	3 years	2,999	2,997
20 Financial Investing 02	RMB	Mainland China	2.80	7,000	2020/03/11	5 years	6,990	6,988
Subtotal							75,501	85,767
Total							332,072	337,347

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

33 DEBT SECURITIES ISSUED *(Continued)*

33.3 Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Fair value at the end of the period	Fair value at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong China	4.00	500	2014/02/14	7 years	–	428
19 Hong Kong RMB medium-term notes	RMB	Hong Kong China	3.40	2,500	2019/03/21	2 years	–	2,526
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,027	3,157
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	800	2019/03/21	3 years	5,106	5,226
20 Hong Kong medium-term notes 03	RMB	Hong Kong China	3.15	2,000	2020/01/22	2 years	2,034	2,036
21 Hong Kong medium-term notes 01	HKD	Hong Kong China	0.95	1,200	2021/12/13	2 years	980	–
21 Hong Kong medium-term notes 02	RMB	Hong Kong China	3.15	1,000	2021/12/13	3 years	1,006	–
Total							12,153	13,373

34 OTHER LIABILITIES

	As at 31 December 2021	As at 31 December 2020
Insurance liabilities	74,493	58,842
Clearing and settlement	24,056	31,482
Temporary receipts	16,015	23,212
Staff compensation payable	14,401	11,591
Deposits received for finance lease	6,842	6,893
Lease liabilities	6,640	6,532
Provision for outstanding litigations (a)	472	1,032
Expected credit impairment allowance of credit related commitments and financial guarantees (b)	9,242	10,500
VAT and other taxes payable	5,639	4,208
Special purpose funding	2,108	2,571
Dividends payable	81	124
Others	52,706	44,835
Total	212,695	201,822

(a) Movements in the provision for outstanding litigations

	As at 1 January 2021	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2021
Provision for outstanding litigations	1,032	99	(361)	(298)	–	472

	As at 1 January 2020	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2020
Provision for outstanding litigations	1,029	120	(29)	(88)	–	1,032

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34 OTHER LIABILITIES *(Continued)*

(b) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	**6,858**	**3,642**	**–**	**10,500**
Addition	**1,200**	**(65)**	**–**	**1,135**
Transfer out	**–**	**(3,244)**	**–**	**(3,244)**
Transfers:	**(37)**	**37**	**–**	**–**
Transfer between Stage 1 and Stage 2, net	***(37)***	***37***	-	-
Remeasurement	**725**	**138**	**–**	**863**
Exchange differences	**(10)**	**(2)**	**–**	**(12)**
As at 31 December 2021	**8,736**	**506**	**–**	**9,242**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	5,358	974	–	6,332
Addition	1,443	2,261	–	3,704
Transfer out	(35)	(651)	–	(686)
Transfers:	(928)	928	–	–
Transfer between Stage 1 and Stage 2, net	*(928)*	*928*	-	-
Remeasurement	1,037	133	–	1,170
Exchange differences	(17)	(3)	–	(20)
As at 31 December 2020	6,858	3,642	–	10,500

35 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2021	**74,263**	**74,263**	**111,428**
As at 31 December 2021	**74,263**	**74,263**	**111,428**

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2020	74,263	74,263	113,663
As at 31 December 2020	74,263	74,263	111,428

As at 31 December 2021 and 31 December 2020, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

35 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2021 and 31 December 2020, the Group's capital surplus is listed as follows:

	As at 1 January 2021	Additions	Reductions	**As at 31 December 2021**
Share premium	110,770	–	–	**110,770**
Other capital reserve	658	–	–	**658**
Total	111,428	–	–	**111,428**

	As at 1 January 2020	Additions	Reductions	As at 31 December 2020
Share premium	113,005	–	(2,235)	110,770
Other capital reserve	658	–	–	658
Total	113,663	–	(2,235)	111,428

36 OTHER EQUITY INSTRUMENTS

36.1 Preference shares

36.1.1 Preference shares outstanding at the end of the period

Domestic preference shares	Issue date	Accounting classification	Dividend rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Preference shares in RMB	2 September 2016	Equity	4.07	RMB100/ share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the period
					Total		45,000			
					Less: Issuance fees		(48)			
					Carrying amount		44,952			

36.1.2 Movements of preference shares issued

		Movements		
	As at 1 January 2021	Additions	Decreases	**As at 31 December 2021**
Domestic reference shares				
Amount (shares)	450,000,000	–	–	**450,000,000**
In RMB(millions)	44,952	–	–	**44,952**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.1 Preference shares *(Continued)*

36.1.3Main clauses

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

With effect from 7 September 2021, the Bank has adjusted the dividend rate for the second dividend rate adjustment period to 4.07%.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.1 Preference shares *(Continued)*

36.1.3 Main clauses *(Continued)*

Domestic preference shares (Continued)

(d) Order of distribution and liquidation method *(Continued)*

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

36.2 Perpetual bonds

36.2.1 Perpetual bonds outstanding at the end of the period

	Issue date	Accounting classification	Original interest rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
19 BoComm perpetual bonds(1)	20 September 2019	Equity	4.20	RMB100/ bond	400,000,000	40,000	40,000	No fixed maturity date
20 BoComm perpetual bonds(2)	25 September 2020	Equity	4.59	RMB100/ bond	300,000,000	30,000	30,000	No fixed maturity date
21 BoComm perpetual bonds(2)	10 June 2021	Equity	4.06	RMB100/ bond	415,000,000	41,500	41,500	No fixed maturity date
Perpetual bonds in USD(3)	18 November 2020	Equity	3.80	USD 200,000/ bond	14,000	2,800	18,366	No fixed maturity date
					Total		129,866	
					Less: Issuance fees		(28)	
					Carrying amount		129,838	

36.2.2 Main clauses

(1) With the approvals by relevant regulatory authorities, the Bank issued RMB40.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the issuance was completed on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

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36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.2 Perpetual bonds *(Continued)*

36.2.2 Main clauses *(Continued)*

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

(2) With the approvals by relevant regulatory authorities, the Bank issued RMB30.0 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the issuance was completed on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

With the approvals by relevant regulatory authorities, the Bank issued RMB41.5 billion undated capital bonds in China's National Inter-Bank Bond Market on 8 June 2021, and the issuance was completed on 10 June 2021. The denomination of the Bonds is RMB100 each and coupon rate of 4.06%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.2 Perpetual bonds *(Continued)*

36.2.2 Main clauses *(Continued)*

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

(3) With the approvals by relevant regulatory authorities, the Bank has completed the issuance of the USD2.8 billion undated capital bonds in the offshore market on 18 November 2020. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds.Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

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36 OTHER EQUITY INSTRUMENTS *(Continued)*

36.3 Interests attributable to holders of other equity instruments

	As at 31 December 2021	As at 31 December 2020
Total equity attributable to equity holders of the parent company	**964,647**	866,607
Equity attributable to ordinary shareholders of the parent company	**789,857**	733,315
Equity attributable to preference shareholders of the parent company	**44,952**	44,952
Equity attributable to perpetual bond holders of the parent company	**129,838**	88,340
Total equity attributable to non-controlling interests	**12,589**	12,021
Equity attributable to non-controlling interests of ordinary shares	**9,424**	8,763
Equity attributable to non-controlling interests of Non-cumulative Subordinated Additional Tier-1 Capital Securities (Note 39)	**3,165**	3,258

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the year ended 31 December 2021 are disclosed in Note 38.

37 OTHER RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval. The Bank appropriate RMB6,897 million to the statutory surplus upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021.

The Group	As at 1 January 2021	Appropriate	Decrease	As at 31 December 2021
Statutory reserve	72,431	7,536	–	**79,967**
Discretionary reserve	139,930	92	–	**140,022**
Total	212,361	7,628	–	**219,989**

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Bank's subsidiaries and overseas branches, if required by local regulation requirements, also need to make such general reserve. The 2020 Annual General Meeting of Shareholders, held on 29 June 2021, considered and adopted the 2020 profit distribution scheme, which stipulates as follows:

The Group	As at 1 January 2021	Appropriate	Decrease	As at 31 December 2021
Statutory general reserve	123,163	7,117	–	**130,280**

The Bank appropriated RMB6,432 million to the statutory general reserve upon approval from the 2020 Annual General Meeting of Shareholders held on 29 June 2021,of which the overseas branches of the Bank have appropriated RMB11 million to statutory general reserve according to the requirement of local regulatory authorities in the year ended 31 December 2020.

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

37 OTHER RESERVES AND RETAINED EARNINGS *(Continued)*

Revaluation reserve

The movements of revaluation reserve are set out below:

As at 31 December 2020	**456**
Changes in fair value recorded in equity	**2,526**
Changes in fair value recognised in profit or loss	**(1,160)**
Tax effects arising from components of other comprehensive income	**(347)**
Transferred from other comprehensive income	**56**
As at 31 December 2021	**1,531**
As at 31 December 2019	3,421
Changes in fair value recorded in equity	(2,452)
Changes in fair value recognised in profit or loss	(1,344)
Tax effects arising from components of other comprehensive income	858
Transferred from other comprehensive income	(27)
As at 31 December 2020	456

Retained earnings

The movements of retained earnings are set out below:

As at 1 January 2021	**214,448**
Profit for the year	**87,581**
Appropriation to statutory reserve	**(7,536)**
Appropriation to general reserve	**(7,117)**
Appropriation to discretionary reserve	**(92)**
Dividends payable to ordinary shareholders	**(23,541)**
Dividends payable to preference shareholders	**(1,755)**
Interest to perpetual bond holders of the Bank	**(3,858)**
Others	**(56)**
As at 31 December 2021	**258,074**
As at 1 January 2020	177,141
Profit for the year	78,274
Appropriation to statutory reserve	(7,534)
Appropriation to general reserve	(5,596)
Appropriation to discretionary reserve	(77)
Dividends payable to ordinary shareholders	(23,393)
Dividends payable to preference shareholders	(2,714)
Interest to perpetual bond holders of the Bank	(1,680)
Others	27
As at 31 December 2020	214,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
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38 DIVIDENDS

	Year ended 31 December	
	2021	2020
Dividends to ordinary shareholders of the Bank	23,541	23,393
Dividends to preference shareholders of the Bank	1,755	2,714
Interest to perpetual bond holders of the Bank	3,858	1,680

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Board meeting on 29 April 2021, the Bank will appropriate domestic preference dividends on 7 September 2021 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the approval by the Annual General Meeting of Shareholders on 29 June 2021, the Bank appropriated RMB6,432 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.317 (before tax) for each ordinary share, with total amount of RMB23,541 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2020, will be distributed to ordinary shareholders.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB801 million on 18 November 2021.

The Bank distributed the interest on the 2019 undated capital bonds amounting to RMB1,680 million on 20 September 2021.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB1,377 million on 25 September 2021.

On 25 March 2022, the Board of Directors of the Bank proposed to appropriate RMB7,522 million to the statutory reserve and RMB11,422 million to the statutory general reserve. A cash dividend of RMB0.355 (before tax) for each share, totalling RMB26,363 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2021 was also proposed. The proposal will be subject to the approval by the General Meeting of Shareholders.

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

39 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 31 December 2021, equity attributable to other equity instruments holders was RMB3,165 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

Issue Date	3 March 2020
Face Value	USD500 million
First Call Date	3 March 2025
Distribution Rate	(i) from the issue date to the first call date, 3.725% per annum (ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum
Frequency of distribution payments	Semi-annually

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier-1 Capital Securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB122 million during the year ended 31 December 2021.

40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

	As at 31 December 2021	As at 31 December 2020
Letters of guarantee	**373,630**	333,610
Letters of credit commitments	**194,724**	163,151
Acceptance bills	**368,120**	319,076
Credit card commitments	**908,358**	800,441
Loan commitments		
– Under 1 year	**3,936**	5,111
– 1 year and above	**57,657**	55,323
	1,906,425	1,676,712

Capital expenditure commitments

	As at 31 December 2021	As at 31 December 2020
Contracted but not provided for	**71,053**	62,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
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40 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 31 December 2021	As at 31 December 2020
Within 1 year (inclusive)	**13,186**	13,074
Beyond 1 year but no more than 2 years (inclusive)	**12,864**	12,622
Beyond 2 years but no more than 3 years (inclusive)	**12,269**	12,220
Beyond 3 years but no more than 5 years (inclusive)	**21,388**	22,062
More than 5 years	**38,879**	36,562
	98,586	96,540

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2021, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB78,594 million (31 December 2020: RMB81,548 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2021, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2020: Nil).

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 34. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

	As at 31 December 2021	As at 31 December 2020
Outstanding litigations	**4,096**	3,876
Provision for outstanding litigation (Note 34)	**472**	1,032

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

41 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 31 December 2021	As at 31 December 2020	**As at 31 December 2021**	As at 31 December 2020
Investment securities	**382,640**	520,254	**326,776**	456,210
Bills	**3,531**	28,854	**3,531**	28,854
Total	**386,171**	549,108	**330,307**	485,064

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

In addition, loans and advances to customers pledged as collateral for placements from banks by the Group as at 31 December 2021 amounted to RMB5,090 million in total (31 December 2020: RMB6,401 million).

(2) Collateral accepted

As part of the repurchase agreements, the Group has received securities that is allowed to sell or repledge in the absence of default by their owners. As at 31 December 2021, the Group had received securities with a fair value of RMB731 million on such terms(31 December 2020:Nil). As at 31 December 2021 and 31 December 2020, the Group did not sell or re-pledge any collaterals received.

42 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2021		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	43	(12)	31
Amount recognised in equity	*614*	*(155)*	*459*
Amount reclassified to profit or loss	*(571)*	*143*	*(428)*
Debt investments at FVOCI	2,925	(571)	2,354
Amount recognised in equity	*3,514*	*(718)*	*2,796*
Amount reclassified to profit or loss	*(589)*	*147*	*(442)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	516	(88)	428
Amount recognised in equity	*1,133*	*(242)*	*891*
Amount reclassified to profit or loss	*(617)*	*154*	*(463)*
Translation difference on foreign operations	(3,450)	–	(3,450)
Changes in fair value of equity investments designated at FVOCI	(1,830)	275	(1,555)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	(36)	–	(36)
Actuarial gains on pension benefits	55	–	55
Others	16	–	16
Other comprehensive income for the year	(1,761)	(396)	(2,157)

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42 OTHER COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December 2020		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	(218)	54	(164)
Amount recognised in equity	*26*	*(7)*	*19*
Amount reclassified to profit or loss	*(244)*	*61*	*(183)*
Debt investments at FVOCI	(2,122)	377	(1,745)
Amount recognised in equity	*(1,022)*	*102*	*(920)*
Amount reclassified to profit or loss	*(1,100)*	*275*	*(825)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	(676)	129	(547)
Amount recognised in equity	*(1,761)*	*399*	*(1,362)*
Amount reclassified to profit or loss	*1,085*	*(270)*	*815*
Translation difference on foreign operations	(4,776)	–	(4,776)
Changes in fair value of equity investments designated at FVOCI	(1,606)	402	(1,204)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	7	–	7
Actuarial gains on pension benefits	(132)	–	(132)
Others	15	(3)	12
Other comprehensive income for the year	(9,508)	959	(8,549)

43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

	As at 31 December 2021	As at 31 December 2020
Cash and balances with central banks	**103,648**	171,950
Due from and placements with banks and other financial institutions	**90,660**	135,170
	194,308	307,120

44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2021, the consolidated structured entities amounted to RMB182,733 million (As at 31 December 2020, the consolidated structured entities amounted to RMB36,716 million).

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

45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2021, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, limited partnerships, wealth management products with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2021, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,426,253 million (As at 31 December 2020: RMB1,211,959 million), the balance of funds issued by the Group amounted to RMB547,188 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB721,946 million(As at 31 December 2020: the balance of funds issued by the Group amounted to RMB339,871 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB843,540 million).

For the year ended 31 December 2021, the Group's commission income from providing services to the structured entities managed by the Group was RMB11,775 million (For the year ended 31 December 2020: RMB9,856 million), and no interest income from placements and repurchase transactions with those unconsolidated wealth management products (For the year ended 31 December 2020: RMB1 million).

To achieve a smooth transition and steady development of the wealth management business, in 2021, in accordance with the requirements of the Guidance on Regulating the Asset Management Business of Financial Institutions, the Group has consistently promoted net worth transformation of its wealth management products and the disposal of existing portfolios, included part of the wealth management assets into the balance sheet from the wealth management products off the balance sheet, and measured them as debt investment at amortised cost.

As at 31 December 2021 and 31 December 2020, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

As at 31 December 2021

	Carrying amount				
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	144,421	–	–	144,421	Net gains arising from trading activities
Trusts and asset management products	13,445	–	83,245	96,690	Net interest income, net gains arising from trading activities
Limited partnerships	3,317	620	–	3,937	Net gains arising from trading activities, net gains arising from financial investments
Securitisation products	63	–	134	197	Net interest income，Net gains arising from trading activities
Total	161,246	620	83,379	245,245	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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45 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

As at 31 December 2020

	Carrying amount				
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	243,980	–	–	243,980	Net gains arising from trading activities
Trusts and asset management products	3,956	–	101,599	105,555	Net interest income, net gains arising from trading activities
Limited partnerships	2,729	619	–	3,348	Net gains arising from trading activities, net gains arising from financial investments
Securitisation products	–	–	134	134	Net interest income
Total	250,665	619	101,733	353,017	

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

46 TRANSFERS OF FINANCIAL ASSETS

46.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2021 and 31 December 2020, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 29).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		**Associated liabilities**	
	As at 31 December 2021	As at 31 December 2020	**As at 31 December 2021**	As at 31 December 2020
Investment securities	**–**	2,020	**–**	1,806

46 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

46.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2021, the carrying value of debt securities lent to counterparties was RMB13,900 million (31 December 2020: RMB12,640 million).

46.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group retains interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 31 December 2021, loans with an original value of RMB66,061 million and carrying amount of RMB56,834 million (31 December 2020: RMB53,492 million and RMB41,600 million) have been securitised by the Group. For the year ended 31 December 2021, the Group transferred financial assets amounted to RMB13,927 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2020, the Group transferred financial assets amounted to RMB15,272 million through assets backed securitization transactions, and all have met the requirement of derecognition).

As at 31 December 2021, the Group retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group continued to recognise was RMB5,529 million (31 December 2020: RMB4,275 million).

46.4 Disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2021, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB12,853 million (31 December 2020: RMB18,806 million) and collected cash totalling RMB8,403 million (31 December 2020: RMB8,790 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

47 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2021, the MOF held 17,732 million (31 December 2020: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2020: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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47 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the MOF *(Continued)*

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Bonds issued by the MOF	974,910	801,187

	Year ended 31 December	
	2021	2020
Interest income	26,029	22,081
Net gains arising from trading activities	368	129

The interest rates of the transactions between the Group and MOF are summarised below:

	Year ended 31 December	
	2021 %	2020 %
Bonds issued by the MOF	0.13~5.06	0.13~5.32

(b) Transactions with the National Council for Social Security Fund

As at 31 December 2021, the National Council for Social Security Fund held 12,160 million (31 December 2020: 12,160 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2020: 16.37%) of the total share capital.

The National Council for Social Security Fund was incorporated in August 2000, which is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating the national social security fund. Its legal representative is Liu Wei, its registered capital is RMB8.00 million and its registered address is South Fortune Times Building, No. 11 Fenghuiyuan, Xicheng District, Beijing.The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Due to customers	92,373	87,356

	Year ended 31 December	
	2021	2020
Interest expense	(3,703)	(3,523)

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Year ended 31 December	
	2021 %	2020 %
Due to customers	3.50~5.20	3.85~5.30

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures

As at 31 December 2021, HSBC held 13,886 million (31 December 2020: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2020: 18.70%) of the total share capital.

HSBC was incorporated in 1866, primarily providing local and international banking services, and related financial services in the Asia-Pacific region. Its Co-chief Executive Officer is Liao, Yi Chien David and Surendra Rosha, and its registered address is 1 Queen's Road Central, Central, Hong Kong. The ordinary share capital of HSBC is HKD116,103 million and USD7,198 million, which was divided into 46,441 million ordinary shares.Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
On-balance sheet items		
Due from and placements with banks and other financial institutions	3,338	11,328
Derivative financial assets	1,672	2,370
Financial investments at FVPL	1,931	2,709
Financial investments at amortised cost	419	432
Financial investments at FVOCI	4,052	3,354
Due to and placements from banks and other financial institutions	17,083	8,261
Financial liabilities at FVPL	1,424	212
Derivative financial liabilities	1,613	2,963
Off-balance sheet items		
Notional principal of derivative financial instruments	240,864	192,032

	Year ended 31 December	
	2021	2020
Interest income	163	203
Interest expense	(95)	(202)
Fee and commission income	1	52
Fee and commission expense	(4)	(8)
Net gains/(losses) from trading activities	2,310	(264)

The interest rates of the transactions between the Group and HSBC are summarised below:

	Year ended 31 December	
	2021 %	2020 %
Due from and placements with banks and other financial institutions	0.0001~3.60	0.01~3.42
Financial investments at FVPL	0.98~6.00	1.49~6.00
Financial investments at amortised cost	3.26~4.74	3.26~4.74
Financial investments at FVOCI	(0.04)~4.95	0.002~4.95
Due to and placements from banks and other financial institutions	(0.40)~4.12	(0.24)~4.12
Financial liabilities at FVPL	0.46~0.69	0.50~0.70

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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47 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(e) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation. Basic information and relevant details of subsidiaries are set out in note 24.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	As at 31 December 2021	As at 31 December 2020
Due from and placements with banks and other financial institutions	123,461	141,231
Loans and advances to customers	486	521
Financial investments at FVPL	433	891
Financial investments at amortised cost	1,551	1,240
Financial investments at FVOCI	11,455	8,986
Derivative financial assets	793	1,736
Other assets	766	808
Due to and placements from banks and other financial institutions	14,523	16,236
Derivative financial liabilities	1,851	429
Due to customers	11,683	14,873
Debt securities issued	–	51
Other liabilities	119	97

	Year ended 31 December	
The Bank	2021	2020
Interest income	1,952	2,024
Interest expense	(238)	(377)
Fee and commission income	1,681	1,251
Fee and commission expense	(95)	(191)
Net gains arising from trading activities	818	138
Other operating income	555	570
Other operating expense	(82)	(184)

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

	Year ended 31 December	
	2021	2020
The Bank	**%**	%
Due from and placements with banks and other financial institutions	**0.01~6.40**	0.01~5.69
Financial investments at FVPL	**1.12~4.00**	1.97~4.38
Financial investments at amortised cost	**1.07~6.00**	1.18~4.70
Financial investments at FVOCI	**0.95~4.38**	0.95~4.38
Loans and advances to customers	**1.29~3.00**	1.61~3.97
Due to and placements from banks and other financial institutions	**(0.48)~2.95**	0.01~4.50
Due to customers	**0.04~4.00**	0.70~4.18
Debt securities issued	**5.75**	5.75

(f) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Due to customers	**10**	6
Loans and advances to customers	**1**	1

Compensations of directors and senior management are disclosed in Note 15.

(g) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates. Basic information and relevant details of associates and joint ventures are set out in note 25.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
On-balance sheet items		
Due from and placements with banks and other financial institutions	**500**	100
Derivative financial assets	**31**	7
Loans and advances to customers	**6,041**	4,767
Due to and placements from banks and other financial institutions	**104**	44
Derivative financial liabilities	**35**	16
Off-balance sheet items		
Notional principal of derivative financial instruments	**6,947**	2,094
Credit related commitments(Guarantees, acceptances and letters of credit)	**12,126**	10,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates and joint ventures *(Continued)*

	Year ended 31 December	
	2021	2020
Interest income	**242**	195
Interest expense	**(6)**	(2)
Net losses from trading activities	**(13)**	(14)

The interest rates of the transactions between the Group and its associates and joint ventures are summarised below:

	Year ended 31 December	
	2021	2020
	%	%
Due from and placements with banks and other financial institutions	**0.30~3.19**	0.30~1.81
Loans and advances to customers	**0.30~4.90**	2.95~5.39
Due to and placements from banks and other financial institutions	**0.0001~0.35**	0.01~1.55
Due to customers	**0.75~2.03**	0.30~1.89

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2021	As at 31 December 2020
Loans and advances to customers	**1,080**	744
Financial investments at amortised cost	**–**	204
Due to and placements from banks and other financial institutions	**1,204**	92
Due to customers	**79,787**	42,313

	Year ended 31 December	
	2021	2020
Interest income	**22**	45
Interest expense	**(2,543)**	(1,593)

The interest rates of the transactions between the Group and other related parties are summarised below:

	Year ended 31 December	
	2021	2020
	%	%
Loans and advances to customers	**0.30~4.79**	0.30~5.06
Financial investments at amortised cost	**3.78**	3.19~3.78
Due to and placements from banks and other financial institutions	**0.30~2.20**	0.30~3.15
Due to customers	**0.30~4.18**	0.30~4.18

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(i) Proportion of major related party transactions

The major balances and transactions with subsidiaries have been eliminated in the consolidated financial statements. When calculating the proportion of related party transactions, transactions with the subsidiary are not involved.

	As at 31 December 2021		As at 31 December 2020	
	Balances	%	Balances	%
On-balance sheet items				
Due from and placements with banks and other financial institutions	3,838	0.01	11,428	0.02
Derivative financial assets	1,703	4.34	2,377	4.38
Loans and advances to customers	7,122	0.11	5,512	0.10
Financial investments	981,312	27.85	807,886	24.96
Due to and placements from banks and other financial institutions	18,391	0.01	8,397	0.01
Financial liabilities at FVPL	1,424	2.85	212	0.72
Derivative financial liabilities	1,648	4.57	2,979	5.33
Due to customers	172,170	2.45	129,675	1.96
Off-balance sheet items				
Notional principal of derivative financial instruments	247,811	3.48	194,126	3.51
Credit related commitments(Guarantees, acceptances and letters of credit)	12,126	0.64	10,337	0.62

	Year ended 31 December 2021		Year ended 31 December 2020	
	Amount	%	Amount	%
Interest income	26,456	7.01	22,524	6.10
Interest expense	(6,347)	2.94	(5,320)	2.47
Fee and commission income	1	–	52	0.11
Fee and commission expense	(4)	0.08	(8)	0.19
Net gains/(losses) from trading activities	2,665	0.11	(149)	Not applicable

48 SEGMENTAL ANALYSIS

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable geographical operating segments derive their revenue primarily from commercial banking services and investing activities, including deposits, loans, bills, trade financing, money market placements and takings, and securities investments, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

(1) Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;

(2) Pearl River Delta: including Fujian Province and Guangdong Province;

(3) Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;

(4) Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province, and Guangxi Zhuang Autonomous Region;

(5) Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;

(6) Northeastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;

(7) Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg;

(8) Head Office, including the Pacific Credit Card Centre.

The revenue from external parties is reported to the Board of Directors and the senior management in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest, and the Board of Directors and the senior management relies primarily on net interest income to assess the performance of segments, the interest income and expenses for all reportable segments are presented on a net basis.

The Group's Board of Directors and senior management reviews the segment performance on the basis of profit before tax. Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments.

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

48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information

	Year ended 31 December 2021								
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Total
External interest income	74,720	34,117	36,732	47,925	32,359	10,039	18,082	123,672	377,646
External interest expense	(48,442)	(21,514)	(37,735)	(25,027)	(15,472)	(9,411)	(7,584)	(50,768)	(215,953)
Inter-segment net interest income/(expense)	21,275	6,424	24,200	7,087	1,800	5,192	18	(65,996)	–
Net interest income	47,553	19,027	23,197	29,985	18,687	5,820	10,516	6,908	161,693
Fee and commission income	14,540	3,652	5,739	5,803	3,064	1,238	2,488	15,761	52,285
Fee and commission expense	(2,941)	(39)	(77)	(101)	(26)	(18)	(233)	(1,277)	(4,712)
Net fee and commission income	11,599	3,613	5,662	5,702	3,038	1,220	2,255	14,484	47,573
Net gains arising from trading activities	7,031	376	380	659	1,824	12	(784)	13,846	23,344
Net gains arising from financial investments	849	–	27	–	–	18	589	(172)	1,311
Insurance business income	16,459	–	–	–	–	–	56	–	16,515
Share of profits of associates and joint ventures	–	–	–	–	–	–	47	230	277
Other operating income	15,316	416	954	734	551	203	456	405	19,035
Total operating income -net	98,807	23,432	30,220	37,080	24,100	7,273	13,135	35,701	269,748
Credit impairment losses	(7,451)	(4,828)	(8,046)	(9,019)	(10,600)	(9,582)	(977)	(15,868)	(66,371)
Other assets impairment losses	(2,020)	(6)	(8)	(14)	(58)	(212)	–	(2)	(2,320)
Insurance business expense	(17,037)	–	–	–	–	–	(17)	–	(17,054)
Other operating expense	(26,518)	(6,571)	(8,854)	(9,125)	(5,922)	(3,378)	(4,372)	(25,304)	(90,044)
Profit before tax	45,781	12,027	13,312	18,922	7,520	(5,899)	7,769	(5,473)	93,959
Income tax									(5,020)
Net profit for the year									88,939
Depreciation and amortisation	(1,814)	(909)	(1,133)	(1,116)	(954)	(498)	(469)	(1,206)	(8,099)
Capital expenditure	(17,500)	(660)	(494)	(864)	(488)	(265)	(141)	(2,535)	(22,947)

	Year ended 31 December 2020								
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Total
External interest income	69,139	29,870	34,257	43,757	29,309	9,248	23,605	129,916	369,101
External interest expense	(47,044)	(19,874)	(35,346)	(23,741)	(15,176)	(9,090)	(14,820)	(50,674)	(215,765)
Inter-segment net interest income/(expense)	23,063	6,369	21,884	7,625	2,324	5,189	19	(66,473)	–
Net interest income	45,158	16,365	20,795	27,641	16,457	5,347	8,804	12,769	153,336
Fee and commission income	11,724	3,370	5,173	5,560	3,001	1,154	2,802	16,514	49,298
Fee and commission expense	(2,137)	(47)	(71)	(69)	(25)	(19)	(226)	(1,618)	(4,212)
Net fee and commission income	9,587	3,323	5,102	5,491	2,976	1,135	2,576	14,896	45,086
Net gains/(losses) arising from trading activities	3,443	171	253	485	57	16	(346)	9,765	13,844
Net gains/(losses) arising from financial investments	507	–	–	–	–	–	2,420	(1,750)	1,177
Insurance business income	15,103	–	–	–	–	–	67	–	15,170
Share of profits of associates and joint ventures	–	–	–	–	–	–	50	172	222
Other operating income	14,321	495	1,218	629	497	174	285	270	17,889
Total operating income -net	88,119	20,354	27,368	34,246	19,987	6,672	13,856	36,122	246,724
Credit impairment losses	(7,443)	(4,301)	(7,287)	(10,201)	(1,679)	(3,028)	(1,156)	(26,964)	(62,059)
Other assets impairment losses	(486)	–	1	–	–	(4)	5	–	(484)
Insurance business expense	(15,699)	–	–	–	–	–	(30)	–	(15,729)
Other operating expense	(25,848)	(6,376)	(8,188)	(8,471)	(5,882)	(3,248)	(4,222)	(19,792)	(82,027)
Profit before tax	38,643	9,677	11,894	15,574	12,426	392	8,453	(10,634)	86,425
Income tax									(6,855)
Net profit for the year									79,570
Depreciation and amortisation	(1,779)	(902)	(1,114)	(1,096)	(945)	(486)	(488)	(1,078)	(7,888)
Capital expenditure	(19,236)	(545)	(760)	(1,460)	(561)	(273)	(193)	(1,130)	(24,158)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information *(Continued)*

	As at 31 December 2021									
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Eliminations	Total
Segment assets	2,881,066	1,059,386	1,711,386	1,277,003	881,918	409,288	1,095,657	4,459,033	(2,141,041)	11,633,696
Including:										
Investments in associates and joint ventures	*4*	*-*	*-*	*1*	*-*	*-*	*201*	*5,573*	*-*	*5,779*
Unallocated assets										32,061
Total assets										11,665,757
Segment liabilities	(2,658,802)	(1,042,577)	(1,688,784)	(1,239,658)	(870,308)	(417,068)	(1,046,572)	(3,863,904)	2,141,041	(10,686,632)
Unallocated liabilities										(1,889)
Total liabilities										(10,688,521)

	As at 31 December 2020									
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Eliminations	Total
Segment assets	2,564,088	930,550	1,567,967	1,196,795	825,149	385,027	1,114,676	4,226,501	(2,141,128)	10,669,625
Including:										
Investments in associates and joint ventures	*4*	*-*	*-*	*6*	*-*	*-*	*203*	*4,468*	*–*	*4,681*
Unallocated assets										27,991
Total assets										10,697,616
Segment liabilities	(2,359,977)	(918,511)	(1,549,435)	(1,165,323)	(811,091)	(386,178)	(1,057,224)	(3,711,091)	2,141,128	(9,817,702)
Unallocated liabilities										(1,286)
Total liabilities										(9,818,988)

Given the adjustment to the standards of dividing segments and evaluation guidelines of income allocation within segment, the comparative figures were stated under existing standards

Business information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

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

48 SEGMENTAL ANALYSIS *(Continued)*

Business information *(Continued)*

The business information of the Group is summarised as follows:

	Year ended 31 December 2021				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	69,804	53,414	38,353	122	161,693
Inter-segment net interest income/ (expense)	16,291	18,260	(34,551)	–	–
Net interest income	86,095	71,674	3,802	122	161,693
Net fee and commission income	10,341	30,743	6,330	159	47,573
Net gains arising from trading activities	8,883	2,073	12,040	348	23,344
Net gains arising from financial investments	(323)	313	1,321	–	1,311
Share of profits of associates and joint ventures	6	–	–	271	277
Insurance business income	56	16,459	–	–	16,515
Other operating income	15,406	2,857	35	737	19,035
Total operating income – net	120,464	124,119	23,528	1,637	269,748
Credit impairment losses	(47,024)	(19,079)	(259)	(9)	(66,371)
Other assets impairment losses	(2,265)	(55)	–	–	(2,320)
Insurance business expense	(17)	(17,037)	–	–	(17,054)
Other operating expense					
– Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
– Others	(35,267)	(40,350)	(5,404)	(924)	(81,945)
Profit before tax	32,950	43,138	17,224	647	93,959
Income tax					(5,020)
Net profit for the year					88,939
Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
Capital expenditure	(8,332)	(12,636)	(1,817)	(162)	(22,947)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

Business information *(Continued)*

	Year ended 31 December 2020				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	61,666	49,328	42,280	62	153,336
Inter-segment net interest income/ (expense)	18,634	16,978	(35,612)	–	–
Net interest income	80,300	66,306	6,668	62	153,336
Net fee and commission income	11,254	28,090	5,585	157	45,086
Net gains arising from trading activities	3,909	1,444	8,371	120	13,844
Net gains arising from financial investments	(140)	396	926	(5)	1,177
Share of profits of associates and joint ventures	(8)	–	–	230	222
Insurance business income	32	15,138	–	–	15,170
Other operating income	14,408	2,530	219	732	17,889
Total operating income – net	109,755	113,904	21,769	1,296	246,724
Credit impairment losses	(33,072)	(28,214)	(772)	(1)	(62,059)
Other assets impairment losses	(489)	–	–	5	(484)
Insurance business expense	(30)	(15,699)	–	–	(15,729)
Other operating expense					
– Depreciation and amortisation	(1,430)	(2,250)	(176)	(52)	(3,908)
– Others	(34,150)	(38,444)	(4,537)	(988)	(78,119)
Profit before tax	40,584	29,297	16,284	260	86,425
Income tax					(6,855)
Net profit for the year					79,570
Depreciation and amortisation	(2,949)	(4,433)	(407)	(99)	(7,888)
Capital expenditure	(9,033)	(13,574)	(1,247)	(304)	(24,158)

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

48 SEGMENTAL ANALYSIS *(Continued)*

Business information *(Continued)*

	As at 31 December 2021				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	4,645,110	2,385,982	4,530,160	72,444	11,633,696
Including:					
Investments in associates and joint ventures	-	-	-	*5,779*	*5,779*
Unallocated assets					32,061
Total assets					11,665,757
Segment liabilities	(4,999,768)	(2,533,625)	(3,078,851)	(69,663)	(10,681,907)
Unallocated liabilities					(6,614)
Total liabilities					(10,688,521)

	As at 31 December 2020				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	4,192,292	2,067,778	4,346,218	63,337	10,669,625
Including:					
Investments in associates and joint ventures	-	-	-	*4,681*	*4,681*
Unallocated assets					27,991
Total assets					10,697,616
Segment liabilities	(4,832,353)	(2,312,508)	(2,598,865)	(70,190)	(9,813,916)
Unallocated liabilities					(5,072)
Total liabilities					(9,818,988)

There were no significant transactions with a single external customer that the Group mainly relied on.

The comparative information was prepared in accordance with the categorisation of the current period since the assessment rules of the income and expense distribution between various business segments have been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK

(a) Statement of financial position of the Bank

	As at 31 December 2021	As at 31 December 2020
ASSETS		
Cash and balances with central banks	721,912	807,383
Due from and placements with banks and other financial institutions	720,824	670,148
Derivative financial assets	38,426	54,494
Loans and advances to customers	6,083,046	5,441,506
Financial investments at fair value through profit or loss	507,745	391,648
Financial investments at amortised cost	2,147,313	1,980,248
Financial investments at fair value through other comprehensive income	472,635	555,787
Investments in associates and joint ventures	5,118	4,178
Investments in subsidiaries	79,269	79,272
Property and equipment	50,297	50,500
Deferred income tax assets	29,950	26,262
Other assets	86,801	69,219
Total assets	10,943,336	10,130,645

	As at 31 December 2021	As at 31 December 2020
Liabilities		
Due to banks and other financial institutions	1,807,016	1,672,012
Financial liabilities at FVPL	16,799	23,972
Derivative financial liabilities	36,740	54,311
Due to customers	6,769,618	6,404,997
Certificates of deposits issued	882,435	627,011
Current income tax liabilities	2,952	2,643
Deferred income tax liabilities	41	58
Debt securities issued	413,552	408,906
Other liabilities	98,910	107,985
Total liabilities	10,028,063	9,301,895
Equity		
Share capital	74,263	74,263
Other equity investments	174,790	133,292
Including: Preference shares	*44,952*	*44,952*
Perpetual bonds	*129,838*	*88,340*
Capital surplus	111,226	111,226
Other reserves	336,666	324,383
Retained earnings	218,328	185,586
Total equity	915,273	828,750
Total equity and liabilities	10,943,336	10,130,645

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

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

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

49 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(b) Statement of changes in equity of the Bank

					Other reserves										
	Share capital	Preference shares	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for financial assets measured at designated FVOCI	Revaluation reserve for the changes in credit risk of the financial liabilities measured at designated FVPL	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings	Total
As at 1 January 2021	74,263	44,952	88,340	111,226	70,147	139,764	115,920	(769)	12	40	(1,964)	(142)	1,375	185,586	828,750
Net profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	75,219	75,219
Other comprehensive income	–	–	–	–	–	–	–	752	(36)	13	(1,840)	55	16	–	(1,040)
Total comprehensive income	–	–	–	–	–	–	–	752	(36)	13	(1,840)	55	16	75,219	74,179
Capital contribution by holders of other equity instruments	–	–	41,498	–	–	–	–	–	–	–	–	–	–	–	41,498
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(23,541)	(23,541)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,755)	(1,755)
Interest paid to perpetual bond holders	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,858)	(3,858)
Transfer to reserves	–	–	–	–	6,897	–	6,421	–	–	–	–	–	–	(13,318)	–
Transferred from other comprehensive income	–	–	–	–	–	–	–	5	–	–	–	–	–	(5)	–
As at 31 December 2021	74,263	44,952	129,838	111,226	77,044	139,764	122,341	(12)	(24)	53	(3,804)	(87)	1,391	218,328	915,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(b) Statement of changes in equity of the Bank *(Continued)*

					Other reserves										
	Share capital	Preference shares	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for financial assets measured at designated FVOCI	Revaluation reserve for the changes in credit risk of the financial liabilities measured at designated FVPL	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings	Total
As at 1 January 2020	74,263	59,876	39,994	113,427	63,072	139,764	111,455	2,327	5	(18)	293	(10)	1,363	155,944	761,755
Net profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	68,969	68,969
Other comprehensive income	–	–	–	–	–	–	–	(3,096)	7	58	(2,257)	(132)	12	–	(5,408)
Total comprehensive income	–	–	–	–	–	–	–	(3,096)	7	58	(2,257)	(132)	12	68,969	63,561
Capital contribution by holders of other equity instruments	–	(14,924)	48,346	(2,201)	–	–	–	–	–	–	–	–	–	–	31,221
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(23,393)	(23,393)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,714)	(2,714)
Interest paid to perpetual bond holders	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,680)	(1,680)
Transfer to reserves	–	–	–	–	7,075	–	4,465	–	–	–	–	–	–	(11,540)	–
As at 31 December 2020	74,263	44,952	88,340	111,226	70,147	139,764	115,920	(769)	12	40	(1,964)	(142)	1,375	185,586	828,750

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50 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

51 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

In February 2022, the Bank issued a tier-2 capital bond of RMB30,000 million with the maturity date in 2032 and a coupon rate of 3.45% on the national interbank bond market. The Bank has an option to exercise its right of redemption at the end of 2027.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

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

1 CURRENCY CONCENTRATIONS

	USD	HKD	Others	Total
As at 31 December 2021				
Spot assets	**1,016,873**	**233,474**	**174,843**	**1,425,190**
Spot liabilities	**(956,839)**	**(305,411)**	**(125,300)**	**(1,387,550)**
Forward purchases	**1,446,642**	**227,581**	**171,559**	**1,845,782**
Forward sales	**(1,571,846)**	**(130,762)**	**(222,085)**	**(1,924,693)**
Net option position	**5,503**	**(12)**	**(747)**	**4,744**
Net long/(short) position	**(59,667)**	**24,870**	**(1,730)**	**(36,527)**
Net structural position	**121,168**	**31,246**	**7,799**	**160,213**

	USD	HKD	Others	Total
As at 31 December 2020				
Spot assets	971,473	232,530	200,619	1,404,622
Spot liabilities	(866,247)	(339,250)	(131,716)	(1,337,213)
Forward purchases	1,130,911	298,686	81,772	1,511,369
Forward sales	(1,293,531)	(155,669)	(141,908)	(1,591,108)
Net option position	(1,878)	41	2,663	826
Net long/(short) position	(59,272)	36,338	11,430	(11,504)
Net structural position	117,569	30,147	11,065	158,781

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

– Investments in fixed assets and properties, net of depreciation charges;

– Capital and statutory reserve of overseas branches;

– Investments in overseas subsidiaries and related companies; and

– Loan capital

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies.The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

As at 31 December 2021	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	448,033	122,959	717,912	–	1,288,904
Of which attributed to Hong Kong	*62,204*	*21,533*	*304,709*	-	*388,446*
North and South America	34,071	21,351	65,018	–	120,440
Africa	442	1,887	–	–	2,329
Europe	42,156	3,878	23,337	–	69,371
	524,702	150,075	806,267	–	1,481,044

As at 31 December 2020	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	509,860	53,881	568,620	–	1,132,361
Of which attributed to Hong Kong	*129,213*	*23,119*	*299,229*	-	*451,561*
North and South America	41,818	28,597	70,286	–	140,701
Africa	575	613	–	–	1,188
Europe	42,235	2,727	31,132	–	76,094
	594,488	85,818	670,038	–	1,350,344

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

3 OVERDUE AND RESTRUCTURED ASSETS

3.1 Balance of overdue loans

	As at 31 December 2021	As at 31 December 2020
Loans and advances to customers which have been overdue for:		
– Less than 3 months	23,164	25,480
– 3 to 6 months	15,966	10,884
– 6 to 12 months	13,467	23,261
– Over 12 months	34,565	30,578
	87,162	90,203
Percentage (%):		
– Less than 3 months	0.35	0.44
– 3 to 6 months	0.24	0.19
– 6 to 12 months	0.21	0.40
– Over 12 months	0.53	0.51
	1.33	1.54

3.2 Overdue and restructured loans

	As at 31 December 2021	As at 31 December 2020
Total restructured loans and advances to customers	8,792	8,299
Including: Restructured loans and advances to customers overdue above 3 months	*1,625*	*2,394*
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	0.02	0.04

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

4 SEGMENTAL INFORMATION OF LOANS

4.1 Impaired loans and advances to customers by geographical area

	As at 31 December 2021		As at 31 December 2020	
	Impaired loans and advances to customers	Allowance for impairment losses	Impaired loans and advances to customers	Allowance for impairment losses
PRC domestic regions				
–Yangtze River Delta	22,399	(13,277)	20,149	(11,213)
–Pearl River Delta	5,559	(3,389)	7,332	(4,050)
–Bohai Rim Economic Zone	13,893	(9,786)	17,058	(12,068)
–Central China	19,224	(10,244)	18,788	(10,673)
–Western China	9,661	(6,402)	9,220	(6,136)
–North Eastern China	12,090	(9,299)	10,998	(7,891)
–Head Office	10,831	(10,064)	10,567	(10,466)
Subtotal	93,657	(62,461)	94,112	(62,497)
Hong Kong, Macau, Taiwan and overseas regions	3,139	(1,421)	3,586	(843)
Total	96,796	(63,882)	97,698	(63,340)

4.2 Overdue loans and advances to customers by geographical area

	As at 31 December 2021		As at 31 December 2020	
	Overdue loans	Allowance for impairment losses	Overdue loans	Allowance for impairment losses
PRC domestic regions				
–Yangtze River Delta	16,399	(9,189)	15,722	(10,996)
–Pearl River Delta	5,853	(3,166)	6,167	(3,208)
–Bohai Rim Economic Zone	9,749	(6,561)	14,517	(10,140)
–Central China	15,170	(8,080)	14,405	(8,252)
–Western China	7,176	(4,333)	7,312	(4,748)
–North Eastern China	9,119	(6,644)	10,283	(7,194)
–Head Office	20,468	(12,767)	18,251	(13,048)
Subtotal	83,934	(50,740)	86,657	(57,586)
Hong Kong, Macau, Taiwan and overseas regions	3,228	(1,516)	3,546	(976)
Total	87,162	(52,256)	90,203	(58,562)
Fair value of collaterals	42,319	Not applicable	44,069	Not applicable

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

5 LOANS AND ADVANCES TO CUSTOMERS

5.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

	As at 31 December 2021			As at 31 December 2020		
Hong Kong		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Petroleum and chemical	*1,130*	*0.54*	*148*	*1,325*	*0.68*	*-*
– Electronics	*1,577*	*0.76*	*25*	*4,441*	*2.28*	*21*
– Textile and clothing	*148*	*0.07*	*7*	*312*	*0.16*	*6*
– Other manufacturing	*25,506*	*12.24*	*5,284*	*15,599*	*8.02*	*5,401*
Production and supply of power, heat, gas and water	1,418	0.68	320	861	0.44	365
Construction	5,051	2.42	1,159	4,469	2.30	1,009
Transportation, storage and postal service	9,482	4.55	3,375	14,550	7.48	2,540
Information transmission, software and IT services	3,537	1.70	20	3,257	1.67	8
Wholesale and retail	15,584	7.48	4,052	15,912	8.18	3,657
Finance	6,730	3.23	826	5,339	2.74	594
Real estate	60,900	29.23	16,186	55,315	28.43	16,532
Leasing and commercial services	11,711	5.62	3,838	6,636	3.41	2,903
Others	22,489	10.79	4,175	29,347	15.09	5,640
Total corporate loans	165,263	79.31	39,415	157,363	80.88	38,676
Personal loans						
Mortgage	29,857	14.33	29,837	23,621	12.14	23,616
Credit cards	94	0.05	–	97	0.05	–
Others	13,149	6.31	12,539	13,492	6.93	12,745
Total personal loans	43,100	20.69	42,376	37,210	19.12	36,361
Gross amount of loans and advances to customers before impairment allowance	208,363	100.00	81,791	194,573	100.00	75,037
Outside Hong Kong	6,352,037			5,653,851		

Note: The classification of industries is consistent with the latest national standards for industry classification (*Industrial Classification for National Economic Activities* (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledge loans to the total loans of the Group was 52% as at 31 December 2021 (31 December 2020: 52%).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

5 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

5.2 Allowance on loans and advances to customers by type of loan

	As at 31 December 2021		As at 31 December 2020	
	Impaired loans	Allowance for impairment losses	Impaired loans	Allowance for impairment losses
Corporates	77,628	(49,172)	78,925	(48,335)
Individuals	19,168	(14,710)	18,773	(15,005)
	96,796	(63,882)	97,698	(63,340)
Fair value of collaterals	46,194	Not applicable	46,359	Not applicable

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

	Year ended 31 December 2021			Year ended 31 December 2020		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	45,986	(32,886)	4,443	29,855	(33,248)	3,340
Individuals	16,959	(14,633)	1,881	26,414	(20,580)	1,712
	62,945	(47,519)	6,324	56,269	(53,828)	5,052

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

Leverage ratio disclosure is disclosed according to Note 3 *Leverage Ratio Disclosure Format of the Measures for the Administration* of *the Leverage Ratio of Commercial Banks (Revised).*

Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

Serial Number	Item	31 December 2021	31 December 2020
1	Total consolidated assets	**11,665,757**	10,697,615
2	Adjustments of consolidation	**(91,385)**	(70,282)
3	Adjustments item of customer's assets	**0**	0
4	Adjustments of derivatives	**41,498**	33,616
5	Adjustments of securities financing transactions	**725**	2,022
6	Adjustments of off-balance sheet item	**1,021,988**	844,885
7	Other Adjustments	**(6,010)**	(5,252)
8	Balance of adjusted on- and off-balance sheet assets	**12,632,573**	11,502,604

Leverage Ratio Information

(in millions of RMB unless otherwise stated)

Serial Number	Item	31 December 2021	31 December 2020
1	On-balance-sheet assets (excluding derivatives and securities financing transactions)	**11,426,283**	10,495,090
2	Less: Deduction of tier-1 capital	**(6,010)**	(5,252)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	**11,420,273**	10,489,838
4	Replacement costs of derivatives (less eligible margin)	**39,220**	54,236
5	Potential risk exposure of derivatives	**41,498**	33,616
6	Sum of collaterals deducted from the balance sheet	**0**	0
7	Less: Assets receivable from providing eligible margin	**0**	0
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	**0**	0
9	Notional principal of sold credit derivatives	**0**	0
10	Less: Deductible balance of sold credit derivatives	**0**	0
11	Derivative asset balance	**80,718**	87,852
12	Accounting asset balance of securities financing transactions	**108,869**	78,007
13	Less: Balance of deductible securities financing transaction assets	**0**	0
14	Counterparty credit risk exposure of securities financing transactions	**725**	2,022
15	Balance of securities financing transaction assets from acting for securities financing transactions	**0**	0
16	Securities financing assets balance	**109,594**	80,029
17	Balance of off-balance-sheet items	**2,373,602**	2,007,150
18	Less: Balance of off-balance-sheet items arising from the reduction of credit transfer	**(1,351,614)**	(1,162,265)
19	Adjusted off-balance sheet items balance	**1,021,988**	844,885
20	Net tier-1 capital	**960,225**	862,221
21	Adjusted balance of on- and off-balance sheet assets	**12,632,573**	11,502,604
22	Leverage ratio (%)	**7.60**	7.50

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FOURTH QUARTER OF 2021

(in millions of RMB unless otherwise stated)

Serial Number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		2,143,415
Cash Outflow			
2	Retail deposits, small business deposits, including:	2,283,598	218,861
3	Stable deposit	187,863	9,287
4	Less stable deposit	2,095,735	209,574
5	Unsecured wholesale funding, including:	4,773,737	2,005,883
6	Business relationship deposit (excluding agency business)	2,658,589	663,356
7	Non-business relationship deposit (including all counterparties)	2,099,114	1,326,493
8	Unsecured debt	16,034	16,034
9	Secured funding		12,989
10	Other items, including:	2,201,657	1,262,724
11	Cash outflow relates to derivatives and other collateral/pledged assets	1,227,188	1,209,533
12	Cash outflow relates to loss of funding on asset-blocked securities	162	162
13	Committed credit and liquidity facilities	974,307	53,029
14	Other contractual obligation to extend funds	58,341	58,341
15	Contingent funding obligations	1,825,657	67,107
16	Total expected cash outflow		3,625,905
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	103,994	102,556
18	Inflows from fully performing exposure	837,116	545,173
19	Other cash inflow	1,241,241	1,222,887
20	Total expected cash inflow	2,182,351	1,870,616
			Amount after adjustment
21	The qualified high-quality liquid assets		2,031,441
22	Net cash outflow		1,755,289
23	Liquidity Coverage Ratio (%)		115.70

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2021

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	950,277	–	–	150,433	1,100,710
2	Regulatory Capital	950,277	–	–	143,733	1,094,010
3	Other capital instruments	–	–	–	6,700	6,700
4	Retail deposits and deposits from small enterprises	847,332	1,609,483	10,059	760	2,230,672
5	Stable deposits	190,908	2,990	625	568	185,365
6	Less stable deposits	656,424	1,606,493	9,434	192	2,045,307
7	Wholesale funding	2,606,884	3,291,982	725,454	444,407	3,023,305
8	Operational deposits	2,524,843	117,421	39,694	8,173	1,349,152
9	Other wholesale funding	82,040	3,174,561	685,761	436,234	1,674,153
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	54,954	311,985	18,282	361,707	387,256
12	Net stable funding ratio derivative liabilities				27,725	
13	All other liabilities and equities not included in the above categories	54,954	311,985	18,282	333,982	387,256
14	Total available stable funding					6,741,944
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					337,642
16	Business relationship deposits held at other financial institutions	99,183	100	1,500	500	50,891
17	Loans and securities	73,115	1,804,015	1,048,456	4,680,628	5,312,307
18	Loans to financial institutions secured by Level 1 assets	–	31,502	–	–	4,680
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	360,390	196,460	81,808	234,096
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	130	1,371,656	813,953	2,735,257	3,411,535
21	Including: with a risk weight less than or equal to 35%	–	18,336	6,582	32,987	33,900
22	Residential mortgages	–	686	832	1,394,361	1,185,966
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	72,985	39,781	37,211	469,202	476,030
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	189,303	70,451	9,146	58,456	296,987
27	Physical traded commodities (including gold)	26,431				22,467

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2021 *(CONTINUED)*

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				9,757	8,294
29	Net stable funding ratio derivative assets				30,101	2,376
30	Derivative with additional requirements				27,725	5,545
31	All other assets not included in the above	162,872	70,451	9,146	18,598	258,306
32	Off-balance-sheet items				3,189,068	135,138
33	Total required stable funding					6,132,965
34	Net stable funding ratio (%)					109.93

Notes:

1. The “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2021

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	970,768	–	–	139,972	1,110,740
2	Regulatory Capital	970,768	–	–	139,972	1,110,740
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small enterprises	898,313	1,577,874	10,109	775	2,249,286
5	Stable deposits	213,205	3,057	634	540	206,591
6	Less stable deposits	685,108	1,574,817	9,475	235	2,042,694
7	Wholesale funding	2,855,911	3,201,260	786,525	464,642	3,121,409
8	Operational deposits	2,787,487	117,955	39,697	6,786	1,479,356
9	Other wholesale funding	68,424	3,083,305	746,828	457,855	1,642,054
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	59,399	232,740	109,046	247,800	312,855
12	Net stable funding ratio derivative liabilities				36,101	
13	All other liabilities and equities not included in the above categories	59,399	232,740	109,046	211,699	312,855
14	Total available stable funding					6,794,290
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					373,711
16	Business relationship deposits held at other financial institutions	98,421	340	2,000	–	50,381
17	Loans and securities	42,612	1,855,894	1,015,633	4,753,861	5,382,024
18	Loans to financial institutions secured by Level 1 assets	–	26,216	–	–	3,896
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	334,814	195,396	101,570	249,490
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities	–	1,416,380	791,861	2,792,283	3,470,996
21	Including: with a risk weight less than or equal to 35%	–	12,499	7,116	34,380	32,155
22	Residential mortgages	–	714	883	1,447,908	1,231,520
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	42,611	77,770	27,494	412,099	426,121
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	191,296	68,009	9,493	77,511	310,191
27	Physical traded commodities (including gold)	26,357				22,404

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2021 *(CONTINUED)*

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				10,288	8,745
29	Net stable funding ratio derivative assets				39,220	3,119
30	Derivative with additional requirements				36,101	7,220
31	All other assets not included in the above	164,938	68,009	9,493	28,003	268,703
32	Off-balance-sheet items				3,228,439	137,793
33	Total required stable funding					6,254,099
34	Net stable funding ratio (%)					108.64

Notes:

1. The "no maturity" bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

Contents

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 171 to 299, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("the Code"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

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

Refer to the accounting policy in "Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL", and "Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk" to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group uses an expected credit loss ("ECL") model to measure the loss allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees in accordance with International Financial Reporting Standard 9, Financial instruments. The determination of ECL allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees is subject to the application of a number of key parameters and assumptions, including the credit risk staging, probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Extensive management judgment is involved in the selection of those parameters and the application of the assumptions.	Our audit procedures to assess ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees included the following: • with the assistance of KPMG's IT specialists, understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the credit approval, recording, monitoring, the credit risk staging, ECL model update and the measurement of ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees. • with the assistance of KPMG's financial risk management specialists, assessing the appropriateness of the ECL model used to determine the loss allowances and the appropriateness of the key parameters and assumptions in the model, which included credit risk staging, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other adjustments, and assessing the appropriateness of related key management judgment.

KEY AUDIT MATTERS *(Continued)*

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

Refer to the accounting policy in "Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL", and "Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk" to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The determination of the ECL allowance is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The ECL allowance for corporate loans and advances, financial investments at amortised cost, credit related commitments to corporates and financial guarantees are derived from estimates including historical losses, internal and external credit grading and other factors. The ECL allowance for personal loans and advances and credit related commitments to individuals are derived from estimates whereby management takes into consideration historical overdue data, historical loss experience and other factors.	• for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we inquired the reasons for management's revisions to estimates and input parameters, compared with prior period and considered the consistency of judgement. • comparing the macroeconomic forward-looking information used in the model with market information to assess whether they were aligned with market and economic development. • assessing the completeness and accuracy of key data used in the ECL model. For key internal data, we compared the total balance of the loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees used by management to assess the ECL allowance with the general ledger to check the completeness of the data. We also selected samples to compare information of individual loan and advance to customers, financial investment at amortised cost, credit related commitment and financial guarantee with the underlying agreements and other related documentation. In addition, we checked the accuracy of key external data used by management by comparing them with public sources.

KEY AUDIT MATTERS *(Continued)*

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

Refer to the accounting policy in "Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL", and "Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk" to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include the financial situation of the borrower, the guarantee type, the seniority of the claim, the recoverable amount of any collaterals, and repayment sources of the borrower. Management refers to valuation reports of collaterals issued by qualified third party valuers and considers the impact of various factors including the market price, status and use when assessing the value of collaterals. The enforceability, timing and means of realisation of the collateral also have an impact on the recoverable amount of the collateral.	• for key parameters used in the ECL model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved KPMG's IT specialists to assess the logics and compilation of the loans and advances' overdue information on a sample basis. • evaluating the reasonableness of management's assessment on whether the credit risk of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees has, or has not, increased significantly since initial recognition and whether the mentioned financial instruments are credit-impaired. We assessed the staging of corporate loans and advances, financial investments at amortised cost, corporate credit related commitments and financial guarantees by industry sectors and used a risk-based approach to select samples in industries which are more vulnerable to the current economic situation and samples which met specific risk criteria. We checked overdue information, made enquiries of the client managers about the borrowers' business operations, inspected borrowers' financial information and researched about borrowers' businesses, to check the credit risk of the borrower, and the reasonableness of the risk stage.

KEY AUDIT MATTERS *(Continued)*

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

Refer to the accounting policy in "Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL", and "Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk" to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
We identified the measurement of ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.	• evaluating the reasonableness of loss given default for corporate loans and advances, financial investments at amortised cost, corporate credit related commitments and financial guarantees. We selected samples to evaluate the recoverable amount by considering the financial situation of the borrower, the guarantee type, the seniority of the claim, the recoverable amount of collateral, and repayment sources of the borrower. Evaluating management's assessment based on the category, condition and use of the collateral. For valuation reports of collateral issued by qualified third party valuers, we evaluated the competence, capabilities and objectivity of the external appraiser. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, considered the viability of the Group's recovery plans. • selecting samples and assessing the accuracy of the Group's calculation on the ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees. • assessing the reasonableness of the disclosures in the financial statements in relation to the ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees against prevailing accounting standards.

KEY AUDIT MATTERS *(Continued)*

Consolidation assessment of structured entities

Refer to the accounting policy in "Note 2 (4)(c) Structured entities, Note 2 (31)(d) Significant accounting estimates and judgements – Consolidation of structured entities", and "Note 44 Structured entities, Note 45 Unconsolidated structured entities" to the consolidated financial statements

The Key Audit Matter

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

The Group may acquire an ownership interest in a structured entity, through initiating, managing and/or investing in trust investment plans, asset management plans, funds, Wealth Management Products ("WMPs") and securitization products. The Group may also retain partial interests in derecognised assets due to guarantees or securitisation structures.

The Group is required to consider the power it possesses, its exposure to variable returns, and its ability to use its power to affect returns to determine whether the Group retain any partial interests in a structured entity or should consolidate a structured entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.

We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and the nature of each entity.

How the matter was addressed in our audit

Our audit procedures to assess the measurement of interests in and consolidation of structured entities included the following:

- assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over measurement of interests in and consolidation of structured entities.
- selecting significant structured entities of each key product type and performing the following procedures:
  - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;
  - inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Group's involvement in such an entity;
  - inspecting management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgement over the Group's ability to affect its own returns from the structured entity;
  - assessing management's judgement over whether the structured entity should be consolidated or not.
- assessing the reasonableness of the disclosures in the financial statements in relation to the measurement of interests in and consolidation of structured entities against prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

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

Refer to the accounting policy in "Note 2 (5) Financial instrument, Note 2 (31)(b) Significant accounting estimates and judgements – Fair value of financial instruments", and "Note 3 (4) Fair value of financial assets and liabilities" to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
Convertible bonds, unlisted equities, unlisted funds, certain trusts and asset management plans, equity derivatives, etc, held by the Group, whose fair value are determined based on certain unobservable inputs, were classified by the Group as level 3 in fair value measurement. Management determines the fair value of these financial assets using a variety of techniques. The valuation methods mainly include discounted cash flows and comparable company, involving various unobservable inputs such as objective company's cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts, etc. We identified valuation of financial assets measured at fair value classified as level 3 instruments' fair value as a key audit matter because of the amount of these financial assets are significant, and because of the degree of complexity involved in the valuation techniques and significant judgement is required to be exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the valuation of financial assets measured at fair value classified as level 3 included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the application of valuation models and front office and back office reconciliations for financial assets measured at fair value classified as level 3. • with the assistance of KPMG's financial risk management specialists and on a sample basis, obtaining an understanding of the valuation method used by management (including whether there is any change in the valuation method in this year) and assessing whether the valuation method selected is appropriate with reference to the prevailing accounting standards. with the assistance of KPMG's financial risk management specialists and on a sample basis, obtaining inputs independently and assessing the reasonableness of the inputs applied by management by comparing the results of our own valuations with that of management. • assessing the reasonableness of the disclosures in the consolidated financial statements in relation to financial assets measured at fair value classified as level 3 against prevailing accounting standards, including fair value hierarchy information, etc..

OTHER INFORMATION

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

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

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

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

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

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Chan Siu Tung.

Certified Public Accountants

8 th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Interest income		418,122	377,646
Interest expense		(248,185)	(215,953)
Net interest income	4	169,937	161,693
Fee and commission income	5	49,339	52,285
Fee and commission expense	6	(4,700)	(4,712)
Net fee and commission income		44,639	47,573
Net gains arising from trading activities	7	17,607	23,344
Net gains arising from financial investments		494	1,311
Including: Net gains on derecognition of financial assets measured at amortised cost		*64*	*46*
Share of profits of associates and joint ventures		292	277
Insurance business income	8	18,100	16,515
Other operating income	9	22,459	19,035
Net operating income		273,528	269,748
Credit impairment losses	10	(60,411)	(66,371)
Other assets impairment losses	11	(1,897)	(2,320)
Insurance business expense	12	(19,380)	(17,054)
Other operating expenses	13	(93,625)	(90,044)
Profit before tax		98,215	93,959
Income tax	16	(6,185)	(5,020)
Net profit for the year		92,030	88,939

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity		*(7,745)*	*3,649*
Amount reclassified to profit or loss		*(669)*	*(870)*
Expected credit losses of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity		*1,219*	*(394)*
Amount reclassified to profit or loss		*–*	*–*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity		*2,004*	*891*
Amount reclassified to profit or loss		*(1,204)*	*(463)*
Translation differences for foreign operations		8,562	(3,450)
Others		136	14
Subtotal		2,303	(623)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on pension benefits		(34)	55
Changes in fair value of equity investments designated at fair value through other comprehensive income		(1,301)	(1,555)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		(133)	(36)
Others		(1)	2
Subtotal		(1,469)	(1,534)
Other comprehensive income, net of tax	42	834	(2,157)
Total comprehensive income for the year		92,864	86,782
Net profit attributable to:			
Shareholders of the parent company		92,149	87,581
Non-controlling interests		(119)	1,358
		92,030	88,939
Total comprehensive income attributable to:			
Shareholders of the parent company		92,607	85,696
Non-controlling interests		257	1,086
		92,864	86,782
Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)	17	1.14	1.10

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

	Note	As at 31 December 2022	As at 31 December 2021
ASSETS			
Cash and balances with central banks	18	806,102	734,728
Due from and placements with banks and other financial institutions	19	690,421	632,708
Derivative financial assets	20	69,687	39,220
Loans and advances to customers	21	7,136,677	6,412,201
Financial investments at fair value through profit or loss	22	705,357	638,483
Financial investments at amortised cost	22	2,450,775	2,203,037
Financial investments at fair value through other comprehensive income	22	799,075	681,729
Investments in associates and joint ventures	24	8,750	5,779
Property and equipment	25	194,169	171,194
Deferred income tax assets	26	38,771	32,061
Other assets	27	92,635	114,617
Total assets		12,992,419	11,665,757
LIABILITIES AND EQUITY			
LIABILITIES			
Due to and placements from banks and other financial institutions	28	2,034,894	1,947,768
Financial liabilities at fair value through profit or loss	29	47,949	50,048
Derivative financial liabilities	20	46,804	36,074
Due to customers	30	7,949,072	7,039,777
Certificates of deposits issued	31	1,092,366	892,020
Current income tax liabilities		3,937	4,725
Debt securities issued	32	530,861	503,525
Deferred income tax liabilities	26	1,786	1,889
Other liabilities	33	249,010	212,695
Total liabilities		11,956,679	10,688,521
EQUITY			
Share capital	34	74,263	74,263
Other equity instruments	35	174,790	174,790
Including: Preference shares		*44,952*	*44,952*
Perpetual bonds		*129,838*	*129,838*
Capital surplus	34	111,429	111,428
Other reserves	36	369,259	346,092
Retained earnings	36	293,668	258,074
Equity attributable to shareholders of the parent company		1,023,409	964,647
Equity attributable to non-controlling interests of ordinary shares		8,873	9,424
Equity attributable to non-controlling interests of other equity instruments		3,458	3,165
Non-controlling interests	38	12,331	12,589
Total equity		1,035,740	977,236
Total equity and liabilities		12,992,419	11,665,757

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 30 March 2023 and signed on its behalf by:

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

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

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

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

	equity attributable to shareholders of the parent company															Attributable to non- controlling		
		Other equity instruments			Other reserves													
	Share capital Note 34	Preference Share Note 35	Perpetual bonds Note 35	Capital surplus Note 34	Statutory reserve Note 36	Discretionary surplus reserve Note 36	Statutory general reserve Note 36	Revaluation reserve and impairment for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation differences for foreign operations	Actuarial changes reserve	Others	Retained earnings Notes 36,37	Attributable to the shareholders of the parent company	Non-controlling interests of ordinary shares	Non-controlling interests of other equity instruments Note 35	Total
As at 1 January 2022	74,263	44,952	129,838	111,428	79,967	140,022	130,280	1,531	(24)	(104)	(6,884)	(87)	1,391	258,074	964,647	9,424	3,165	977,236
Total comprehensive income	-	-	-	-	-	-	-	(8,355)	(133)	797	8,048	(34)	135	92,149	92,607	(155)	412	92,864
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,363)	(26,363)	(396)	-	(26,759)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,832)	(1,832)	-	-	(1,832)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,651)	(5,651)	-	-	(5,651)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(119)	(119)
Transfer to reserves	-	-	-	-	8,187	160	14,261	-	-	-	-	-	-	(22,608)	-	-	-	-
Transfer of other comprehensive income to retained earnings	-	-	-	-	-	-	-	101	-	-	-	-	-	(101)	-	-	-	-
Others	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1	-	-	1
As at 31 December 2022	74,263	44,952	129,838	111,429	88,154	140,182	144,541	(6,723)	(157)	693	1,164	(121)	1,526	293,668	1,023,409	8,873	3,458	1,035,740

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

	equity attributable to shareholders of the parent company															Attributable to non- controlling		
		Other equity instruments			Other reserves													
	Share capital Note 34	Preference Share Note 35	Perpetual bonds Note 35	Capital surplus Note 34	Statutory reserve Note 36	Discretionary surplus reserve Note 36	Statutory general reserve Note 36	Revaluation reserve and impairment for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation differences for foreign operations	Actuarial changes reserve	Others	Retained earnings Notes 36,37	Attributable to the shareholders of the parent company	Non-controlling interests of ordinary shares	Non-controlling interests of other equity instruments Note 35	Total
As at 1 January 2021	74,263	44,952	88,340	111,428	72,431	139,930	123,163	456	12	(532)	(3,517)	(142)	1,375	214,448	866,607	8,763	3,258	878,628
Total comprehensive income	-	-	-	-	-	-	-	1,019	(36)	428	(3,367)	55	16	87,581	85,696	1,057	29	86,782
Capital contribution to holders of other equity instruments	-	-	41,498	-	-	-	-	-	-	-	-	-	-	-	41,498	-	-	41,498
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,541)	(23,541)	(396)	-	(23,937)
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,755)	(1,755)	-	-	(1,755)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,858)	(3,858)	-	-	(3,858)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(122)	(122)
Transferred to reserves	-	-	-	-	7,536	92	7,117	-	-	-	-	-	-	(14,745)	-	-	-	-
Transfer of other comprehensive income to retained earnings	-	-	-	-	-	-	-	56	-	-	-	-	-	(56)	-	-	-	-
As at 31 December 2021	74,263	44,952	129,838	111,428	79,967	140,022	130,280	1,531	(24)	(104)	(6,884)	(87)	1,391	258,074	964,647	9,424	3,165	977,236

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

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Cash flows from operating activities:			
Profit before tax:		98,215	93,959
Adjustments for:			
Provision for impairment losses		60,411	66,371
Provision for other assets impairment losses		1,897	2,320
Provision for insurance contracts reserve		13,457	15,518
Depreciation and amortisation		16,150	14,839
Provision/(reversal) for outstanding litigation and unsettled obligation		56	(199)
Net gains on the disposal of property, equipment and other assets		(739)	(454)
Interest income from financial investments		(97,311)	(88,262)
Fair value net losses/(gains)		4,171	(1,474)
Net gains on investments in associates and joint ventures		(292)	(277)
Net gains on financial investments		(494)	(1,311)
Interest expense on debt securities issued		15,807	16,341
Interest expense on lease liabilities		179	176
Operating cash flows before movements in operating assets and liabilities		111,507	117,547
Net (increase)/decrease in balances with central banks		(57,272)	14,515
Net decrease/(increase) in due from and placements with banks and other financial institutions		6,251	(106,359)
Net increase in loans and advances to customers		(740,988)	(776,234)
Net increase in financial assets at fair value through profit or loss		(86,355)	(128,020)
Net increase in other assets		(11,755)	(23,469)
Net increase in due to and placements from banks and other financial institutions		78,740	161,477
Net (decrease)/increase in financial liabilities at fair value through profit or loss		(5,357)	2,317
Net increase in due to customers and certificates of deposits issued		1,012,585	674,635
Net increase in other liabilities		73,605	35,329
Net (decrease)/increase in value-added tax and other taxes payable		(829)	1,431
Income tax paid		(11,911)	(7,944)
Net cash flows generated from/(used in) operating activities		368,221	(34,775)

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Cash flows from investing activities:			
Cash payment for investment in subsidiaries, associated ventures and joint ventures		(2,780)	(869)
Cash payments for financial investments		(1,232,873)	(895,518)
Cash received on disposal or redemption of financial investments		879,650	750,323
Dividends received		870	734
Interest received from financial investments		94,863	88,760
Acquisition of intangible assets and other assets		(2,094)	(2,467)
Cash received from the sale of intangible assets and other assets		11	507
Acquisition of property, equipment		(29,561)	(20,480)
Cash received from disposal of property, equipment		7,017	3,462
Net cash flows used in investing activities		(284,897)	(75,548)
Cash flows from financing activities:			
Proceeds from issue of other equity instruments		–	41,498
Proceeds from issue of debt securities		182,492	96,121
Repayment of principals of debt securities issued		(163,432)	(88,834)
Payment of interest on debt securities		(15,384)	(15,350)
Repayment of principal and interest of lease liabilities		(2,581)	(2,413)
Dividends paid		(33,555)	(29,152)
Dividends paid to non-controlling interests		(515)	(564)
Net cash flows (used in)/generated from financing activities		(32,975)	1,306
Effect of exchange rate changes on cash and cash equivalents		4,146	(3,795)
Net increase/(decrease) in cash and cash equivalents		54,495	(112,812)
Cash and cash equivalents at the beginning of the year		194,308	307,120
Cash and cash equivalents at the end of the year	43	248,803	194,308
Net cash flows from operating activities include:			
Interest received		323,377	291,450
Interest paid		(201,693)	(185,593)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a national state-owned joint-stock commercial bank, headquartered in Shanghai, which was reorganized on 1 April 1987 upon the approval of Notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and Notice Yin Fa (1987) No. 40 issued by the People's Bank of China (the "PBOC").

The Bank possesses the Finance Permit No. B0005H131000001 issued by the China Banking and Insurance Regulatory Commission (the "CBIRC") of the PRC with the registration number of 9131000010000595XD.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 (3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(2) Basis of preparation of the financial statements

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 (31).

The financial statements are presented in RMB, rounded to the nearest million, which is the functional currency of the Group.

(3) Changes in accounting policies

(a) Standards and amendments effective in 2022 relevant to and adopted by the Group

The Group has adopted the following amendments to the IFRSs issued by the IASB that are first effective for the financial year ended 31 December 2022.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(3) Changes in accounting policies *(Continued)*

(a) ***Standards and amendments effective in 2022 relevant to and adopted by the Group*** *(Continued)*

		Notes
Amendments to IFRS 3	Reference to the Conceptual Framework	(i)
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	(ii)
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	(iii)
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018-2020	(iv)

(i) Amendments to IFRS 3: Reference to the Conceptual Framework

The amendments have updated IFRS 3 Business combinations, to refer to the 2018 Conceptual Framework for Financial Reporting, and added an exception to the requirement to refer to the 2018 Conceptual Framework to determinate what constitutes an asset or a liability in a business combination. The exception relates to liabilities and contingent liabilities that would have been within the scope of IAS 37 or IFRIC 21. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

(ii) Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

The amendments clarify the meaning of 'costs to fulfil a contract' for the purposes of assessing whether a contract is onerous. In particular, the amendments explain that such costs comprise the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments also clarify that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than merely on assets dedicated to that contract.

(iii) Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The amendments also clarify that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset, and that the financial performance of the asset is not relevant to this assessment.

(iv) Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual Improvements to IFRS Standards 2018-2020

The IASB issued amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual Improvements to IFRS Standards 2018-2020, which provides an optional relief for the measurement of cumulative translation differences to certain first-time adopters, clarifies the types of fees to be included when assessing the derecognition of financial liability, amends an illustrative example accompanying IFRS 16, 'Leases', and removes the requirement to exclude taxation cash flows when measuring fair value.

The adoption of these standards and amendments does not have a material effect on the Group's consolidated financial information.

(b) ***Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2022***

The Group has not adopted the following new standards and amendments that have been issued by the IASB but are not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(3) Changes in accounting policies *(Continued)*

(b) ***Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2022*** *(Continued)*

		Effective for annual periods beginning on or after	Notes
IFRS 17	Insurance Contracts	1 January 2023	(i)
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023	(ii)
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023	(iii)
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	(iv)
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024	(v)
Amendments to IAS 1 (2020)	Classification of Liabilities as Current or Non-current	1 January 2024	(vi)
Amendments to IAS 1 (2022)	Non-current Liabilities with Covenants	1 January 2024	(vi)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred indefinitely	(vii)

(i) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. Amendments to IFRS 17 were issued in June 2020 and December 2021 to address stakeholder concerns and implementation challenges. IFRS 17 sets out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

IFRS 17 should be applied to annual reporting periods beginning on or after 1 January 2023, and the amendments should be applied at the same time. The Group will adopt IFRS 17 from 1 January 2023. The Group will change its accounting policies from the beginning of 2023 and disclose its financial statements in accordance with IFRS 17 and its amendments since the first quarterly report of 2023. Based on a preliminary assessment, the Group anticipates that the adoption of IFRS 17 and its amendments will not have a significant impact on the Group's consolidated financial statements.

(ii) Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments clarify that an entity will be required to disclose its "material" accounting policy information as opposed to "significant" accounting policies and provide additional guidance on how to identify material accounting policy information. The amendments to IFRS Practice Statement 2 provide additional guidance and examples to explain and illustrate the application of the "four-step materiality process" to accounting policy information.

(iii) Amendments to IAS 8: Definition of Accounting Estimates

The amendments now define "accounting estimates" as "monetary amounts in financial statements that are subject to measurement uncertainty" and remove the definition of "a change in accounting estimate". The amendments also clarify that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(3) Changes in accounting policies *(Continued)*

(b) ***Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2022*** *(Continued)*

(iv) Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments specify how entities should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition. As a result, entities will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

(v) Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

The amendments add to the requirements explaining how an entity accounts for a sale and leaseback after the date of the transaction. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains, including cases with variable lease payments in the leaseback.

(vi) Amendments to IAS 1: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

The amendments to IAS 1 (2020) concern the requirements on determining if a liability is current or non-current. In particular, the amendments specify the condition of an entity to classify a liability as non-current requires that a right to defer settlement must exist at the end of the reporting period and have substance, and clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement.

The amendments also specify the classification of liabilities that will or may be settled by issuing an entity's own equity instruments. When a liability includes a counterparty conversion option that involves a transfer of the entity's own equity instruments, the classification of such liability is not affected only when the conversion option is recognised separately from the host liability as an equity component under IAS 32.

The amendments to IAS 1 (2022) specify that only covenants with which an entity must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the entity must comply after the reporting date (i. e. future covenants) do not affect a liability's classification at that date. However, an entity is required to disclose information regarding the risk that the non-current liabilities subject to future covenants could become repayable within twelve months after the end of the reporting period.

The 2022 amendments defer the effective date of the 2020 amendments to annual reporting periods beginning on or after 1 January 2024. If an entity applies one of these two amendments for an earlier period, the other amendments should also be applied for that period.

(vii) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

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

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

Except for the above-mentioned impact of IFRS 17 and its amendments, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's consolidated financial information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(4) Consolidation

(a) Subsidiary undertakings

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

– has power over the investee;

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

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

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

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

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

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

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

(b) Transactions with non-controlling interests

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

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

(c) Structured entities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(4) Consolidation *(Continued)*

(d) Investment in associates and joint ventures

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

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

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

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

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

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

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

(e) Goodwill

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments

Initial recognition and measurement

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

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

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

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

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

The method of determining fair value

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

Measurement methods

Amortised cost and effective interest rate

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) ***Financial assets***

Classification and subsequent measurement

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

– Fair value through profit or loss (FVPL);

– Fair value through other comprehensive income (FVOCI); or

– Amortised cost.

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

– The Group's business model for managing the asset; and

– The cash flow characteristics of the asset.

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

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) ***Financial assets*** *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

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

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

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

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

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective (refer to Note 2 (5)(b)); that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

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

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

Impairment

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value, discounted at effective interest rate or the credit-adjusted effective interest rate on purchased or originated credit-impaired financial assets, of all cash shortfalls (i. e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) ***Financial assets*** *(Continued)*

Measurement of ECLs (Continued)

The Group's method of measuring ECLs of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months).

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the balance sheet date.

Except for trade receivables and contract assets, the Group measures loss allowance at an amount equal to 12-month ECL for the following financial instruments, and at an amount equal to lifetime ECL for all other financial instruments.

– If the financial instrument is determined to have low credit risk at the balance sheet date;

– If the credit risk on a financial instrument has not increased significantly since initial recognition.

The Group classifies financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on a financial instrument has increased significantly since initial recognition, whether a financial instrument is credit-impaired.

The definition of financial instruments three stages as follows:

Stage 1: Financial instruments without significant increase in credit risk since initial recognition. For these assets, expected credit losses are recognised for the following 12 months.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, expected credit losses are recognised for the remaining lifetime if there is no objective evidence of impairment.

Stage 3: For financial assets with objective evidence of impairment as at the balance sheet date, expected credit losses are recognised for the remaining lifetime.

Financial instruments that have low credit risk

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) ***Financial assets*** *(Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

– Principal or interest of the instrument is more than 30 days past due;

– Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow:

(i) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards;

(ii) The non-retail assets' internal ratings are downgraded by 3 ranks or above upon initial recognition;

(iii) Significant adverse issues have negative impacts on obligator's repayment ability;

(iv) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk and could cause losses of financial assets to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Definition of credit-impaired and default

At each balance sheet date, the Group assesses whether financial assets carried at amortised cost and debt investments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

– Principal or interest of the asset is more than 90 days past due;

– The issuer or obligor is in significant financial difficulty, or has already become insolvent;

– It is becoming probable that the obligor will enter bankruptcy;

– An active market for that financial asset has disappeared because of financial difficulties of issuers;

– Other objective evidence indicating impairment of the financial asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) ***Financial assets*** *(Continued)*

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income. The Group recognises loss allowances for loan commitments and financial guarantee contracts that are not measured at FVTPL in contingent liabilities. (See Note 33 (1)).

Write-off

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

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

Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change in the interest rate.

- Change in the currency the loan is denominated in.

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) ***Financial assets*** *(Continued)*

Modification of loans (Continued)

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

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

Derecognition other than on a modification

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

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

– Has no obligation to make payments unless it collects equivalent amounts from the assets;

– Is prohibited from selling or pledging the assets; and

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) ***Financial assets*** *(Continued)*

Asset securitisation

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(b) Financial liabilities

Classification and subsequent measurement

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

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

– Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2 (5)(a); and

– Credit related commitments and financial guarantees (refer to Note 2 (28)).

Derecognition

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(b) Financial liabilities *(Continued)*

Equity instruments

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

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

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

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

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

(c) Derivative financial instruments and hedge accounting

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

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

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

– A separate instrument with the same terms would meet the definition of a derivative; and

– The hybrid contract is not measured at fair value through profit or loss.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(c) Derivative financial instruments and hedge accounting *(Continued)*

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

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

– 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 Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Possible sources of ineffectiveness are as follows:

– 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 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.

(i) Fair value hedge

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(ii) Cash flow hedge

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

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

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

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

(d) Offsetting financial assets and financial liabilities

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

(6) Interest income and expense

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

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

(7) Fee and commission income

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

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

(8) Dividend income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(9) Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

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

(b) Financial assets purchased under repurchase agreements

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

(10) Precious metals

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

(11) Property and equipment

The Group’s property and equipment mainly comprise buildings, construction in progress, equipment and transportation equipment

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

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

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

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

Type of assets	Estimated Useful lives	Estimated net Residual value	Annual depreciation rate
Buildings	25 – 50 years	3%	1.94% – 3.88%
Equipment	3 – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 – 8 years	3%	12.13% – 24.25%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Property and equipment *(Continued)*

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

(12) Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

(13) Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

(14) Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecongnised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecongnised.

(15) Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(15) Investment property *(Continued)*

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

(16) Impairment of assets

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

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

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

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

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

(a) Testing CGU with goodwill for impairment

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

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

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

(b) Impairment loss

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(16) Impairment of assets *(Continued)*

(c) Reversing an impairment loss

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

An impairment loss in respect of goodwill is not reversed.

(17) Leases

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

(a) The Group as Lessee

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(17) Leases *(Continued)*

(b) The Group as Lessor

Operating Lease

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

Finance Lease

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

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

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

(18) Cash and cash equivalents

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

(19) Provisions

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

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

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

(20) Income taxes

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(20) Income taxes *(Continued)*

(b) Deferred income tax

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

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

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

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

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

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

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

(21) Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

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

(22) Dividend distribution

(a) Dividends on ordinary shares

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(22) Dividend distribution *(Continued)*

(b) Dividends on preference shares

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

(c) Distribution on perpetual bonds

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

(23) Acceptances

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

(24) Staff costs and benefits

(a) Staff costs

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

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

(b) Post-employment benefits

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

Basic retirement insurance

Employees of the Group have joined basic retirement insurance arranged by local ministry of labour and social security. The Group makes monthly contributions to the retirement insurance according to the base and proportion set by local government. When employees retire, local ministry of labour and social security is responsible for the payment of the basic pension to the retired employees. Such basic retirement insurance is a defined contribution plan. During the reporting period in which employees have rendered services, the Group recognises the amounts payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

Annuity plan

Employees of domestic branches who retire at or after 1 January 2009 participate in the annuity plan established by the Group. The Group contributes a certain portion of employees' gross salaries to the annuity plan. Such annuity plan is a defined benefit plan. Related expenses are recognised in profit or loss when incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(24) Staff costs and benefits *(Continued)*

(b) Post-employment benefits *(Continued)*

Supplementary retirement benefits

The Group pays supplementary retirement benefits to employees of domestic branches who retired at or before 31 December 2008. Such supplementary retirement benefits are defined benefit plans. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains or losses in other comprehensive income. Such actuarial gains or losses will not be reversed to profit or loss subsequently. Past service costs are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability and recognised in profit or loss when incurred.

(c) Early retirement expenses

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

(25) Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i. e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

At the reporting date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (i) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (ii) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (iii) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the spot exchange rates at the date of the transactions or a rate that approximates the spot exchange rates of the date of the transaction. Exchange differences arising, if any, are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(25) Foreign currency translation *(Continued)*

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates and joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

(26) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(27) Insurance contracts

(a) Insurance contracts classification and division

Insurance contracts are those contracts under which the Group has undertaken significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be distinguished and separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

(b) Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

(i) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(ii) The related economic benefits are likely to flow to the Group; and

(iii) Related income can be reliably measured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(27) Insurance contracts *(Continued)*

(b) Insurance income recognition (Continued)

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

(28) Credit related commitments and financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For credit related commitments and financial guarantees, the loss allowance is recognised as an provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(29) Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(30) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors and the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (i) that component can earn revenues and incur expenses from ordinary activities; (ii) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (iii) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Head Office, Yangtze River Delta, Central China, Bohai Rim Economic Zone, Pearl River Delta, Western China, Northeastern China and Overseas.

(31) Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) Measurement of ECL

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, debt investment measured at fair value through other comprehensive income and credit related commitments and financial guarantees, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e. g. the likelihood of customers defaulting and the resulting losses). Note 3(1) specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

– Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

– Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;

– Management overlay adjustments due to significant uncertain factors not covered in the models; and

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

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3(1).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(31) Significant accounting estimates and judgements *(Continued)*

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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

(c) Income taxes

The Group is subject to income tax various jurisdictions; principally, in Mainland China and Hong Kong Special Administrative Region of the PRC. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of tax legislation and items of uncertainty taking into account existing tax legislation and past practice. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

(d) Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitisation is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group derecognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(31) Significant accounting estimates and judgements *(Continued)*

(f) Impairment of non-financial assets

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

Fair value is usually based on market prices, and the management obtains it from professional appraisal agencies. Disposal costs include legal fees and taxes related to the asset disposal. When estimating the present value of the expected future cash flow of fixed assets leased out by the subsidiary, the management takes the rental amount agreed in the lease contract and the value of the assets at the end of the lease term as the basis for estimating future cash flows, and determines an appropriate discount rate for the calculation of the present value of future cash flows in various scenarios.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's operating activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department/Internal Control and Crime Prevention Office at Head Office serves as the chief department for the Group's risk management and leads the overall risk management duties, of which the crucial ones would be further designated to specific leading departments. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

(1) Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Group is exposed. Therefore, the Group manages and controls the overall credit risk, integrated into the comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

(a) Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Retail Credit Business Department, Pacific Credit Card Centre, International Banking Department, Credit Management Department, Credit Authorisation Department, Risk Management Department/Internal Control and Crime Prevention Office, Asset Preservation Department, Financial institution Department and Financial Market Department. They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan management and non-performing loan management.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(a) ***Credit risk management*** *(Continued)*

(i) Loans and advances to customers

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration; (5) disposal, etc.

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating business management system and combining relevant system function control, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various monitoring and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, reduces risk exposure to high risk customers through customer classification and enters into the intervention process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

(ii) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(a) ***Credit risk management*** *(Continued)*

(ii) Treasury business (Continued)

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and WMPs set up by banking financial institutions. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank WMPs, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i. e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i. e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

(iii) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

(iv) Credit risk quality

In accordance with the Guideline for Loan Credit Risk Classification issued by the CBIRC, the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(b) Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income ("FVOCI"). The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition to recognise ECL.

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

– an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

– the time value of money;

– reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Stage classification

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL. Definition of above stages see Notes 2(5)(a).

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of "probability of default (PD) ", "loss given default (LGD) ", "exposure at default (EAD) " under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(b) ***Expected credit loss ("ECL")*** *(Continued)*

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely "Basic Scenario", "Optimistic Scenario" and "Pessimistic Scenario". The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

As at 31 December 2022, The Group forecasts the 2023 year-on-year growth rate of GDP to be 5.2% in the Basic Scenario. The Group fully considered the macroeconomic forecast for 2023 when evaluating the forecast information used in the impairment models.

The Group determined the weightings of "Basic Scenario", "Optimistic Scenario" and "Pessimistic Scenario" with macro data analysis and expert's judgement and maintain relative stability.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available. When the management believed that the forecast model could not fully reflect recent credit or economic events, management overlay adjustments could be used to supplement ECL allowances.

Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types.

Sensitivity analysis

The Group measures sensitivity analysis on the macro-economic indicators used in prospective estimation. As at 31 December 2022, if the optimistic/pessimistic scenario weighting increases or decreases by 10%, and the prediction of economic indicators changed correspondingly, the change of the impairment allowance does not exceed 5%.

(c) ***Maximum exposure to credit risk***

(i) financial instruments included in impairment assessment

The Group classified the credit risk levels of financial assets measured by ECL into "Low" (credit risk in good condition), "Medium" (increased credit risk), and "High" (credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group's internal credit risk management. "Low" refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. "Medium" refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. "High" refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(c) ***Maximum exposure to credit risk*** *(Continued)*

(i) financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of major financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

	As at 31 December 2022							
	Low risk	Medium risk	High risk	Domestic branches	Overseas and subsidiaries	Group total	Allowance for Impairment losses	Group Carrying amount
On-balance sheet item								
Cash and balances with central banks (Stage 1)	766,436	–	–	766,436	25,827	792,263	–	792,263
Loans and advances to customers-Corporate (Excluding accrued interest)								
at amortised cost	3,945,613	79,199	60,506	4,085,318	521,838	4,607,156	(134,409)	4,472,747
Stage 1	3,866,961	–	–	3,866,961	485,011	4,351,972	(51,219)	4,300,753
Stage 2	78,652	79,199	–	157,851	18,873	176,724	(35,112)	141,612
Stage 3	–	–	60,506	60,506	17,954	78,460	(48,078)	30,382
at FVOCI	322,364	2	36	322,402	63	322,465	–	322,465
Stage 1	315,497	–	–	315,497	63	315,560	–	315,560
Stage 2	6,867	2	–	6,869	–	6,869	–	6,869
Stage 3	–	–	36	36	–	36	–	36
Loans and advances to customers-Personal (Excluding accrued interest)								
at amortised cost	2,261,444	20,181	19,743	2,301,368	65,139	2,366,507	(41,769)	2,324,738
Stage 1	2,247,634	–	–	2,247,634	63,522	2,311,156	(17,576)	2,293,580
Stage 2	13,810	20,181	–	33,991	1,357	35,348	(10,273)	25,075
Stage 3	–	–	19,743	19,743	260	20,003	(13,920)	6,083
Due from and placements with banks and other financial institutions	366,086	–	–	366,086	325,369	691,455	(1,034)	690,421
Stage 1	366,086	–	–	366,086	321,673	687,759	(1,032)	686,727
Stage 2	–	–	–	–	3,696	3,696	(2)	3,694
Financial investments at amortised cost	2,318,706	1,341	1,125	2,321,172	132,367	2,453,539	(2,764)	2,450,775
Stage 1	2,318,706	–	–	2,318,706	129,095	2,447,801	(1,547)	2,446,254
Stage 2	–	1,341	–	1,341	2,641	3,982	(260)	3,722
Stage 3	–	–	1,125	1,125	631	1,756	(957)	799
Debt investments at FVOCI	380,020	–	–	380,020	403,732	783,752	–	783,752
Stage 1	380,020	–	–	380,020	400,510	780,530	–	780,530
Stage 2	–	–	–	–	2,794	2,794	–	2,794
Stage 3	–	–	–	–	428	428	–	428
On-balance sheet total	10,360,669	100,723	81,410	10,542,802	1,474,335	12,017,137	(179,976)	11,837,161

	As at 31 December 2022				
	Domestic branches	Overseas and subsidiaries	Group total	Allowance for Impairment losses	Group Carrying amount
Credit related commitments and financial guarantees					
Stage 1	2,153,567	54,654	2,208,221	(10,226)	2,197,995
Stage 2	11,469	765	12,234	(1,065)	11,169
Off-balance sheet total	2,165,036	55,419	2,220,455	(11,291)	2,209,164

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(c) ***Maximum exposure to credit risk*** *(Continued)*

(i) financial instruments included in impairment assessment (Continued)

	As at 31 December 2021							
	Low risk	Medium risk	High risk	Domestic branches	Overseas and subsidiaries	Group total	Allowance for Impairment losses	Group Carrying amount
On-balance sheet item								
Cash and balances with central banks								
(Stage 1)	667,440	–	–	667,440	53,990	721,430	–	721,430
Loans and advances to customers-Corporate (Excluding accrued interest)								
at amortised cost	3,449,747	66,771	69,992	3,586,510	504,061	4,090,571	(121,252)	3,969,319
Stage 1	3,364,303	–	–	3,364,303	479,277	3,843,580	(37,786)	3,805,794
Stage 2	85,444	66,771	–	152,215	17,158	169,373	(34,382)	134,991
Stage 3	–	–	69,992	69,992	7,626	77,618	(49,084)	28,534
at FVOCI	182,148	34	10	182,192	2,514	184,706	–	184,706
Stage 1	178,511	–	–	178,511	2,514	181,025	–	181,025
Stage 2	3,637	34	–	3,671	–	3,671	–	3,671
Stage 3	–	–	10	10	–	10	–	10
Loans and advances to customers-Personal (Excluding accrued interest)								
at amortised cost	2,198,737	14,554	18,932	2,232,223	52,873	2,285,096	(38,837)	2,246,259
Stage 1	2,198,737	3,375	–	2,202,112	52,329	2,254,441	(19,617)	2,234,824
Stage 2	–	11,179	–	11,179	308	11,487	(4,510)	6,977
Stage 3	–	–	18,932	18,932	236	19,168	(14,710)	4,458
Due from and placements with banks and other financial institutions	411,963	–	–	411,963	223,051	635,014	(2,306)	632,708
Stage 1	411,963	–	–	411,963	219,552	631,515	(2,304)	629,211
Stage 2	–	–	–	–	3,499	3,499	(2)	3,497
Financial investments at amortised cost	2,124,848	–	1,088	2,125,936	80,059	2,205,995	(2,958)	2,203,037
Stage 1	2,121,126	–	–	2,121,126	77,343	2,198,469	(1,695)	2,196,774
Stage 2	3,722	–	–	3,722	515	4,237	(371)	3,866
Stage 3	–	–	1,088	1,088	2,201	3,289	(892)	2,397
Debt investments at FVOCI	250,966	–	–	250,966	414,501	665,467	–	665,467
Stage 1	250,966	–	–	250,966	410,700	661,666	–	661,666
Stage 2	–	–	–	–	3,772	3,772	–	3,772
Stage 3	–	–	–	–	29	29	–	29
On-balance sheet total	9,285,849	81,359	90,022	9,457,230	1,331,049	10,788,279	(165,353)	10,622,926

	As at 31 December 2021				
	Domestic branches	Overseas and subsidiaries	Group total	Allowance for Impairment losses	Group Carrying amount
Credit related commitments and financial guarantees					
Stage 1	1,814,432	45,815	1,860,247	(8,736)	1,851,511
Stage 2	6,916	732	7,648	(506)	7,142
Off-balance sheet total	1,821,348	46,547	1,867,895	(9,242)	1,858,653

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(c) ***Maximum exposure to credit risk*** *(Continued)*

(ii) Financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets measured at FVTPL which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	As at 31 December 2022	As at 31 December 2021
Financial assets at fair value through profit or loss		
Derivative financial instruments	**69,687**	39,220
Loans and advances to customers	**27**	27
Debt securities	**252,953**	247,934
Fund investments and other asset management products	**359,200**	305,176
Precious metal contracts	**24,557**	21,924
Total	**706,424**	614,281

(iii) Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(c) ***Maximum exposure to credit risk*** *(Continued)*

(iii) Collaterals and other credit enhancements (Continued)

Collaterals *(Continued)*

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

Collaterals	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and personal customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

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

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	As at 31 December 2022			
	Gross exposure	Impairment allowance	Carrying amount	Exposure covered by collateral
Credit impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	98,463	(61,998)	36,465	50,145
Loans and advances to customers at fair value through other comprehensive income	36	–	36	36
Financial investments				
Financial investments at amortised cost	1,756	(957)	799	876
Debt investments at fair value through other comprehensive income	428	–	428	–

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(c) ***Maximum exposure to credit risk*** *(Continued)*

(iii) Collaterals and other credit enhancements (Continued)

Collaterals *(Continued)*

	As at 31 December 2021			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	96,786	(63,794)	32,992	46,184
Loans and advances to customers at fair value through other comprehensive income	10	–	10	10
Financial investments				
Financial investments at amortised cost	3,289	(892)	2,397	4,876
Debt investments at fair value through other comprehensive income	29	–	29	–

Master netting arrangements

The Group may enter into master netting arrangements or similar agreements with the counterparties to reduce credit risk furtherly. The related credit risk of contracts will reduce when settled on a net basis. Each party to the master netting arrangements or similar agreements will settle all such amounts on a net basis in the event of default of the other party.

(d) ***Derivative instruments***

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

Credit risk-weighted amounts

	As at 31 December 2022	As at 31 December 2021
Counterparty credit risk-weighted amounts	39,298	53,789

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract. The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

(e) ***Foreclosed assets***

	As at 31 December 2022	As at 31 December 2021
Buildings	1,400	1,424
Land use rights	8	8
Others	4	5
Gross	1,412	1,437
Less: Impairment allowances	(412)	(407)
Net	1,000	1,030

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(f) Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Concentration risk for geographical sectors

	As at 31 December 2022			
	Mainland China	Hong Kong	Others	Total
Financial assets				
Balances with central banks	768,985	1,874	21,404	792,263
Due from and placements with banks and other financial institutions	423,549	109,971	156,901	690,421
Derivative financial assets	23,345	38,787	7,555	69,687
Loans and advances to customers	6,765,667	232,934	138,076	7,136,677
Financial investments at FVTPL	620,463	11,249	4,998	636,710
Debt investments at FVOCI	400,661	225,274	157,817	783,752
Financial investments at amortised cost	2,369,077	48,398	33,300	2,450,775
Other financial assets	24,935	5,456	5,930	36,321
Total	11,396,682	673,943	525,981	12,596,606
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,118,222	12,737	9,499	1,140,458
Loan commitments and other credit related commitments	1,049,643	18,257	12,097	1,079,997
Total	2,167,865	30,994	21,596	2,220,455

	As at 31 December 2021			
	Mainland China	Hong Kong	Others	Total
Financial assets				
Balances with central banks	670,925	28,814	21,387	721,126
Due from and placements with banks and other financial institutions	463,774	68,572	100,362	632,708
Derivative financial assets	26,989	9,284	2,947	39,220
Loans and advances to customers	6,065,792	206,433	139,976	6,412,201
Financial investments at FVTPL	511,854	6,511	56,669	575,034
Debt investments at FVOCI	394,613	58,562	212,292	665,467
Financial investments at amortised cost	2,161,046	6,621	35,370	2,203,037
Other financial assets	52,737	11,201	3,567	67,505
Total	10,347,730	395,998	572,570	11,316,298
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	879,413	6,458	12,073	897,944
Loan commitments and other credit related commitments	943,804	23,598	2,549	969,951
Total	1,823,217	30,056	14,622	1,867,895

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(f) ***Concentration risk analysis for financial assets with credit risk exposure*** *(Continued)*

Geographical risk concentration for loans and advances to customers

	As at 31 December 2022		As at 31 December 2021	
		%		%
Yangtze River Delta	2,000,365	27.42	1,780,637	27.14
Central China	1,196,075	16.39	1,092,985	16.66
Bohai Rim Economic Zone	1,137,282	15.59	965,957	14.72
Pearl River Delta	978,749	13.41	857,521	13.07
Western China	875,476	12.00	774,445	11.80
Head Office	481,741	6.60	492,884	7.52
Overseas	376,277	5.16	348,948	5.32
North Eastern China	250,190	3.43	247,023	3.77
Gross amount of loans and advances to customers	7,296,155	100.00	6,560,400	100.00

Note: The definitions of geographical operating segments are set out in Note 48.

Industry analysis for loans and advances to customers

	As at 31 December 2022		As at 31 December 2021	
		%		%
Corporate loans				
Transportation, storage and postal service	823,156	11.28	763,419	11.64
Manufacturing	836,532	11.46	732,565	11.16
– Machinery	163,532	2.24	102,338	1.56
– Electronics	162,110	2.22	168,825	2.57
– Petroleum and chemical	137,316	1.88	126,354	1.93
– Steel	47,373	0.65	40,781	0.62
– Textile and clothing	29,275	0.40	26,817	0.41
– Other manufacturing	296,926	4.07	267,450	4.07
Leasing and commercial services	729,818	10.00	650,742	9.92
Real estate	519,857	7.13	419,820	6.40
Water conservancy, environmental and other public services	429,222	5.88	382,201	5.83
Production and supply of power, heat, gas and water	342,617	4.70	268,772	4.10
Wholesale and retail	254,447	3.49	215,554	3.29
Construction	176,696	2.42	157,729	2.40
Finance	148,747	2.04	132,633	2.02
Education, science, culture and public health	128,762	1.76	122,196	1.86
Mining	118,246	1.62	120,216	1.83
Information transmission, software and IT services	68,246	0.94	60,718	0.93
Accommodation and catering	40,168	0.55	34,133	0.52
Others	94,839	1.31	77,884	1.19
Discounted bills	218,295	2.99	136,722	2.08
Total corporate loans	4,929,648	67.57	4,275,304	65.17
Personal loans				
Residential mortgages	1,512,648	20.73	1,489,517	22.70
Credit cards	477,746	6.55	492,580	7.51
Others	376,113	5.15	302,999	4.62
Total personal loans	2,366,507	32.43	2,285,096	34.83
Gross amount of loans and advances before impairment allowances	7,296,155	100.00	6,560,400	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(f) Concentration risk analysis for financial assets with credit risk exposure (Continued)

Industry analysis for loans and advances to customers (Continued)

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

(2) Market risk

Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

(a) VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(2) Market risk *(Continued)*

(a) VaR (Continued)

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

	Year ended 31 December 2022			
Items	31 December 2022	Average	Maximum	Minimum
VaR	631	565	771	298
Including: Interest rate risk	558	570	790	282
Foreign exchange risk	107	90	154	43

	Year ended 31 December 2021			
Items	31 December 2021	Average	Maximum	Minimum
VaR	261	381	746	256
Including: Interest rate risk	269	306	453	197
Foreign exchange risk	133	209	743	100

(b) Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 31 December 2022	As at 31 December 2021
+100 basis points parallel shift in yield curves	10,860	10,562
-100 basis points parallel shift in yield curves	(10,860)	(10,562)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 31 December 2022	As at 31 December 2021
+100 basis points parallel shift in yield curves	(17,667)	(12,995)
-100 basis points parallel shift in yield curves	17,861	14,012

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(2) Market risk *(Continued)*

(b) ***Sensitivity analysis*** *(Continued)*

Interest rate sensitivity analysis (Continued)

The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 31 December 2022	As at 31 December 2021
5% appreciation of RMB	**(327)**	(1,803)
5% depreciation of RMB	**327**	1,803

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2022	As at 31 December 2021
5% appreciation of RMB	**(1,138)**	(1,403)
5% depreciation of RMB	**1,138**	1,403

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(2) Market risk *(Continued)*

(c) Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the PBOC. On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

The Group pays high attention to the transition of interest rate benchmark and has established a task force to speed up the launch and implementation of interest rate benchmark reform project. At the current stage, the progress of this reform is basically on schedule. The first batch exited the market on 1 January 2022 have already complete transition successfully, and the remaining transition of USD libor is ready on schedule, and the impact of the methods of benchmark transition on interest rate risk is generally under control, which has a relatively limited substantial impact on the operations.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

As at 31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	787,224	–	–	–	–	18,878	806,102
Due from and placements with banks and other financial institutions	335,968	104,925	205,097	38,075	1,592	4,764	690,421
Derivative financial assets	–	–	–	–	–	69,687	69,687
Loans and advances to customers	1,811,683	958,323	3,475,560	342,513	205,882	342,716	7,136,677
Financial investments at FVTPL	12,769	24,727	143,074	50,189	65,437	409,161	705,357
Financial investments at amortised cost	27,790	52,466	510,213	790,849	1,040,333	29,124	2,450,775
Financial investments at FVOCI	47,273	110,274	240,595	195,614	181,231	24,088	799,075
Other assets	495	–	–	–	–	333,830	334,325
Total assets	3,023,202	1,250,715	4,574,539	1,417,240	1,494,475	1,232,248	12,992,419
Liabilities							
Due to and placements from banks and other financial institutions	(1,221,722)	(256,095)	(518,409)	(24,137)	(3,433)	(11,098)	(2,034,894)
Financial liabilities at FVTPL	(3,009)	(4,475)	(4,068)	(21,484)	–	(14,913)	(47,949)
Derivative financial liabilities	–	–	–	–	–	(46,804)	(46,804)
Due to customers	(3,896,914)	(624,232)	(1,444,736)	(1,863,246)	(19)	(119,925)	(7,949,072)
Other liabilities	(121,671)	(255,586)	(842,192)	(228,889)	(265,306)	(164,316)	(1,877,960)
Total liabilities	(5,243,316)	(1,140,388)	(2,809,405)	(2,137,756)	(268,758)	(357,056)	(11,956,679)
Total interest sensitivity gap	(2,220,114)	110,327	1,765,134	(720,516)	1,225,717	875,192	1,035,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(2) Market risk *(Continued)*

(c) Interest rate risk (Continued)

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	714,689	–	–	–	–	20,039	734,728
Due from and placements with banks and other financial institutions	274,884	105,476	212,107	28,423	7,950	3,868	632,708
Derivative financial assets	–	–	–	–	–	39,220	39,220
Loans and advances to customers	1,752,819	740,873	2,904,431	442,783	259,155	312,140	6,412,201
Financial investments at FVTPL	32,659	52,942	90,657	35,428	45,306	381,491	638,483
Financial investments at amortised cost	18,908	35,803	262,899	1,009,017	846,114	30,296	2,203,037
Financial investments at FVOCI	49,415	109,842	91,364	227,236	181,312	22,560	681,729
Other assets	458	–	–	–	–	323,193	323,651
Total assets	2,843,832	1,044,936	3,561,458	1,742,887	1,339,837	1,132,807	11,665,757
Liabilities							
Due to and placements from banks and other financial institutions	(1,167,169)	(261,570)	(486,143)	(20,848)	(2,889)	(9,149)	(1,947,768)
Financial liabilities at FVTPL	(24,954)	(1,995)	(10,196)	(1,266)	–	(11,637)	(50,048)
Derivative financial liabilities	–	–	–	–	–	(36,074)	(36,074)
Due to customers	(3,787,796)	(534,784)	(1,020,946)	(1,607,059)	(39)	(89,153)	(7,039,777)
Other liabilities	(125,188)	(183,613)	(722,988)	(224,408)	(216,154)	(142,503)	(1,614,854)
Total liabilities	(5,105,107)	(981,962)	(2,240,273)	(1,853,581)	(219,082)	(288,516)	(10,688,521)
Total interest sensitivity gap	(2,261,275)	62,974	1,321,185	(110,694)	1,120,755	844,291	977,236

(d) Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(2) Market risk *(Continued)*

(d) ***Foreign exchange risk*** *(Continued)*

As at 31 December 2022, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.9646 (31 December 2021: RMB6.3757) and 1 HK dollar to RMB0.8933 (31 December 2021: RMB0.8176), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

As at 31 December 2022	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets					
Cash and balances with central banks	761,360	24,466	3,029	17,247	806,102
Due from and placements with banks and other financial institutions	355,917	284,404	30,206	19,894	690,421
Derivative financial assets	34,610	27,496	4,928	2,653	69,687
Loans and advances to customers	6,585,252	255,653	205,170	90,602	7,136,677
Financial investments at FVTPL	605,884	62,679	4,513	32,281	705,357
Financial investments at amortised cost	2,316,741	92,370	20,047	21,617	2,450,775
Financial investments at FVOCI	421,630	304,276	15,846	57,323	799,075
Other assets	154,352	166,603	6,110	7,260	334,325
Total assets	11,235,746	1,217,947	289,849	248,877	12,992,419
Liabilities					
Due to and placements from banks and other financial institutions	(1,637,331)	(324,092)	(17,291)	(56,180)	(2,034,894)
Financial liabilities at FVTPL	(26,181)	(9,147)	(1,119)	(11,502)	(47,949)
Derivative financial liabilities	(32,994)	(7,062)	(5,292)	(1,456)	(46,804)
Due to customers	(7,191,205)	(431,120)	(272,029)	(54,718)	(7,949,072)
Other liabilities	(1,666,144)	(178,479)	(10,284)	(23,053)	(1,877,960)
Total liabilities	(10,553,855)	(949,900)	(306,015)	(146,909)	(11,956,679)
Net position	681,891	268,047	(16,166)	101,968	1,035,740
Credit related commitments and financial guarantees	2,043,649	133,379	14,386	29,041	2,220,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(2) Market risk *(Continued)*

(d) Foreign exchange risk (Continued)

As at 31 December 2021	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets					
Cash and balances with central banks	659,377	32,034	30,113	13,204	734,728
Due from and placements with banks and other financial institutions	316,755	276,807	19,944	19,202	632,708
Derivative financial assets	32,268	5,982	482	488	39,220
Loans and advances to customers	5,882,592	294,495	164,923	70,191	6,412,201
Financial investments at FVTPL	539,513	79,414	727	18,829	638,483
Financial investments at amortised cost	2,169,831	29,760	812	2,634	2,203,037
Financial investments at FVOCI	309,518	283,663	37,699	50,849	681,729
Other assets	173,258	137,483	7,292	5,618	323,651
Total assets	10,083,112	1,139,638	261,992	181,015	11,665,757
Liabilities					
Due to and placements from banks and other financial institutions	(1,496,464)	(389,507)	(22,857)	(38,940)	(1,947,768)
Financial liabilities at FVTPL	(34,217)	(3,196)	(41)	(12,594)	(50,048)
Derivative financial liabilities	(27,910)	(7,021)	(614)	(529)	(36,074)
Deposits from customers	(6,341,729)	(387,816)	(262,148)	(48,084)	(7,039,777)
Other liabilities	(1,392,157)	(176,573)	(20,418)	(25,706)	(1,614,854)
Total liabilities	(9,292,477)	(964,113)	(306,078)	(125,853)	(10,688,521)
Net position	790,635	175,525	(44,086)	55,162	977,236
Credit related commitments and financial guarantees	1,683,043	137,706	19,797	27,349	1,867,895

(e) Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

(3) Liquidity risk

Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(3) Liquidity risk *(Continued)*

(a) Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.;
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

(b) Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

As at 31 December 2022	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	–	688,101	117,662	–	339	–	–	–	806,102
Due from and placements with banks and other financial institutions	–	–	135,461	167,626	94,515	217,059	78,603	15,386	708,650
Loans and advances to customers	52,307	–	–	541,275	375,385	1,916,512	2,323,601	3,995,748	9,204,828
Financial investments at FVTPL	276	54,776	282,208	10,734	45,012	189,021	73,448	76,065	731,540
Financial investments at amortised cost	799	–	–	28,653	56,763	652,487	931,575	1,223,543	2,893,820
Financial investments at FVOCI	477	15,323	–	11,022	41,574	340,732	271,680	215,671	896,479
Other financial assets	2,054	–	41,760	–	–	–	–	–	43,814
Assets held for managing liquidity risk (contractual maturity dates)	55,913	758,200	577,091	759,310	613,588	3,315,811	3,678,907	5,526,413	15,285,233
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(812,999)	(391,858)	(246,329)	(538,680)	(46,374)	(13,610)	(2,049,850)
Financial liabilities at FVTPL	–	–	(10,901)	(3,928)	(6,209)	(5,338)	(23,437)	–	(49,813)
Due to customers	–	–	(3,119,909)	(869,509)	(629,734)	(1,460,728)	(1,923,273)	(20)	(8,003,173)
Certificates of deposit issued	–	–	–	(97,197)	(241,229)	(753,631)	(14,860)	(234)	(1,107,151)
Debt securities issued	–	–	–	(16,125)	(10,346)	(123,394)	(234,952)	(227,919)	(612,736)
Other financial liabilities	–	–	(98,112)	(2,461)	(701)	(2,057)	(5,168)	(21,217)	(129,716)
Total liabilities (contractual maturity dates)	–	–	(4,041,921)	(1,381,078)	(1,134,548)	(2,883,828)	(2,248,064)	(263,000)	(11,952,439)
Net position	55,913	758,200	(3,464,830)	(621,768)	(520,960)	431,983	1,430,843	5,263,413	3,332,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(3) Liquidity risk *(Continued)*

(b) ***Non-derivative financial instruments cash flows*** *(Continued)*

As at 31 December 2021	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	–	630,776	103,648	–	304	–	–	–	734,728
Due from and placements with banks and other financial institutions	–	–	88,993	171,571	89,939	229,521	47,273	11,908	639,205
Loans and advances to customers	50,266	–	–	526,302	331,408	1,600,584	1,962,475	4,708,281	9,179,316
Financial investments at FVTPL	–	376,060	2,697	25,865	47,830	96,235	53,221	56,240	658,148
Financial investments at amortised cost	2,397	–	–	18,705	41,124	328,799	1,216,983	983,448	2,591,456
Financial investments at FVOCI	29	16,262	–	17,767	57,326	129,941	327,239	205,699	754,263
Other financial assets	4,198	–	63,307	–	–	–	–	–	67,505
Assets held for managing liquidity risk (contractual maturity dates)	56,890	1,023,098	258,645	760,210	567,931	2,385,080	3,607,191	5,965,576	14,624,621
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(816,423)	(339,984)	(249,157)	(500,344)	(47,994)	(8,049)	(1,961,951)
Financial liabilities at FVTPL	–	–	(11,631)	(24,958)	(1,999)	(10,248)	(1,287)	–	(50,123)
Deposits from customers	–	–	(2,917,674)	(896,297)	(548,993)	(1,062,886)	(1,719,819)	(40)	(7,145,709)
Certificates of deposit issued	–	–	–	(102,215)	(159,431)	(627,356)	(15,167)	(29)	(904,198)
Debt securities issued	–	–	–	(8,495)	(12,810)	(125,943)	(243,207)	(177,668)	(568,123)
Other financial liabilities	–	–	(47,545)	(157)	(719)	(1,547)	(27,187)	(64,710)	(141,865)
Total liabilities (contractual maturity dates)	–	–	(3,793,273)	(1,372,106)	(973,109)	(2,328,324)	(2,054,661)	(250,496)	(10,771,969)
Net position	56,890	1,023,098	(3,534,628)	(611,896)	(405,178)	56,756	1,552,530	5,715,080	3,852,652

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

(c) ***Derivative financial instruments cash flows***

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(i) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(3) Liquidity risk *(Continued)*

(c) ***Derivative financial instruments cash flows*** *(Continued)*

(i) Derivative settled on a net basis (Continued)

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

As at 31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	42	2	6	1	–	51
– Interest rate contracts and others	1,078	2,057	7,949	22,168	4,691	37,943
Total	1,120	2,059	7,955	22,169	4,691	37,994
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(111)	(4)	(57)	–	–	(172)
– Interest rate contracts and others	(525)	(1,136)	(3,976)	(7,073)	(740)	(13,450)
Total	(636)	(1,140)	(4,033)	(7,073)	(740)	(13,622)

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	10	1	23	–	–	34
– Interest rate contracts and others	416	823	2,880	7,044	647	11,810
Total	426	824	2,903	7,044	647	11,844
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	(34)	(27)	–	–	(61)
– Interest rate contracts and others	(408)	(900)	(3,096)	(6,989)	(381)	(11,774)
Total	(408)	(934)	(3,123)	(6,989)	(381)	(11,835)

(ii) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

As at 31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments settled on						
– Cash inflow	923,004	899,228	1,213,145	141,467	11,248	3,188,092
– Cash outflow	(924,062)	(898,343)	(1,211,701)	(141,797)	(11,106)	(3,187,009)
Total	(1,058)	885	1,444	(330)	142	1,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(3) Liquidity risk *(Continued)*

(c) ***Derivative financial instruments cash flows*** *(Continued)*

(ii) *Derivative settled on a gross basis (Continued)*

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments settled on						
– Cash inflow	1,095,392	879,647	1,404,576	111,697	14,918	3,506,230
– Cash outflow	(1,094,721)	(879,191)	(1,402,398)	(109,071)	(15,480)	(3,500,861)
Total	671	456	2,178	2,626	(562)	5,369

(d) ***Maturity analysis***

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

As at 31 December 2022	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	–	688,101	117,662	–	339	–	–	–	806,102
Due from and placements with banks and other financial institutions	–	–	135,359	167,125	93,769	212,200	70,862	11,106	690,421
Derivative financial assets	–	–	–	7,404	11,392	14,522	21,553	14,816	69,687
Loans and advances to customers	31,901	–	–	523,724	340,210	1,763,309	1,822,050	2,655,483	7,136,677
Financial investments at FVTPL	276	54,776	282,208	10,301	43,907	178,534	66,400	68,955	705,357
Financial investments at amortised cost	799	–	–	25,067	46,691	523,131	804,463	1,050,624	2,450,775
Financial investments at FVOCI	477	15,323	–	9,069	38,363	306,910	243,875	185,058	799,075
Other assets	2,054	223,001	70,499	–	–	1,167	37,604	–	334,325
Total assets	35,507	981,201	605,728	742,690	574,671	2,999,773	3,066,807	3,986,042	12,992,419
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(812,938)	(391,535)	(245,168)	(530,014)	(44,293)	(10,946)	(2,034,894)
Financial liabilities at FVTPL	–	–	(10,866)	(3,923)	(6,196)	(5,257)	(21,707)	–	(47,949)
Derivative financial liabilities	–	–	–	(8,133)	(10,589)	(13,964)	(10,858)	(3,260)	(46,804)
Due to customers	–	–	(3,118,072)	(869,185)	(628,192)	(1,452,998)	(1,880,606)	(19)	(7,949,072)
Other liabilities	–	–	(110,657)	(131,455)	(266,282)	(865,400)	(233,613)	(270,553)	(1,877,960)
Total liabilities	–	–	(4,052,533)	(1,404,231)	(1,156,427)	(2,867,633)	(2,191,077)	(284,778)	(11,956,679)
Net amount on liquidity gap	35,507	981,201	(3,446,805)	(661,541)	(581,756)	132,140	875,730	3,701,264	1,035,740

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(3) Liquidity risk *(Continued)*

(d) ***Maturity analysis*** *(Continued)*

As at 31 December 2021	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	–	630,776	103,648	–	304	–	–	–	734,728
Due from and placements with banks and other financial institutions	–	–	88,993	171,428	89,547	225,329	45,687	11,724	632,708
Derivative financial assets	–	–	–	6,099	7,172	13,032	11,052	1,865	39,220
Loans and advances to customers	34,913	–	–	504,850	289,612	1,435,771	1,309,429	2,837,626	6,412,201
Financial investments at FVTPL	–	376,060	2,697	25,684	47,293	92,313	43,656	50,780	638,483
Financial investments at amortised cost	2,397	–	–	18,227	37,752	284,065	1,014,207	846,389	2,203,037
Financial investments at FVOCI	29	16,262	–	17,504	56,506	120,183	289,879	181,366	681,729
Other assets	4,198	187,187	93,428	150	18	505	35,656	2,509	323,651
Total assets	41,537	1,210,285	288,766	743,942	528,204	2,171,198	2,749,566	3,932,259	11,665,757
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(816,423)	(339,771)	(247,890)	(491,785)	(44,522)	(7,377)	(1,947,768)
Financial liabilities at FVTPL	–	–	(11,631)	(24,954)	(1,995)	(10,202)	(1,266)	–	(50,048)
Derivative financial liabilities	–	–	–	(5,493)	(6,739)	(11,698)	(10,266)	(1,878)	(36,074)
Due to customers	–	–	(2,917,672)	(892,406)	(544,620)	(1,043,211)	(1,641,829)	(39)	(7,039,777)
Other liabilities	–	–	(59,181)	(113,511)	(198,029)	(739,771)	(285,206)	(219,156)	(1,614,854)
Total liabilities	–	–	(3,804,907)	(1,376,135)	(999,273)	(2,296,667)	(1,983,089)	(228,450)	(10,688,521)
Net amount on liquidity gap	41,537	1,210,285	(3,516,141)	(632,193)	(471,069)	(125,469)	766,477	3,703,809	977,236

(e) ***Off-balance sheet items***

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

As at 31 December 2022	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Loan commitments and other credit related commitments	**1,011,599**	**36,001**	**32,397**	**1,079,997**
Guarantees, acceptances and letters of credit	**962,440**	**175,396**	**2,622**	**1,140,458**
Total	**1,974,039**	**211,397**	**35,019**	**2,220,455**

As at 31 December 2021	Up to 1 year	1-5 years	Over 5 years	Total
Loan commitments and other credit related commitments	924,244	30,785	14,922	969,951
Guarantees, acceptances and letters of credit	757,497	138,818	1,629	897,944
Total	1,681,741	169,603	16,551	1,867,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(4) Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1,2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit, loans and advances to customers carried at FVOCI, precious metals and debt securities issued. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For trust and asset management plan at fair value through profit or loss, loans and advances to customers at fair value through other comprehensive income, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(4) Fair value of financial assets and liabilities *(Continued)*

(a) Determination of fair value and valuation techniques *(Continued)*

For convertible bonds, unlisted funds, unlisted equities and equity derivatives held by the Group, the fair value of these financial instruments is determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 31 December 2022		As at 31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial asset				
Financial investments at amortised cost	2,450,775	2,484,041	2,203,037	2,234,814
Financial liabilities				
Debt securities issued	(516,353)	(514,389)	(491,372)	(496,082)

Fair value hierarchy of financial instruments not measured at fair value

As at 31 December 2022	Level 1	Level 2	Level 3	Total
Financial asset				
Financial investments at amortised cost	64,532	2,346,708	72,801	2,484,041
Financial liabilities				
Debt securities issued	–	(514,389)	–	(514,389)

As at 31 December 2021	Level 1	Level 2	Level 3	Total
Financial asset				
Financial investments at amortised cost	7,757	2,138,742	88,315	2,234,814
Financial liabilities				
Debt securities issued	–	(496,082)	–	(496,082)

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(4) Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

	As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities	6,585	243,646	2,722	252,953
Fund investments and other asset management products	154,825	178,969	25,406	359,200
Equity securities and others	5,725	4,164	58,758	68,647
Precious metal contracts	–	24,557	–	24,557
Derivative financial instruments	–	68,509	1,178	69,687
Loans and advances to customers	–	27	–	27
Subtotal	167,135	519,872	88,064	775,071
At fair value through other comprehensive income				
Debt Investments at FVOCI	145,987	636,929	836	783,752
Investments in equity instruments designated at FVOCI	7,929	1,603	5,791	15,323
Loans and advances to customers at FVOCI	–	322,429	36	322,465
Subtotal	153,916	960,961	6,663	1,121,540
Total assets	321,051	1,480,833	94,727	1,896,611

	As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL	–	(47,949)	–	(47,949)
Derivative financial instruments	–	(46,804)	–	(46,804)
Debt securities issued	–	(14,508)	–	(14,508)
Total liabilities	–	(109,261)	–	(109,261)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(4) Fair value of financial assets and liabilities *(Continued)*

(c) ***Financial assets and financial liabilities measured at fair value on a recurring basis*** *(Continued)*

	As at 31 December 2021			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities	13,308	231,473	3,153	247,934
Fund investments and other asset management products	685	287,847	16,644	305,176
Equity securities and others	7,826	5,081	50,542	63,449
Precious metal contracts	–	21,924	–	21,924
Derivative financial instruments	–	38,183	1,037	39,220
Loans and advances to customers	–	27	–	27
Subtotal	21,819	584,535	71,376	677,730
At fair value through other comprehensive income				
Debt Investments at FVOCI	239,205	425,966	296	665,467
Investments in equity instruments designated at FVOCI	7,357	1,636	7,269	16,262
Loans and advances to customers at FVOCI	–	184,696	10	184,706
Subtotal	246,562	612,298	7,575	866,435
Total assets	268,381	1,196,833	78,951	1,544,165

	As at 31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL	–	(50,048)	–	(50,048)
Derivative financial instruments	–	(36,074)	–	(36,074)
Debt securities issued	–	(12,153)	–	(12,153)
Total liabilities	–	(98,275)	–	(98,275)

Reconciliation of Level 3 items

	Financial assets at FVTPL	**Financial assets at FVOCL**
Balance at 1 January 2022	**71,376**	**7,575**
Total gains or losses		
– Net gains/(losses) arising from trading activities	**1,278**	**787**
– Other comprehensive income	**–**	**(2,275)**
Additions	**18,657**	**634**
Disposals and settlement	**(3,369)**	**(85)**
Transfer from other levels	**122**	**27**
Balance at 31 December 2022	**88,064**	**6,663**
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2022		
– Realised gains	**2,384**	**785**
– Unrealised losses	**(1,106)**	**(2,273)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(4) Fair value of financial assets and liabilities *(Continued)*

(c) ***Financial assets and financial liabilities measured at fair value on a recurring basis*** *(Continued)*

Reconciliation of Level 3 items (Continued)

	Financial assets at FVTPL	Financial assets at FVOCL
Balance at 1 January 2021	65,024	8,166
Total gains or losses		
– Net gains/(losses) arising from trading activities	4,951	48
– Other comprehensive income	–	(1,233)
Additions	10,723	975
Disposals and settlement	(9,286)	(381)
Transfer to other levels	(36)	–
Balance at 31 December 2021	71,376	7,575
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2021		
– Realised gains	1,998	46
– Unrealised losses	2,000	(1,231)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earnings ratio and liquidity discounts.

(5) Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

(6) Capital management

The "capital" in capital management is a broader concept than "shareholders' equity" on the statement of financial position. The Group's objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group's ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(6) Capital management *(Continued)*

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%,6% and 8%, respectively;

- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;

- Additional capital surcharge for systemically important banks requires additional 0.75% on core tier-1 capital adequacy ratio;

- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group's capital as monitored by its Planning and Finance Department and as divided to 3 levels consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;

- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;

- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management, and the Group has steadily promoted the implementation and deepened application of advanced methods in accordance with regulatory requirements. The Group expanded the implementation scope of advanced methods and ended the transition period with the approval of CBRC in 2018. According to the implementation scope of the advanced methods of capital management approved by the CBRC, the Group elected to use elementary internal rating based ("IRB") approach for credit risk exposures, internal model approach for market risk exposures and standardised approach for operational risk exposures which is compliant with regulatory requirements. For credit risk exposures not covered by IRB, the corresponding portion shall be calculated by the weight method. For market risk exposures not covered by internal model approach, the corresponding portion shall be calculated by the standardised method. For operational risk exposures not covered by standardised approach, the corresponding portion shall be calculated by basic index method. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(6) Capital management *(Continued)*

Items	As at 31 December 2022	As at 31 December 2021
Core tier-1 capital adequacy ratio (%)	**10.06**	10.62
Tier-1 capital adequacy ratio (%)	**12.18**	13.01
Capital adequacy ratio (%)	**14.97**	15.45
Core tier-1 capital	**847,105**	789,887
Core tier-1 capital deductions	**(6,941)**	(6,010)
Net core tier-1 capital	**840,164**	783,877
Additional tier-1 capital	**176,480**	176,348
Net tier-1 capital	**1,016,644**	960,225
Tier-2 capital	**233,673**	179,732
Net capital	**1,250,317**	1,139,957
Risk-weighted assets	**8,350,074**	7,379,912

4 NET INTEREST INCOME

	2022	2021
Interest income		
Loans and advances to customers	**291,905**	266,419
Financial investments	**97,311**	88,262
Due from and placements with banks and other financial institutions	**17,886**	12,266
Balances with central banks	**11,020**	10,699
Subtotal	**418,122**	377,646
Interest expense		
Due to customers	**(163,457)**	(140,982)
Due to and placements from banks and other financial institutions	**(44,696)**	(38,581)
Certificates of deposit issued	**(24,225)**	(20,049)
Debt securities issued	**(15,807)**	(16,341)
Subtotal	**(248,185)**	(215,953)
Net interest income	**169,937**	161,693

5 FEE AND COMMISSION INCOME

	2022	2021
Bank cards	**19,141**	20,136
Wealth management business	**10,154**	11,775
Custody and other fiduciary business	**7,496**	7,484
Agency services	**4,980**	5,664
Investment banking	**3,093**	3,120
Guarantee and commitment	**2,884**	2,527
Settlement services	**1,364**	1,296
Others	**227**	283
Total	**49,339**	52,285

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

6 FEE AND COMMISSION EXPENSE

	2022	2021
Bank card business	2,454	2,560
Settlement and agency services	1,865	1,744
Others	381	408
Total	4,700	4,712

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	2022	2021
Financial instruments at FVTPL	5,808	20,621
Foreign exchange	5,737	2,539
Interest rate instruments and others	6,062	184
Total	17,607	23,344

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2022 included a net gain of RMB274 million (for the year ended 31 December 2021: a net loss of RMB227 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 INSURANCE BUSINESS INCOME

	2022	2021
Premiums earned	18,429	17,141
Less: Premiums ceded	(329)	(626)
Total	18,100	16,515

9 OTHER OPERATING INCOME

	2022	2021
Leasing income	14,969	13,843
Income from sales of precious metal merchandise	1,953	2,020
Revaluation of investment properties	739	183
Net gain on the disposal of fixed and foreclosed assets	166	454
Other miscellaneous income	4,632	2,535
Total	22,459	19,035

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

10 CREDIT IMPAIRMENT LOSSES

	2022	2021
Loans and advances to customers at amortised cost	57,066	63,339
Credit related commitments and financial guarantees	2,358	1,998
Loans and advances to customers at FVOCI	840	158
Debt investments at FVOCI	598	(87)
Financial investments at amortised cost	(198)	(124)
Due from and placements with banks and other financial institutions	(1,333)	1,085
Others	1,080	2
Total	60,411	66,371

11 OTHER ASSETS IMPAIRMENT LOSSES

	2022	2021
Operating lease assets	1,882	1,981
Foreclosed assets	8	284
Precious metal	7	55
Total	1,897	2,320

12 INSURANCE BUSINESS EXPENSE

	2022	2021
Change in insurance reserves	13,456	15,643
Add: Change in insurance reserves recovered from reinsurers	1	958
Surrenders	4,938	1,084
Others	985	(631)
Total	19,380	17,054

13 OTHER OPERATING EXPENSES

	2022	2021
Staff costs and benefits (Note 14)	39,314	36,825
General operating and administrative expenses	28,861	29,621
Costs of operating lease business	9,879	9,108
Depreciation and amortisation	8,650	8,099
Tax and surcharges	3,119	3,001
Provision/(reversal) for outstanding litigations	56	(199)
Others	3,746	3,589
Total	93,625	90,044

14 STAFF COSTS AND BENEFITS

	Note	2022	2021
Salaries, bonuses, allowances and subsidies		26,918	25,383
Post-employment benefit	(1)	4,326	4,093
Other social security and benefit costs		8,070	7,349
Total		39,314	36,825

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

14 STAFF COSTS AND BENEFITS *(Continued)*

(1) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

As at 31 December 2022, there are no forfeited contributions under the Group's retirement benefit plans which can be used to deduct contributions payable for future years.

The amount recognised in profit or loss in the year is as follows:

	2022	2021
Expenses incurred for retirement benefit plans and unemployment insurance	2,674	2,494
Expenses incurred for annuity plan	1,626	1,575
Total	4,300	4,069

The amount payable at the end of the year is as follows:

	2022	2021
Expenses incurred for retirement benefit plans and unemployment insurance	85	105
Expenses incurred for annuity plan	41	50
Total	126	155

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at 31 December 2022	As at 31 December 2021
Statement of financial position		
– Net obligations for pension benefits	396	385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS *(Continued)*

(1) Post-employment benefit *(Continued)*

Defined benefit plans *(Continued)*

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	2022	2021
Components of defined benefit costs recognised in profit or loss	26	24
Components of defined benefit costs recognised in other comprehensive income	34	(55)
Total	60	(31)

Past service cost and interest expense are recognised in other operating expenses in the income statement.

Movements in the unfunded obligations over the year are as follows:

	2022	2021
Present value of unfunded obligations at the beginning of the year	385	467
Retirement benefits paid during the year	(49)	(51)
Interest expense	22	21
Past service cost	4	3
Net actuarial gains/(losses) recognised in the current year	34	(55)
Present value of unfunded obligations at the end of the year	396	385

The average duration of the supplementary retirement benefits plan at 31 December 2022 is 11.43 years (31 December 2021: 12.31 years).

The Group expects to make a contribution of RMB39 million (2021: RMB39 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 2.99% (31 December 2021: 3.07%) and 1.99% (31 December 2021: 0.81%) respectively as at 31 December 2022. In the meantime, assumptions regarding future mortality rate are set based on published statistics by the CBIRC. An average longevity of a pensioner after retirement at age 60 for male is 23.13 years while a pensioner after retirement at age 55 for female is 33.13 years.

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(a) If the discount rate is 100 basis points higher/(lower), the defined benefit obligation would decrease by RMB27 million/(increase by RMB30 million).

(b) If the expected inflation rate increases/(decreases) by 1%, the defined benefit obligation would increase by RMB30 million/(decrease by RMB27 million).

14 STAFF COSTS AND BENEFITS *(Continued)*

(1) Post-employment benefit *(Continued)*

Defined benefit plans *(Continued)*

(c) If the life expectancy increases/(decreases) by one year for men and women, the defined benefit obligation would increase by RMB35 million/(decrease by RMB36 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value at the end of the reporting period of the unfunded obligation has been calculated in the same method as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis in prior years.

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB)	Year ended 31 December 2022			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	656	248	904
Mr. Liu, Jun	–	656	234	890
Non-executive directors				
Mr. Li, Longcheng	–	–	–	–
Mr. Wang, Linping	–	–	–	–
Mr. Chang, Baosheng	–	–	–	–
Mr. Liao, Yijian	–	–	–	–
Mr. Chen, Shaozong	–	–	–	–
Mr. Mu, Guoxin	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Luo, Xiaopeng	–	–	–	–
Independent non-executive directors				
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	330	–	–	330
Mr. Ma, Jun	112	–	–	112
Supervisors				
Mr. Xu, Jiming	–	656	234	890
Mr. Wang, Xueqing	–	–	–	–
Mr. Li, Yao	–	280	–	280
Mr. Chen, Hanwen	–	267	–	267
Mr. Su, Zhi	–	132	–	132
Mr. Guan, Xingshe	–	1,010	239	1,249
Ms. Lin, Zhihong	–	830	239	1,069
Ms. Feng, Bing	–	830	239	1,069
Ms. Po, Ying	–	1,010	240	1,250
Total	1,062	6,327	1,673	9,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2022			
Name	Emoluments	Remuneration	Other benefits	Total
Former directors and supervisors				
Mr. Song, Hongjun	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Jason Yeung Chi Wai	155	–	–	155
Mr. Zhang, Minsheng	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Ju, Jiandong	–	128	–	128
Total	155	128	–	283

(in thousands of RMB)	Year ended 31 December 2021			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	619	210	829
Mr. Liu, Jun	–	619	206	825
Non-executive directors				
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Li, Longcheng	–	–	–	–
Independent non-executive directors				
Jason Yeung Chi Wai	310	–	–	310
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	330	–	–	330
Supervisors				
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	280	–	280
Mr. Chen, Hanwen	–	260	–	260
Mr. Ju, Jiandong	–	260	–	260
Mr. Guan, Xingshe	–	956	211	1,167
Ms. Lin, Zhihong	–	962	211	1,173
Ms. Po, Ying	–	79	18	97
Mr. Xu, Jiming	–	258	87	345
Ms. Feng, Bing	–	819	211	1,030
Total	1,260	5,112	1,154	7,526

(in thousands of RMB)	Year ended 31 December 2021			
Name	Emoluments	Remuneration	Other benefits	Total
Former directors and supervisors				
Mr. Du, Yarong	–	416	84	500
Mr. Cai, Yunge	–	103	34	137
Mr. He, Zhaobin	–	73	22	95
Total	–	592	140	732

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

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(1) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(a) The total compensation package for directors and supervisors for the year ended 31 December 2022 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's financial statements for the year ended 31 December 2022. The final compensation will be disclosed in a separate announcement when determined. The final total compensation for the year ended 31 December 2021 was disclosed in the Information on the First Extraordinary General Meeting of Shareholders in 2023 issued on 1 March 2023.

(b) Employee supervisors Mr. Guan Xingshe, Ms. Lin Zhihong, Ms. Feng Bing and Ms. Po Ying received compensation according to their positions as employees of the Bank and did not receive additional compensation as employee supervisors.

(c) During 2022 and 2021, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(d) Other benefits include social insurance, housing allowances, enterprise annuity paid by the Bank.

(2) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	2022	2021
Salary	15	15
Discretionary bonuses	11	13
Employer's contribution to pension scheme and other benefits	2	2
Total	28	30

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	2022	2021
HKD4,000,001 – 4,500,000	2	–
HKD4,500,001 – 5,000,000	1	1
HKD5,000,001 – 5,500,000	1	3
HKD5,500,001 – 6,000,000	–	–
HKD6,000,001 – 6,500,000	–	–
HKD6,500,001 – 7,000,000	–	–
HKD7,000,001 – 7,500,000	–	–
HKD7,500,001 – 8,000,000	–	–
HKD8,000,001 – 8,500,000	–	–
HKD8,500,001 – 9,000,000	–	–
HKD9,000,001 – 9,500,000	–	–
HKD9,500,001 – 10,000,000	1	–
HKD10,000,001 – 10,500,000	–	1
Total	5	5

During 2022 and 2021, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

16 INCOME TAX

	2022	2021
Current income tax		
– Enterprise income tax	9,919	7,522
– Hong Kong profits tax	464	608
– Other countries or regions	715	753
Subtotal	11,098	8,883
Deferred income tax (Note 26)	(4,913)	(3,863)
Total	6,185	5,020

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the difference between tax paid by overseas branches and the accrued tax under the regulation of Mainland China shall be compensated by the head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25%. The major reconciliation items are as follows:

	Note	2022	2021
Profit before tax		98,215	93,959
Tax calculated at statutory rate of 25%		24,554	23,490
Effects of different tax rates prevailing in other countries or regions		122	(207)
Effects of non-deductible expenses	(1)	4,356	2,445
Effects of non-taxable income	(2)	(20,982)	(19,663)
Adjustments for income tax filing of prior years		(487)	(111)
Others		(1,378)	(934)
Income tax		6,185	5,020

(1) Non-deductible expenses primarily represent non-deductible write-offs.

(2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the parent company by the weighted average number of ordinary shares in issue during the period.

	2022	2021
Net profit attributable to shareholders of the parent company	92,149	87,581
Less: Dividends paid to preference shareholders	(1,832)	(1,755)
Interest paid to perpetual bond holders	(5,651)	(3,858)
Net profit attributable to holders of ordinary shares of the parent company	84,666	81,968
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period	74,263	74,263
Basic and diluted earnings per share (expressed in RMB per share)	1.14	1.10

For the calculation of basic earnings per share, a cash dividend of RMB1,832 million on preference shares and interests of RMB5,651 million on perpetual bond declared for the year was deducted from the amounts attributable to shareholders of the parent company. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2022, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

18 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2022	As at 31 December 2021
Cash	13,839	13,298
Mandatory reserve deposits	683,401	624,340
Surplus reserve deposits	103,823	90,350
Fiscal deposits	4,700	6,436
Accrued interest	339	304
Total	806,102	734,728

The Group is required to place statutory reserves with the PBOC and overseas central banks, including RMB and foreign currency deposit reserves and foreign exchange risk reserves for forward foreign exchange sales businesses, which are not allowed to be used in the Group's daily operations.

Surplus reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

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19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2022	As at 31 December 2021
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	120,905	83,372
– Banks and other financial institutions operating outside Mainland China	34,371	36,422
Accrued interest	368	298
Less: Allowance for impairment losses	(209)	(202)
Financial assets purchased under repurchase agreements		
– Securities	49,715	59,964
– Bills	6,995	13,512
Accrued interest	11	33
Less: Allowance for impairment losses	(88)	(141)
Placements with and loans to banks		
– Banks operating in Mainland China	80,566	111,677
– Banks operating outside Mainland China	126,829	77,490
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	196,730	194,502
– Placements with and loans to other financial institutions outside Mainland China	70,572	54,176
Accrued interest	4,393	3,568
Less: Allowance for impairment losses	(737)	(1,963)
Total	690,421	632,708

As at 31 December 2022 and 31 December 2021, due from banks and other financial institutions of the Group included pledged deposits, risk reserves and other deposits. The use of these deposits is restricted.

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilize derivative financial instruments for trading or hedging purposes, including forwards, swaps and options.

The notional amounts of derivative financial instruments provide a reference of the business scale for those financial 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 price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market foreign exchange rates, interest rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

As at 31 December 2022	Contractual/ Notional Amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	3,406,796	34,499	(34,648)
Interest rate contracts and others	3,076,875	35,188	(12,156)
Total amount of derivative financial instruments recognised	6,483,671	69,687	(46,804)

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

20 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As at 31 December 2021	Contractual/Notional Amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	3,501,041	27,195	(24,899)
Interest rate contracts and others	3,626,588	12,025	(11,175)
Total amount of derivative financial instruments recognised	7,127,629	39,220	(36,074)

Hedge accounting

Notional amount and fair value of hedging instruments included in the above derivative financial instruments are as follows:

As at 31 December 2022	**Contractual/ Notional Amount**	**Fair values**	
		Assets	**Liabilities**
Derivative financial instruments designated as hedging instruments in cash flow hedges	**75,883**	**2,043**	**(1,202)**
Derivative financial instruments designated as hedging instruments in fair value hedges	**177,797**	**15,934**	**(20)**
Total	**253,680**	**17,977**	**(1,222)**

As at 31 December 2021	Contractual/Notional Amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in cash flow hedges	71,805	519	(973)
Derivative financial instruments designated as hedging instruments in fair value hedges	141,731	1,871	(1,274)
Total	213,536	2,390	(2,247)

(1) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include debt investments at FVOCI, loans and advances to customers, placements from banks and financial investments at amortised cost.

The following table shows the profit or loss effects of the fair value hedges:

	2022	2021
Net gains/(losses) from fair value hedges:		
Hedging instruments	**15,231**	4,405
Hedged items attributable to the hedged risk	**(15,553)**	(4,386)
Total	**(322)**	19

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20 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(2) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers and due to and placements from banks and other financial institutions. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the year ended 31 December 2022, the Group recognised RMB2,564 million (31 December 2021: RMB1,133 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies RMB1,606 million from other comprehensive income to profit or loss (31 December 2021: RMB617 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

21 LOANS AND ADVANCES TO CUSTOMERS

(1) Loans and advances to customers

	As at 31 December 2022	As at 31 December 2021
Loans and advances to customers		
– Carried at amortised cost	**6,973,663**	6,375,667
– Carried at FVOCI	**322,465**	184,706
– Carried at FVTPL	**27**	27
Less: Allowance for impairment losses	**(176,178)**	(160,089)
Accrued interest	**18,608**	13,985
Less: Allowance for impairment losses of accrued interest	**(1,908)**	(2,095)
	7,136,677	6,412,201

(2) Loans and advances to customers analysed by security type

	As at 31 December 2022	As at 31 December 2021
Unsecured loans	**2,461,988**	2,085,835
Guaranteed loans	**1,179,381**	1,056,138
Loans secured by collateral	**2,579,866**	2,488,276
Pledged loans	**1,074,920**	930,151
Total	**7,296,155**	6,560,400

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

21 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(3) Movements of ECL allowance

Movements of ECL allowance for principal – Loans and advances to customers at amortised cost:

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	57,403	38,892	63,794	160,089
Transfers:				
Transfer to Stage 1	*3,904*	*(3,553)*	*(351)*	–
Transfer to Stage 2	*(5,520)*	*7,051*	*(1,531)*	–
Transfer to Stage 3	*(261)*	*(13,341)*	*13,602*	–
Provision	13,044	15,867	28,351	57,262
Written-offs and disposals	–	–	(46,242)	(46,242)
Recovery of loans and advances written off in previous years	–	–	5,146	5,146
Others	225	469	(771)	(77)
As at 31 December 2022	68,795	45,385	61,998	176,178

	For the year ended 31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	43,426	32,870	62,978	139,274
Transfers:				
Transfer between Stage 1 and Stage 2, net	*(142)*	*142*	–	–
Transfer between Stage 1 and Stage 3, net	*(391)*	–	*391*	–
Transfer between Stage 2 and Stage 3, net	–	*(7,598)*	*7,598*	–
Provision	14,593	13,243	34,951	62,787
Written-offs and disposals	–	–	(47,151)	(47,151)
Recovery of loans and advances written off in previous years	–	–	6,324	6,324
Others	(83)	235	(1,297)	(1,145)
As at 31 December 2021	57,403	38,892	63,794	160,089

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	937	48	88	1,073
Transfers:				
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	–	–	–	–
Transfer to Stage 3	*(1)*	*(22)*	*23*	–
Provision	586	214	40	840
Written-offs and disposals	–	–	(71)	(71)
Others	–	–	(1)	(1)
As at 31 December 2022	1,522	240	79	1,841

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21 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(3) Movements of ECL allowance *(Continued)*

	For the year ended 31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	878	47	362	1,287
Transfers:				
Transfer between Stage 1 and Stage 2, net	*(64)*	*64*	–	–
Transfer between Stage 1 and Stage 3, net	*(20)*	–	*20*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Provision/(reversal)	143	(63)	78	158
Written-offs and disposals	–	–	(368)	(368)
Others	–	–	(4)	(4)
As at 31 December 2021	937	48	88	1,073

(4) Overdue loans analysed by security type

	As at 31 December 2022				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**12,049**	**10,165**	**5,279**	**100**	**27,593**
Guaranteed loans	**2,626**	**8,632**	**3,532**	**1,315**	**16,105**
Loans secured by collateral	**11,399**	**9,193**	**8,867**	**2,584**	**32,043**
Pledged loans	**1,663**	**5,490**	**1,405**	**529**	**9,087**
Total	**27,737**	**33,480**	**19,083**	**4,528**	**84,828**

	As at 31 December 2021				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	10,351	10,096	5,215	1,035	26,697
Guaranteed loans	3,315	7,693	6,853	2,364	20,225
Loans secured by collateral	7,729	8,925	12,324	3,419	32,397
Pledged loans	1,769	2,719	2,772	583	7,843
Total	23,164	29,433	27,164	7,401	87,162

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

22 FINANCIAL INVESTMENTS

	As at 31 December 2022	As at 31 December 2021
Financial investments at FVTPL		
– Listed in Hong Kong	72,510	45,482
– Listed outside Hong Kong	210,783	200,197
– Unlisted	422,064	392,804
Total	705,357	638,483
Financial investments at amortised cost		
– Listed in Hong Kong	27,336	13,474
– Listed outside Hong Kong	2,265,215	2,044,176
– Unlisted	132,584	120,387
Accrued interest	28,404	27,958
Less: Allowance for impairment losses	(2,764)	(2,958)
Total	2,450,775	2,203,037
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	157,408	168,690
– Listed outside Hong Kong	536,770	417,119
– Unlisted	81,242	73,382
Accrued interest	8,332	6,276
Subtotal	783,752	665,467
Equity investments at FVOCI		
– Listed in Hong Kong	5,600	3,238
– Listed outside Hong Kong	3,932	5,755
– Unlisted	5,791	7,269
Subtotal	15,323	16,262
Total	799,075	681,729

Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the Solely Payments of Principal and Interest Test (“SPPI test”).

For the year ended 31 December 2022, the Group’s cash dividends received from equity investments at FVOCI was RMB785 million (for the year ended 31 December 2021: RMB615 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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22 FINANCIAL INVESTMENTS *(Continued)*

Debt securities analysed by issuer are as follows:

	As at 31 December 2022	As at 31 December 2021
Financial investments at FVTPL		
– Governments and central banks	102,349	99,079
– Banks and other financial institutions	80,601	100,898
– Corporate entities	69,443	46,655
– Public sector entities	560	1,302
Total	252,953	247,934
Bond investments at amortised cost		
– Governments and central banks	2,148,425	1,922,479
– Banks and other financial institutions	164,060	117,156
– Corporate entities	44,734	47,035
– Public sector entities	22,708	21,201
Total	2,379,927	2,107,871
Debt investments at FVOCI		
– Governments and central banks	375,231	304,365
– Banks and other financial institutions	294,348	254,601
– Corporate entities	99,511	101,931
– Public sector entities	14,662	4,570
Total	783,752	665,467

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	1,695	371	892	2,958
Transfers:				
Transfer to Stage 1	*126*	*(126)*	–	–
Transfer to Stage 2	*(2)*	*2*	–	–
Transfer to Stage 3	–	–	–	–
(Reversal)/Provision	(274)	12	64	(198)
Others	2	1	1	4
As at 31 December 2022	1,547	260	957	2,764

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

22 FINANCIAL INVESTMENTS *(Continued)*

	For the year ended 31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	1,844	682	524	3,050
Transfers:				
Transfer between Stage 1 and Stage 2, net	*274*	*(274)*	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	*(399)*	*399*	–
(Reversal)/provision	(420)	104	192	(124)
Others	(3)	258	(223)	32
As at 31 December 2021	1,695	371	892	2,958

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2021	**555**	**10**	**456**	**1,021**
Transfers:				
Transfer to Stage 1	**–**	**–**	**–**	**–**
Transfer to Stage 2	***(3)***	***3***	**–**	**–**
Transfer to Stage 3	***(1)***	***(20)***	***21***	**–**
Provision	**1**	**24**	**573**	**598**
Others	**76**	**(4)**	**(160)**	**(88)**
As at 31 December 2022	**628**	**13**	**890**	**1,531**

	For the year ended 31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	670	11	563	1,244
Transfers:				
Transfer between Stage 1 and Stage 2, net	*(9)*	*9*	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
(Reversal)/provision	(115)	1	27	(87)
Others	9	(11)	(134)	(136)
As at 31 December 2021	555	10	456	1,021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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23 PRINCIPAL SUBSIDIARIES

Name of subsidiaries	Legal representative/ Principal	Registered capital	Nature of entity	Place of operation	Place of registration	Nature of business	Principal business	Proportion of shares held		Means of acquisition
								Direct	Indirect	
Bank of Communications Financial Leasing Co., Ltd.	Xu Bin	RMB14,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial leasing	100.00	–	Establishment
Bank of Communications International Trust Co., Ltd.	Tong Xuewei	RMB5,764,705,882	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Trust investment	85.00	–	Investment
Bank of Communications Schroder Fund Management Co., Ltd.	Ruan Hong	RMB200,000,000	Limited liability company	No. 8 Century Avenue, Pudong New District, Shanghai	Mainland China	Financial industry	Fund management	65.00	–	Establishment
BOCOM Wealth Management Co., Ltd.	Zhang Hongliang	RMB8,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial products issuing and financial consulting	100.00	–	Establishment
BOCOM MSIG Life Insurance Company Limited	Wang Qingyan	RMB5,100,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Life Insurance	62.50	–	Investment
Bank of Communications Financial Assets Investment Co., Ltd.	Zheng Zhiyang	RMB10,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Debt-to-equity swaps	100.00	–	Establishment
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Tan Yueheng	HKD2,734,392,000	Foreign legal entity	No. 68 Des Voeux Road Central, Central, Hong Kong	Hong Kong China	Financial industry	Securities dealing and brokerage	73.14	–	Establishment
China BoCom Insurance Co., Ltd.	Zhang Jian	HKD400,000,000	Foreign legal entity	No. 8 Cotton Tree Drive, Central, Hong Kong	Hong Kong China	Financial industry	General insurance and reinsurance	100.00	–	Establishment
Dayi BoCom Xingmin Rural Bank Ltd.	Liu Yike	RMB230,000,000	Limited liability company	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province	Mainland China	Financial industry	Commercial banking	97.29	–	Establishment
Zhejiang Anji BoCom Rural Bank Ltd.	Xu Tong	RMB180,000,000	Joint stock company	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province	Mainland China	Financial industry	Commercial banking	51.00	–	Establishment
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Fang Linhai	RMB150,000,000	Joint stock company	No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region	Mainland China	Financial industry	Commercial banking	51.00	–	Establishment
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Sheng Liang	RMB150,000,000	Joint stock company	No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong	Mainland China	Financial industry	Commercial banking	51.00	–	Establishment
Bank of Communications (Hong Kong) Limited	Meng Yu	HKD37,900,000,000	Foreign legal entity	20 Pedder Street, Central, Hong Kong	Hong Kong China	Financial industry	Commercial banking	100.00	–	Establishment
Bank of Communications (Luxembourg) Limited	Zhang Shuren	EUR350,000,000	Foreign legal entity	7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg	Luxembourg	Financial industry	Commercial banking	100.00	–	Establishment
Bocom Brazil Holding Company Ltda	Sun Xu	BRL700,000,000	Foreign legal entity	Avenida Barão de Tefé,34, salas 1701,1702,1801 e 1802, Saúde, Rio de Janeiro, Brazil	Brazil	Non-financial industry	Investment	100.00	–	Establishment
BANCO BoCom BBM S. A.	Alexandre Lowenkron	BRL469,300,389	Foreign legal entity	Av Barão de Tefé,34-20th, Rio de Janeiro Brazil,20220-460	Brazil	Financial industry	Commercial banking	–	80.00	Investment

As at 31 December 2022, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

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

24 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 31 December 2022	As at 31 December 2021
Investments in associates		
Investment cost	6,474	4,062
Share of net profit of associates for the year	1,866	1,599
Share of other equity changes of associates for the year	114	93
Dividend income	(283)	(204)
Subtotal	8,171	5,550
Investments in joint ventures	579	229
Total	8,750	5,779

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2022 (31 December 2021: 9.01%).

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2022 (31 December 2021: 10.60%).

25 PROPERTY AND EQUIPMENT

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Total
Cost					
As at 1 January 2022	74,687	2,963	27,454	143,867	248,971
Additions	417	1,060	4,858	38,830	45,165
Construction in progress transfer in	505	(505)	–	–	–
Transfer in from investment properties	329	–	–	–	329
Transfer into investment properties	(139)	–	–	–	(139)
Decreases	(236)	(3)	(2,000)	(7,319)	(9,558)
As at 31 December 2022	75,563	3,515	30,312	175,378	284,768
Accumulated depreciation					
As at 1 January 2022	(29,395)	–	(20,329)	(25,549)	(75,273)
Charge for the year	(2,793)	–	(2,612)	(9,629)	(15,034)
Transfer into investment properties	17	–	–	–	17
Decreases	101	–	1,854	1,884	3,839
As at 31 December 2022	(32,070)	–	(21,087)	(33,294)	(86,451)
Allowance for impairment losses					
As at 1 January 2022	–	(16)	–	(2,488)	(2,504)
Provision for impairment	–	–	–	(1,882)	(1,882)
Decrease	–	–	–	238	238
As at 31 December 2022	–	(16)	–	(4,132)	(4,148)
Net book value					
As at 31 December 2022	43,493	3,499	9,225	137,952	194,169

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25 PROPERTY AND EQUIPMENT *(Continued)*

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Total
Cost					
As at 1 January 2021	72,397	3,369	26,655	136,705	239,126
Additions	236	1,351	3,486	16,758	21,831
Disposals	(572)	–	(2,687)	(9,596)	(12,855)
Construction in progress transfer in/(out)	1,727	(1,727)	–	–	–
Transfer in from investment properties	899	–	–	–	899
Transfer into investment properties	–	–	–	–	–
Other transfers out	–	(30)	–	–	(30)
As at 31 December 2021	74,687	2,963	27,454	143,867	248,971
Accumulated depreciation					
As at 1 January 2021	(26,944)	–	(20,679)	(21,241)	(68,864)
Charge for the year	(2,738)	–	(2,242)	(6,738)	(11,718)
Disposals	287	–	2,592	2,430	5,309
Transfer into investment properties	–	–	–	–	–
As at 31 December 2021	(29,395)	–	(20,329)	(25,549)	(75,273)
Allowance for impairment losses					
As at 1 January 2021	–	(16)	–	(775)	(791)
Provision for impairment	–	–	–	(1,981)	(1,981)
Decrease	–	–	–	268	268
As at 31 December 2021	–	(16)	–	(2,488)	(2,504)
Net book value					
As at 31 December 2021	45,292	2,947	7,125	115,830	171,194

As at 31 December 2022, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB52,416 million (31 December 2021: RMB57,988 million).

As at 31 December 2022, the property and equipment with re-registration procedure not completed amounted to RMB174 million (31 December 2021: RMB198 million). However, this registration process does not affect the rights of the Group to these assets.

26 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2022 (for the year ended 31 December 2021: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2021: 16.5%).

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

26 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2022		As at 31 December 2021	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Allowance for impairment of assets	134,772	33,693	119,972	29,993
Changes in fair value of derivative instruments	57,312	14,328	36,074	9,250
Provisions	11,928	2,982	9,672	2,418
Changes in fair value of financial assets at FVOCI	10,492	2,623	5,132	1,283
Changes in fair value of financial assets at FVTPL	9,484	2,371	–	–
Changes in fair value of financial liabilities at FVTPL	340	85	–	–
Others	6,835	1,709	7,067	1,767
Subtotal	231,163	57,791	177,917	44,711
Deferred income tax liabilities				
Changes in fair value of derivative instruments	(68,464)	(17,116)	(39,220)	(9,667)
Changes in fair value of investment properties	(3,232)	(808)	(3,020)	(755)
Changes in fair value of financial assets at FVOCI	(1,780)	(445)	(6,240)	(1,560)
Changes in fair value of financial liabilities at FVTPL	(668)	(167)	–	–
Changes in fair value of financial assets at FVTPL	(499)	(125)	(3,464)	(866)
Others	(8,580)	(2,145)	(6,764)	(1,691)
Subtotal	(83,223)	(20,806)	(58,708)	(14,539)
Net deferred income tax assets	147,940	36,985	119,209	30,172

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 31 December 2022	As at 31 December 2021
Deferred income tax assets	38,771	32,061
Deferred income tax liabilities	(1,786)	(1,889)

	2022	2021
Net opening balance	30,172	26,705
Net change in deferred income tax recognised in income tax expense in the current year	4,913	3,863
Net changes in deferred income tax recognised in other comprehensive income in the current year	1,900	(396)
Net ending balance	36,985	30,172

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

27 OTHER ASSETS

	Note	As at 31 December 2022	As at 31 December 2021
Accounts receivable and temporary payments		36,775	66,062
Less: Allowance for impairment losses	(1)	(3,003)	(3,265)
Advance payments		22,100	16,328
Precious metal		7,814	4,878
Right-of-use assets	(2)	6,931	6,777
Investment properties	(3)	6,387	6,340
Interest receivable	(4)	2,054	4,250
Land use rights and others		1,998	2,077
Intangible assets	(5)	1,954	1,797
Foreclosed assets		1,000	1,030
Long-term deferred expenses		879	721
Refundable deposits		495	458
Goodwill	(6)	407	395
Unsettled assets		31	31
Others		6,813	6,738
Total		92,635	114,617

(1) Allowance for impairment losses

	As at 1 January 2022	Amounts accrued	Reversal	Written-offs	Transfers in	Recoveries after written-offs	Exchange differences	As at 31 December 2022
Other receivables and prepayments	(3,265)	(3,435)	2,798	992	(8)	(77)	(8)	(3,003)

	As at 1 January 2021	Amounts accrued	Reversal	Written-offs	Transfers in	Recoveries after written-offs	Exchange differences	As at 31 December 2021
Other receivables and prepayments	(2,764)	(2,137)	1,020	1,111	(356)	(140)	1	(3,265)

(2) Right-of-use assets

	As at 31 December 2022	As at 31 December 2021
Cost:		
Opening balance	13,980	13,693
Additions	2,704	2,946
Decreases	(2,354)	(2,659)
As at the end of the year	14,330	13,980
Accumulated depreciation:		
Opening balance	(7,203)	(7,024)
Additions	(2,380)	(2,416)
Decreases	2,184	2,237
As at the end of the year	(7,399)	(7,203)
Net book value	6,931	6,777
Lease liabilities	6,775	6,640

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

27 OTHER ASSETS *(Continued)*

(2) Right-of-use assets *(Continued)*

As at 31 December 2022, committed by leases but not yet commenced amount to RMB97 million (as at 31 December 2021: RMB158 million).

(3) Investment properties

	As at 1 January 2022	Decreases of the year	Gains on property revaluation	Exchange differences	As at 31 December 2022
Investment properties	6,340	(190)	166	71	6,387

	As at 1 January 2021	Decreases of the year	Gains on property revaluation	Exchange differences	As at 31 December 2021
Investment properties	7,353	(899)	183	(297)	6,340

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2022, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	As at 31 December 2022
Commercial property units located in Hong Kong	–	–	922	922
Commercial property units located outside Hong Kong	–	–	5,465	5,465

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Market Approach". The inputs to these models mainly include growth rate of rental, vacancy rate, future rent income years, capitalisation rate and unit price, etc.

(4) The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

(5) Intangible assets

	Software
Cost	
As at 1 January 2022	4,504
Additions	627
Disposals	(15)
As at 31 December 2022	5,116
Accumulated amortization	
As at 1 January 2022	(2,707)
Amortisation expense	(467)
Disposals	12
As at 31 December 2022	(3,162)
Net book value	1,954

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For the year ended 31 December 2022
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27 OTHER ASSETS *(Continued)*

(5) Intangible assets *(Continued)*

	Software
Cost	
As at 1 January 2021	3,888
Additions	633
Disposals	(17)
As at 31 December 2021	4,504
Accumulated amortization	
As at 1 January 2021	(2,338)
Amortisation expense	(376)
Disposals	7
As at 31 December 2021	(2,707)
Net book value	1,797

(6) Goodwill

	As at 1 January 2022	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2022
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO BoCom BBM S. A.	73	–	–	12	85
Total	395	–	–	12	407

	As at 1 January 2021	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2021
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO BoCom BBM S. A.	79	–	–	(6)	73
Total	401	–	–	(6)	395

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

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

28 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2022	As at 31 December 2021
Borrowing from central banks	398,293	334,794
Accrued interest	4,787	4,564
Due to banks		
– Banks operating in Mainland China	254,973	242,492
– Banks operating outside Mainland China	8,839	11,871
Due to other financial institutions		
– Other financial institutions operating in Mainland China	803,430	831,784
– Other financial institutions operating outside Mainland China	7,699	6,810
Accrued interest	3,652	3,683
Placements from banks		
– Banks operating in Mainland China	210,818	284,232
– Banks operating outside Mainland China	201,042	170,980
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	200	2,364
– Other financial institutions operating outside Mainland China	10,204	8,583
Accrued interest	2,344	860
Financial assets sold under repurchase agreements		
Securities	128,298	44,710
Accrued interest	315	41
Total	2,034,894	1,947,768

29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2022	As at 31 December 2021
Certificates of deposit issued	22,253	1,400
Financial liabilities related to precious metal contracts	11,502	15,247
Notes issued	1,701	1,385
Short position of securities held for trading	5	134
Others (1)	12,488	31,882
Total	47,949	50,048

(1) As at 31 December 2022, others mainly are liabilities of consolidated structured entities and shares held by other parties rather than the Group.

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited, and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated at fair value through profit or loss

	As at 31 December 2022	As at 31 December 2021
Difference between carrying amount and maturity amount		
Fair values	36,442	34,667
Amount payable at maturity	(36,723)	(34,709)
	(281)	(42)

For the year ended 31 December 2022 and the year ended 31 December 2021, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

30 DUE TO CUSTOMERS

	As at 31 December 2022	As at 31 December 2021
Corporate demand deposits	1,989,383	2,061,672
Corporate time deposits	2,887,650	2,488,348
Personal demand deposits	885,013	850,831
Personal time deposits	2,070,711	1,551,981
Other deposits	4,227	3,359
Due to customers	7,836,984	6,956,191
Accrued interest	112,088	83,586
Total	7,949,072	7,039,777

As at 31 December 2022, deposits from customers comprised deposits pledged as collateral of RMB331,318 million (as at 31 December 2021: RMB220,878 million).

31 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by Head office, the Bank's overseas branches and subsidiaries are measured at amortised cost.

32 DEBT SECURITIES ISSUED

	Note	As at 31 December 2022	As at 31 December 2021
Carried at amortised cost:			
Bonds	(1)	306,030	332,072
Tier-2 capital bonds	(2)	198,951	148,342
Subordinated bonds	(3)	4,800	4,800
Accrued interest		6,572	6,158
Subtotal		516,353	491,372
Carried at fair value:			
Bonds	(1)	14,508	12,153
Total		530,861	503,525

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

32 DEBT SECURITIES ISSUED *(Continued)*

(1) Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
The Bank								
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/25	3 years	–	50,000
19 Bocomm 02	RMB	Mainland China	3.35	40,000	2019/12/11	3 years	–	40,000
20 Bocomm 01	RMB	Mainland China	3.18	50,000	2020/08/05	3 years	50,000	50,000
20 Bocomm 02	RMB	Mainland China	3.50	40,000	2020/11/11	3 years	40,000	40,000
21 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.40	40,000	2021/04/06	3 years	40,000	40,000
22 Bocom Micro Small Enterprises Bond 01	RMB	Mainland China	2.75	30,000	2022/06/15	3 years	29,999	–
22 Bocom Micro Small Enterprises Bond 02	RMB	Mainland China	2.98	30,000	2022/12/09	3 years	29,998	–
22 Bocom Green Financial Bond	RMB	Mainland China	2.42	20,000	2022/08/05	3 years	19,999	–
22 Bocom Green Financial Bond 02	RMB	Mainland China	2.96	10,000	2022/12/09	3 years	9,999	–
17 medium-term notes 02	USD	Hong Kong China	3MLibor+0.88	300	2017/05/15	5 years	–	1,912
17 medium-term notes 04	USD	Hong Kong China	3MLibor+0.90	600	2017/12/04	5 years	–	3,825
18 medium-term notes 02	USD	Hong Kong China	3MLibor+0.85	700	2018/05/17	5 years	4,876	4,462
20 Hong Kong medium-term notes 01	HKD	Hong Kong China	2.25	2,800	2020/01/22	2 years	–	2,289
20 Hong Kong medium-term notes 02	USD	Hong Kong China	3MLibor+0.58	1,300	2020/01/22	3 years	9,055	8,287
20 Hong Kong medium-term notes 04	USD	Hong Kong China	3MLibor+0.75	100	2020/06/05	3 years	696	637
20 Hong Kong medium-term notes 05	USD	Hong Kong China	3MLibor+0.80	650	2020/07/20	3 years	4,528	4,143
20 Hong Kong medium-term notes 06	USD	Hong Kong China	3MLibor+0.90	400	2020/07/20	5 years	2,786	2,550
20 Hong Kong medium-term notes 07	USD	Hong Kong China	1.20	800	2020/09/10	5 years	5,560	5,084
20 Hong Kong medium-term notes 08	USD	Hong Kong China	3MLibor+0.80	350	2020/09/10	3 years	2,438	2,231
21 Macau PA-medium-term notes	MOP	Macau China	0.85	1,200	2021/12/15	2 years	1,038	951
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	199	200
Subtotal							251,171	256,571

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32 DEBT SECURITIES ISSUED *(Continued)*

(1) Bonds *(Continued)*

Detailed information of bonds held at amortised cost is as follows: *(Continued)*

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
Subsidiaries								
19 Leasing 01	RMB	Mainland China	3.68	5,000	2019/05/20	3 years	–	4,998
19 Leasing 02	RMB	Mainland China	3.65	5,000	2019/07/08	3 years	–	4,998
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/21	3 years	–	3,498
20 Leasing 01	RMB	Mainland China	3.65	3,000	2020/11/05	3 years	2,998	2,996
21 Leasing 01	RMB	Mainland China	3.62	4,000	2021/03/01	3 years	3,996	3,993
21 Leasing 02	RMB	Mainland China	3.45	3,000	2021/04/22	3 years	2,627	2,625
22 Pearl notes	RMB	Mainland China	2.90	2,400	2022/12/15	3 years	1,680	–
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	–	3,693
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	3,001	2,766
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.20	120	2019/04/12	3 years	–	765
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.175	400	2019/09/05	5 years	1,228	1,129
19 USD medium-term notes 05	USD	Hong Kong China	2.625	200	2019/09/05	5 years	809	723
19 USD medium-term notes 06	USD	Hong Kong China	3MLibor+1.05	180	2019/10/25	3 years	–	1,148
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.075	600	2019/12/10	5 years	1,450	1,585
20 USD medium-term notes 01	USD	Hong Kong China	3MLibor+0.95	500	2020/03/02	5 years	1,842	1,710
20 USD medium-term notes 02	USD	Hong Kong China	3MLibor+0.83	300	2020/03/02	3 years	1,628	1,492
20 USD medium-term notes 03	USD	Hong Kong China	1.75	350	2020/07/14	3 years	1,661	1,515
20 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.70	450	2020/07/14	5 years	1,616	1,348
21 USD medium-term notes 01	USD	Hong Kong China	1.125	500	2021/06/18	3 years	2,181	1,865
21 HKD medium-term notes 02	HKD	Hong Kong China	1.07	775	2021/09/27	3 years	692	634
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,482	3,187
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,615	6,047
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,728	1,580
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	–	6,692
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,736	1,589
20 Financial Investing 01	RMB	Mainland China	2.70	3,000	2020/03/11	3 years	2,998	2,999
20 Financial Investing 02	RMB	Mainland China	2.80	7,000	2020/03/11	5 years	6,995	6,990
21 Bocomm International 01	USD	Hong Kong China	1.75	500	2021/06/22	5 years	3,223	2,890
19 Brazil bonds	BRL	Brazil	110%SELIC	200	2019/01/30	5 years	52	46
22 Brazil bonds 01	BRL	Brazil	CDI +2.60	270	2022/02/07	10 years	357	–
22 Brazil bonds 02	BRL	Brazil	CDI +2.40	200	2022/11/29	10 years	264	–
Subtotal							54,859	75,501
Total							306,030	332,072

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

32 DEBT SECURITIES ISSUED *(Continued)*

(1) Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Fair value at the end of the year	Fair value at the beginning of the year
Subsidiaries								
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,120	3,027
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	800	2019/03/21	3 years	–	5,106
20 Hong Kong medium-term notes 03	RMB	Hong Kong China	3.15	2,000	2020/01/22	2 years	–	2,034
21 Hong Kong medium-term notes 01	HKD	Hong Kong China	0.95	1,200	2021/12/13	2 years	1,031	980
21 Hong Kong medium-term notes 02	RMB	Hong Kong China	3.15	1,000	2021/12/13	3 years	1,004	1,006
22 Hong Kong medium-term notes 01	HKD	Hong Kong China	1.80	1,200	2022/03/21	2 years	1,039	–
22 Hong Kong medium-term notes 02	RMB	Hong Kong China	3.20	2,800	2022/03/21	2 years	2,834	–
22 Hong Kong medium-term notes 03	USD	Hong Kong China	2.375	400	2022/03/21	3 years	2,661	–
22 Hong Kong medium-term notes 04	RMB	Hong Kong China	3.05	1,420	2022/11/30	2 years	1,426	–
22 Hong Kong medium-term notes 05	USD	Hong Kong China	4.75	200	2022/11/30	3 years	1,393	–
Total							14,508	12,153

(2) Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
The Bank									
17 BoComm	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(a)	–	29,978
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(b)	29,998	29,998
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(c)	9,999	9,999
20 BoComm	RMB	Mainland China	3.24	40,000	2020/05/19	10 years	(d)	39,997	39,996
21 BoComm	RMB	Mainland China	3.65	30,000	2021/09/23	10 years	(e)	29,999	30,000
22 BoComm 01	RMB	Mainland China	3.45	30,000	2022/02/23	10 years	(f)	29,999	–
22 BoComm 02A	RMB	Mainland China	3.03	37,000	2022/11/11	10 years	(g)	36,998	–
22 BoComm 02B	RMB	Mainland China	3.36	13,000	2022/11/11	15 years	(h)	12,999	–
Subtotal								189,989	139,971
Subsidiaries									
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(i)	1,996	1,996
21 BoComm Hong Kong	USD	Hong Kong China	2.304	1,000	2021/07/08	10 years	(j)	6,966	6,375
Subtotal								8,962	8,371
Total								198,951	148,342

(a) The Group has redeemed full face value of 17 BoComm by exercising redemption option on 13 April 2022.

(b) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

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32 DEBT SECURITIES ISSUED *(Continued)*

(2) Tier 2 capital bonds *(Continued)*

(c) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(d) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(e) The Group has an option to redeem 21 BoComm at the par value partially or as a whole on 27 September 2026, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(f) The Group has an option to redeem 22 BoComm 01 at the par value partially or as a whole on 25 February 2027, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(g) The Group has an option to redeem 22 BoComm 02A at the par value partially or as a whole on 15 November 2027, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(h) The Group has an option to redeem 22 BoComm 02B at the par value partially or as a whole on 15 November 2032, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(i) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(j) The Group has an option to redeem 21 BoComm Hong Kong as a whole on 8 July 2026. If the issuer does not exercise the redemption right by 8 July 2026, the interest rate will be readjusted based on the 5-year U. S. Treasury rate plus 140 basis points initial rate differential.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

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

32 DEBT SECURITIES ISSUED *(Continued)*

(3) Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
Subsidiary									
21 Insurance 01	RMB	Mainland China	4.30	3,000	2021/03/25	10 years	(a)	3,000	3,000
21 Insurance 02	RMB	Mainland China	3.93	1,800	2021/07/27	10 years	(a)	1,800	1,800
Total								4,800	4,800

(a) BOCOM MSIG Life Insurance Company Limited has an option to redeem the bonds at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.

33 OTHER LIABILITIES

	Note	As at 31 December 2022	As at 31 December 2021
Insurance liabilities		89,435	74,493
Clearing and settlement		22,704	24,056
Temporary receipts		35,912	16,015
Staff compensation payable		16,802	14,401
Expected credit impairment allowance of credit related commitments and financial guarantees	(1)	11,291	9,242
Lease liabilities		6,775	6,640
Deposits received for finance lease		6,414	6,842
VAT and other taxes payable		4,811	5,639
Special purpose funding		1,949	2,108
Provision for outstanding litigations	(2)	520	472
Dividends payable		378	81
Others		52,019	52,706
Total		249,010	212,695

(1) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	8,736	506	–	9,242
Transfers:				
Transfer to Stage 1	*24*	*(24)*	–	–
Transfer to Stage 2	*(333)*	*333*	–	–
Transfer to Stage 3	–	–	–	–
Provision	1,798	560	–	2,358
Others	1	(310)	–	(309)
As at 31 December 2022	10,226	1,065	–	11,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

33 OTHER LIABILITIES *(Continued)*

(1) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees *(Continued)*

	For the year ended 31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	6,858	3,642	–	10,500
Transfers:				
Transfer between Stage 1 and Stage 2 net	*(37)*	*37*	–	–
Transfer between Stage 1 and Stage 3 net	–	–	–	–
Transfer between Stage 2 and Stage 3 net	–	–	–	–
Provision	1,925	73	–	1,998
Others	(10)	(3,246)	–	(3,256)
As at 31 December 2021	8,736	506	–	9,242

(2) Movements in the provision for outstanding litigations

	As at 1 January 2022	**Amounts during accrued the year**	**Amounts settled during the year**	**Amounts reversed during the year**	**Exchange differences**	**As at 31 December 2022**
Provision for outstanding litigations	**472**	**223**	**(8)**	**(167)**	**–**	**520**

	As at 1 January 2021	Amounts during accrued the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2021
Provision for outstanding litigations	1,032	99	(361)	(298)	–	472

34 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	**Ordinary shares of RMB1 each**	**Capital surplus**
As at 1 January 2022	**74,263**	**74,263**	**111,428**
As at 31 December 2022	**74,263**	**74,263**	**111,429**

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2021	74,263	74,263	111,428
As at 31 December 2021	74,263	74,263	111,428

As at 31 December 2022 and 31 December 2021, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

34 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2022 and 31 December 2021, the Group's capital surplus is listed as follows:

	As at 1 January 2022	Additions	Reductions	As at 31 December 2022
Share premium	110,770	–	–	110,770
Other capital reserve	658	1	–	659
Total	111,428	1	–	111,429

	As at 1 January 2021	Additions	Reductions	As at 31 December 2021
Share premium	110,770	–	–	110,770
Other capital reserve	658	–	–	658
Total	111,428	–	–	111,428

35 OTHER EQUITY INSTRUMENTS

(1) Preference shares

(a) Preference shares outstanding at the end of the year

	Issue date	Accounting classification	Dividend rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Domestic preference shares										
Preference shares in RMB	2 September 2016	Equity	4.07	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the period
Less: Issuance fees							(48)			
Carrying amount							44,952			

(b) Movements of preference shares issued

	As at 1 January 2022	Movements		As at 31 December 2022
		Additions	Decreases	
Domestic references-shares				
Amount (shares)	450,000,000	–	–	450,000,000
In RMB (millions)	44,952	–	–	44,952

35 OTHER EQUITY INSTRUMENTS *(Continued)*

(1) Preference shares *(Continued)*

(c) Main clauses

Domestic preference shares

(i) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

– From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

– The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

With effect from 7 September 2021, the Bank has adjusted the dividend rate for the second dividend rate adjustment period to 4.07%.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(iii) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(iv) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

35 OTHER EQUITY INSTRUMENTS *(Continued)*

(1) Preference shares *(Continued)*

(c) Main clauses (Continued)

(iv) Order of distribution and liquidation method (Continued)

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(v) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 7 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

(2) Perpetual bonds

(a) Perpetual bonds outstanding at the end of the period

	Issue date	Accounting classification	Original interest rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
19 BoComm perpetual bonds (i)	18 September 2019	Equity	4.20	RMB100/bond	400,000,000	40,000	40,000	No fixed maturity date
20 BoComm perpetual bonds (ii)	23 September 2020	Equity	4.59	RMB100/bond	300,000,000	30,000	30,000	No fixed maturity date
21 BoComm perpetual bonds (ii)	8 June 2021	Equity	4.06	RMB100/bond	415,000,000	41,500	41,500	No fixed maturity date
Perpetual bonds in USD (iii)	11 November 2020	Equity	3.80	Not less than USD200,000/bond	Not applicable	2,800	18,366	No fixed maturity date
				Total			129,866	
				Less: Issuance fees			(28)	
				Carrying amount			129,838	

(b) Main clauses

(i) With the approvals by relevant regulatory authorities, the Bank issued RMB40 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the raising fund was received on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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35 OTHER EQUITY INSTRUMENTS *(Continued)*

(2) Perpetual bonds *(Continued)*

(b) ***Main clauses*** *(Continued)*

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

(ii) With the approvals by relevant regulatory authorities, the Bank issued RMB30 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the raising fund was received on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

With the approvals by relevant regulatory authorities, the Bank issued RMB41.5 billion undated capital bonds in China's National Inter-Bank Bond Market on 8 June 2021, and the raising fund was received on 10 June 2021. The denomination of the Bonds is RMB100 each and coupon rate of 4.06%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

35 OTHER EQUITY INSTRUMENTS *(Continued)*

(2) Perpetual bonds *(Continued)*

(b) ***Main clauses*** *(Continued)*

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

(iii) With the approvals by relevant regulatory authorities, the Bank issued USD2.8 billion undated capital bonds in the offshore market on 11 November 2020, and the raising fund was received on 18 November 2020. The specified denomination of the bonds is not less than USD200,000, the exceeding part need to be integral multiple of USD1000 and issued at 100% of the specified denomination. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds. Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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35 OTHER EQUITY INSTRUMENTS *(Continued)*

(3) Interests attributable to holders of other equity instruments

	As at 31 December 2022	As at 31 December 2021
Total equity attributable to equity holders of the parent company	1,023,409	964,647
– Equity attributable to ordinary shareholders of the parent company	848,619	789,857
– Equity attributable to preference shareholders of the parent company	44,952	44,952
– Equity attributable to perpetual bond holders of the parent company	129,838	129,838
Total equity attributable to non-controlling interests	12,331	12,589
– Equity attributable to non-controlling interests of ordinary shares	8,873	9,424
– Equity attributable to non-controlling interests of non-cumulative subordinated additional Tier-1 capital securities (Note 38)	3,458	3,165

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the year ended 31 December 2022 are disclosed in Note 37.

36 OTHER RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval.

The Group	As at 1 January 2022	Appropriate	Decrease	As at 31 December 2022
Statutory reserve	79,967	8,187	–	88,154
Discretionary reserve	140,022	160	–	140,182
Total	219,989	8,347	–	228,336

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Group's subsidiaries and overseas branches, if required by regulation requirements of belonged industries or location, also need to make such general reserve.

The Group	As at 1 January 2022	Appropriate	Decrease	As at 31 December 2022
Statutory general reserve	130,280	14,261	–	144,541

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

36 OTHER RESERVES AND RETAINED EARNINGS *(Continued)*

Retained earnings

The movements of retained earnings are set out below:

As at 1 January 2022	**258,074**
Profit for the year	**92,149**
Appropriation to statutory reserve	**(8,187)**
Appropriation to discretionary reserve	**(160)**
Appropriation to general reserve	**(14,261)**
Dividends payable to ordinary shareholders	**(26,363)**
Dividends payable to preference shareholders	**(1,832)**
Interest to perpetual bond holders	**(5,651)**
Others	**(101)**
As at 31 December 2022	**293,668**

As at 1 January 2021	214,448
Profit for the year	87,581
Appropriation to statutory reserve	(7,536)
Appropriation to discretionary reserve	(92)
Appropriation to general reserve	(7,117)
Dividends payable to ordinary shareholders	(23,541)
Dividends payable to preference shareholders	(1,755)
Interest to perpetual bond holders	(3,858)
Others	(56)
As at 31 December 2021	258,074

37 DIVIDENDS

	2022	2021
Dividends to ordinary shareholders of the Bank	**26,363**	23,541
Dividends to preference shareholders of the Bank	**1,832**	1,755
Interest to perpetual bond holders of the Bank	**5,651**	3,858

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity. The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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37 DIVIDENDS *(Continued)*

Pursuant to the approval by the 2021 Annual General Meeting of Shareholders on 28 June 2022, the Bank appropriated a cash dividend of RMB0.355 (before tax) for each ordinary share, with total amount of RMB26,363 million, calculated based on 74,263 million shares outstanding as at 31 December 2021, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 29 April 2022, the Bank will appropriate domestic preference dividends of RMB1,831,500,000 with a dividend yield of 4.07%.

The Bank distributed the interest on the 2020 undated capital bonds in USD amounting to RMB909 million on 18 November 2022.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB1,377 million on 25 September 2022.

The Bank distributed the interest on the 2019 undated capital bonds amounting to RMB1,680 million on 20 September 2022.

The Bank distributed the interest on the 2021 undated capital bonds amounting to RMB1,685 million on 10 June 2022.

38 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 31 December 2022, equity attributable to other equity instruments holders was RMB3,458 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

Issue Date	3 March 2020
Face Value	USD500 million
First Call Date	3 March 2025
Distribution Rate	(i) from the issue date to the first call date,3.725% per annum (ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum if the redemption right is not exercised
Frequency of distribution payments	Semi-annually

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier-1 capital securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB119 million during the year ended 31 December 2022.

39 CONTINGENCIES

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 33. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

	As at 31 December 2022	As at 31 December 2021
Outstanding litigations	**2,017**	4,096
Provision for outstanding litigation (Note 33)	**520**	472

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

39 CONTINGENCIES *(Continued)*

Operating lease receipts

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 31 December 2022	As at 31 December 2021
Within 1 year	**16,880**	13,186
After 1 year and within 2 years	**15,635**	12,864
After 2 years and within 3 years	**14,209**	12,269
After 3 years and within 4 years	**12,954**	11,184
After 4 years and within 5 years	**11,374**	10,204
After 5 years	**43,924**	38,879
Total	**114,976**	98,586

40 COMMITMENTS

Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

	As at 31 December 2022	As at 31 December 2021
Loan commitments		
– Under 1 year	**10,129**	3,936
– 1 year and above	**71,743**	57,657
Credit card commitments	**998,125**	908,358
Acceptance bills	**536,574**	368,120
Letters of guarantee	**420,167**	373,630
Letters of credit commitments	**183,717**	156,194
Total	**2,220,455**	1,867,895

Capital expenditure commitments

	As at 31 December 2022	As at 31 December 2021
Contracted but not provided for	**94,654**	71,053

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2022, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB66,715 million (31 December 2021: RMB78,594 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. As at 31 December 2022, The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material (31 December 2021: not material).

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2022, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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41 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 31 December 2022	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021
Investment securities	**751,853**	382,640	**692,106**	326,776
Bills	**2,112**	3,531	**2,112**	3,531
Total	**753,965**	386,171	**694,218**	330,307

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

In addition, loans and advances to customers pledged as collateral for borrowing from central banks or placements from banks by the Group as at 31 December 2022 amounted to RMB4,217 million in total (31 December 2021: RMB5,090 million).

(2) Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements. The Group did not hold any collateral that can be resold or re-pledged on balance sheet date when non-defaulting.

42 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2022		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Changes in fair value of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	*(9,692)*	*1,947*	*(7,745)*
Amount reclassified to profit or loss	*(892)*	*223*	*(669)*
Expected credit losses of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	*1,438*	*(219)*	*1,219*
Amount reclassified to profit or loss	*–*	*–*	*–*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity	*2,564*	*(560)*	*2,004*
Amount reclassified to profit or loss	*(1,606)*	*402*	*(1,204)*
Translation difference on foreign operations	8,562	–	8,562
Changes in fair value of equity investments designated at FVOCI	(1,417)	116	(1,301)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVTPL	(133)	–	(133)
Actuarial gains on pension benefits	(34)	–	(34)
Others	144	(9)	135
Other comprehensive income for the year	(1,066)	1,900	834

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

42 OTHER COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December 2021		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Changes in fair value of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	*4,594*	*(945)*	*3,649*
Amount reclassified to profit or loss	*(1,160)*	*290*	*(870)*
Expected credit losses of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	*(466)*	*72*	*(394)*
Amount reclassified to profit or loss	*–*	*–*	*–*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity	*1,133*	*(242)*	*891*
Amount reclassified to profit or loss	*(617)*	*154*	*(463)*
Translation difference on foreign operations	(3,450)	–	(3,450)
Changes in fair value of equity investments designated at FVOCI	(1,830)	275	(1,555)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVTPL	(36)	–	(36)
Actuarial gains on pension benefits	55	–	55
Others	16	–	16
Other comprehensive income for the year	(1,761)	(396)	(2,157)

43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

	As at 31 December 2022	As at 31 December 2021
Cash and balances with central banks	**117,662**	103,648
Due from and placements with banks and other financial institutions	**131,141**	90,660
Total	**248,803**	194,308

44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2022, the consolidated structured entities amounted to RMB177,225 million (31 December 2021: RMB182,733 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through acting as sponsors of structured entities or investments in structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2022, those unconsolidated structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, limited partnerships, WMPs with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities, and such income is not significant to the Group. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2022, the balance of the non-principal guaranteed WMPs set up by the Group amounted to RMB1,206,901 million, the balance of funds issued by the Group amounted to RMB531,253 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB569,762 million (As at 31 December 2021: the balance of the non-principal guaranteed WMPs set up by the Group amounted to RMB1,426,253 million, the balance of funds issued by the Group amounted to RMB547,188 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB721,946 million).

For the year ended 31 December 2022, the Group's commission income from providing services to the structured entities managed by the Group was RMB10,154 million (For the year ended 31 December 2021: RMB11,775 million), and no interest income from placements and repurchase transactions with those unconsolidated WMPs (For the year ended 31 December 2021: Nil).

As at 31 December 2022 and 31 December 2021, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

As at 31 December 2022

	Carrying amount				
	Financial investments at FVTPL	Financial investments at amortised cost	Financial investments at FVOCI	Maximum exposure to loss	Type of income
Funds	199,024	–	–	199,024	Net gains arising from trading activities
Equity investment	1,325	–	352	1,677	Net gains arising from trading activities, other comprehensive income
Trusts and asset management products	9,141	60,463	–	69,604	Net interest income, net gains arising from trading activities
Securitisation products	170	261	–	431	Net interest income, net gains arising from trading activities
Total	209,660	60,724	352	270,736	

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

45 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

As at 31 December 2021

	Carrying amount				
	Financial investments at FVTPL	Financial investments at amortised cost	Financial investments at FVOCI	Maximum exposure to loss	Type of income
Funds	146,439	–	–	146,439	Net gains arising from trading activities
Equity investment	1,299	–	620	1,919	Net gains arising from trading activities, other comprehensive income
Trusts and asset management products	13,445	83,245	–	96,690	Net interest income, net gains arising from trading activities
Securitisation products	63	134	–	197	Net interest income, net gains arising from trading activities
Total	161,246	83,379	620	245,245	

46 TRANSFERS OF FINANCIAL ASSETS

(1) Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2022 and 31 December 2021, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 28).

The transferred financial assets that are not derecognised of sales and repurchase agreements by the Group as at 31 December 2022 amounted to RMB6,030 million, and the associated liabilities amounted to RMB5,140 million.

(2) Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2022, the carrying value of debt securities lent to counterparties was RMB4,513 million (31 December 2021: RMB13,900 million).

(3) Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

46 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

(3) Asset securitisation *(Continued)*

The Group retains interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 31 December 2022, loans with an original value of RMB88,308 million and carrying amount of RMB63,538 million (31 December 2021: RMB66,061 million and RMB56,834 million) have been securitised by the Group. For the year ended 31 December 2022, the Group transferred financial assets amounted to RMB36,174 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2021, the Group transferred financial assets amounted to RMB13,927 million through assets backed securitization transactions, and all have met the requirement of derecognition).

As at 31 December 2022, the Group retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group continued to recognise was RMB5,529 million (31 December 2021: RMB5,529 million).

(4) Disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2022, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB2,243 million (For the year ended 31 December 2021: RMB12,853 million) and collected cash totalling RMB1,423 million (For the year ended 31 December 2021: RMB8,403 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

47 RELATED PARTY TRANSACTIONS

(1) Transactions with the MOF

As at 31 December 2022, the MOF held 17,732 million (31 December 2021: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2021: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
Bonds Issued by the MOF		
Financial investments at FVTPL	**31,464**	96.082
Financial investments at amortised cost	**871,172**	742,510
Financial investments at FVOCI	**201,369**	136,318

	2022	2021
Interest income on the government bonds	**29,227**	26,421

(2) Transactions with the National Council for Social Security Fund

As at 31 December 2022, the National Council for Social Security Fund held 12,155 million (31 December 2021: 12,160 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2021: 16.37%) of the total share capital.

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(2) Transactions with the National Council for Social Security Fund *(Continued)*

The National Council for Social Security Fund was incorporated in August 2000, which is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating the national social security fund. Its legal representative is Liu Wei, its registered capital is RMB8.00 million and its registered address is South Fortune Times Building, No. 11 Fenghuiyuan, Xicheng District, Beijing. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
Due to customers	**92,409**	92,373

	2022	2021
Interest expenses	**(3,846)**	(3,703)

(3) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures

As at 31 December 2022, HSBC held 13,886 million (31 December 2021: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2021: 18.70%) of the total share capital.

HSBC was incorporated in 1866, primarily providing local and international banking services, and related financial services in the Asia-Pacific region. Its Co-chief Executive Officer is Liao, Yi Chien David and Surendra Rosha, and its registered address is 1 Queen's Road Central, Central, Hong Kong. The ordinary share capital of HSBC is HKD116,103 million and USD7,198 million, which was divided into 46,441 million ordinary shares. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
On-balance sheet items		
Due from and placements with banks and other financial institutions	**2,819**	3,338
Derivative financial assets	**1,902**	1,672
Loans and advances to customers	**403**	–
Financial investments at FVTPL	**2,271**	1,931
Financial investments at amortised cost	**2,755**	419
Financial investments at FVOCI	**6,140**	4,052
Due to and placements from banks and other financial institutions	**26,508**	17,083
Financial liabilities at FVTPL	**1,830**	1,424
Derivative financial liabilities	**1,722**	1,613
Off-balance sheet items		
Notional principal of derivative financial instruments	**153,484**	240,864
Credit related commitments and financial guarantees	**16**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS *(Continued)*

(3) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures *(Continued)*

	2022	2021
Interest income	355	163
Interest expense	(1,596)	(95)
Fee and commission income	100	1
Fee and commission expense	(8)	(4)

(4) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(5) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation. Basic information and relevant details of subsidiaries are set out in note 23.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	As at 31 December 2022	As at 31 December 2021
Due from and placements with banks and other financial institutions	169,576	123,461
Loans and advances to customers	505	486
Financial investments at FVTPL	237	433
Financial investments at amortised cost	1,861	1,551
Financial investments at FVOCI	10,280	11,455
Derivative financial assets	902	793
Other assets	734	766
Due to and placements from banks and other financial institutions	9,246	14,523
Derivative financial liabilities	9,572	1,851
Due to customers	8,313	11,683
Other liabilities	279	119

The Bank	2022	2021
Interest income	3,811	1,952
Interest expense	(296)	(238)
Fee and commission income	1,524	1,681
Fee and commission expense	(55)	(95)
Other operating income	637	555
Other operating expense	(175)	(82)

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

47 RELATED PARTY TRANSACTIONS *(Continued)*

(6) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
Loans and advances to customers	**1**	1
Due to customers	**10**	10

Compensations of directors and senior management are disclosed in Note 15.

(7) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates. Basic information and relevant details of associates and joint ventures are set out in note 24.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
On-balance sheet items		
Due from and placements with banks and other financial institutions	**–**	500
Derivative financial assets	**1,212**	31
Loans and advances to customers	**20,765**	6,041
Financial investments at amortised cost	**102**	–
Due to and placements from banks and other financial institutions	**907**	104
Derivative financial liabilities	**25**	35
Due to customers	**84**	–
Off-balance sheet items		
Notional principal of derivative financial instruments	**4,594**	6,947
Credit related commitments and financial guarantees	**6,400**	12,126

	2022	2021
Interest income	**373**	242
Interest expense	**(2)**	(6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS *(Continued)*

(8) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
On-balance sheet items		
Loans and advances to customers	677	1,080
Due to and placements from banks and other financial institutions	331	1,204
Due to customers	70,307	79,787
Off-balance sheet items		
Credit related commitments and financial guarantees	904	–

	2022	2021
Interest income	14	22
Interest expense	(2,748)	(2,543)

(9) Proportion of major related party transactions

The major balances and transactions with subsidiaries have been eliminated in the consolidated financial statements. When calculating the proportion of related party transactions, transactions with the subsidiary are not involved.

	As at 31 December 2022		As at 31 December 2021	
	Balances	%	Balances	%
On-balance sheet items				
Due from and placements with banks and other financial institutions	2,819	0.41	3,838	0.61
Derivative financial assets	3,114	4.47	1,703	4.34
Loans and advances to customers	21,846	0.31	7,122	0.11
Financial investments at FVTPL	33,735	4.78	98,013	15.35
Financial investments at amortised cost	874,029	35.66	742,929	33.72
Financial investments at FVOCI	207,509	25.97	140,370	20.59
Due to and placements from banks and other financial institutions	(27,746)	1.36	(18,391)	0.94
Financial liabilities at FVTPL	(1,830)	3.82	(1,424)	2.85
Derivative financial liabilities	(1,747)	3.73	(1,648)	4.57
Due to customers	(162,810)	2.05	(172,170)	2.45
Off-balance sheet items				
Notional principal of derivative financial instruments	158,078	2.44	247,811	3.48
Credit related commitments and financial guarantees	7,320	0.33	12,126	0.64

	2022		2021	
	Amount	%	Amount	%
Interest income	29,969	7.07	26,848	7.02
Interest expense	(8,192)	3.30	(6,347)	2.94
Fee and commission income	100	0.20	1	–
Fee and commission expense	(8)	0.17	(4)	0.08

48 SEGMENTAL ANALYSIS

Operating segments are identified based on the structure of the Group's internal organization and management requirements. Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments. Net interest income and expense relating to third parties are disclosed in external net interest income. There are no other material items of income or expenses between the segments.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The basis for allocation is mainly based on occupation of or contribution to resources. Income taxes are managed on a group basis and are not allocated to operating segments.

Geographical operating segment information

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

- Head Office: Head Office, including the Pacific Credit Card Centre;
- Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;
- Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province, and Guangxi Zhuang Autonomous Region;
- Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;
- Pearl River Delta: including Fujian Province and Guangdong Province;
- Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;
- North Eastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;
- Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information *(Continued)*

The geographical operating segment information of the Group is summarised as follows:

	Year ended 31 December 2022								
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Total
External net interest income/(expense)	28,193	13,195	(1,906)	23,356	18,025	(516)	10,903	78,687	169,937
Inter-segment net interest income/(expense)	23,929	7,099	26,649	7,765	1,568	6,358	121	(73,489)	–
Net interest income	52,122	20,294	24,743	31,121	19,593	5,842	11,024	5,198	169,937
Fee and commission income	14,130	3,854	5,343	5,560	2,894	1,092	2,226	14,240	49,339
Fee and commission expense	(2,811)	(42)	(70)	(153)	(21)	(15)	(239)	(1,349)	(4,700)
Net fee and commission income	11,319	3,812	5,273	5,407	2,873	1,077	1,987	12,891	44,639
Net gains/(loss) arising from trading activities	3,362	274	177	651	(173)	78	(471)	13,709	17,607
Net gains/(loss) arising from financial investments	948	–	27	–	–	17	(146)	(352)	494
Share of (loss)/profits of associates and joint ventures	(55)	–	–	–	–	–	65	282	292
Insurance business income	18,023	–	–	–	–	–	77	–	18,100
Other operating income	17,569	582	1,252	1,043	868	266	384	495	22,459
Total operating income -net	103,288	24,962	31,472	38,222	23,161	7,280	12,920	32,223	273,528
Credit impairment losses	(6,154)	(6,968)	(13,868)	(870)	(7,281)	(3,961)	(4,357)	(16,952)	(60,411)
Other assets impairment (losses)/reversal	(1,884)	(2)	(2)	(2)	(1)	(7)	–	1	(1,897)
Insurance business expense	(19,356)	–	–	–	–	–	(24)	–	(19,380)
Other operating expense	(28,305)	(6,955)	(9,177)	(9,484)	(6,674)	(3,371)	(4,748)	(24,911)	(93,625)
Profit/(loss) before tax	47,589	11,037	8,425	27,866	9,205	(59)	3,791	(9,639)	98,215
Income tax									(6,185)
Net profit for the year									92,030
Depreciation and amortisation	(1,793)	(945)	(1,141)	(1,135)	(956)	(497)	(508)	(1,675)	(8,650)
Capital expenditure	(25,091)	(340)	(210)	(391)	(856)	(190)	(441)	(3,989)	(31,508)

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

48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information *(Continued)*

	Year ended 31 December 2021								
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Total
External net interest income/(expense)	26,278	12,603	(1,003)	22,898	16,887	628	10,498	72,904	161,693
Inter-segment net interest income/(expense)	21,275	6,424	24,200	7,087	1,800	5,192	18	(65,996)	–
Net interest income	47,553	19,027	23,197	29,985	18,687	5,820	10,516	6,908	161,693
Fee and commission income	14,540	3,652	5,739	5,803	3,064	1,238	2,488	15,761	52,285
Fee and commission expense	(2,941)	(39)	(77)	(101)	(26)	(18)	(233)	(1,277)	(4,712)
Net fee and commission income	11,599	3,613	5,662	5,702	3,038	1,220	2,255	14,484	47,573
Net gains/(loss) arising from trading activities	7,031	376	380	659	1,824	12	(784)	13,846	23,344
Net gains/(loss) arising from financial investments	849	–	27	–	–	18	589	(172)	1,311
Share of profits of associates and joint ventures	–	–	–	–	–	–	47	230	277
Insurance business income	16,459	–	–	–	–	–	56	–	16,515
Other operating income	15,316	416	954	734	551	203	456	405	19,035
Total operating income -net	98,807	23,432	30,220	37,080	24,100	7,273	13,135	35,701	269,748
Credit impairment losses	(7,451)	(4,828)	(8,046)	(9,019)	(10,600)	(9,582)	(977)	(15,868)	(66,371)
Other assets impairment losses	(2,020)	(6)	(8)	(14)	(58)	(212)	–	(2)	(2,320)
Insurance business expense	(17,037)	–	–	–	–	–	(17)	–	(17,054)
Other operating expense	(26,518)	(6,571)	(8,854)	(9,125)	(5,922)	(3,378)	(4,372)	(25,304)	(90,044)
Profit/(loss) before tax	45,781	12,027	13,312	18,922	7,520	(5,899)	7,769	(5,473)	93,959
Income tax									(5,020)
Net profit for the year									88,939
Depreciation and amortisation	(1,814)	(909)	(1,133)	(1,116)	(954)	(498)	(469)	(1,206)	(8,099)
Capital expenditure	(17,500)	(660)	(494)	(864)	(488)	(265)	(141)	(2,535)	(22,947)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

Geographical operating segment information *(Continued)*

	As at 31 December 2022									
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Eliminations	Total
Segment assets	3,195,976	1,234,660	1,889,591	1,410,944	971,233	459,731	1,147,589	4,949,397	(2,305,473)	12,953,648
Including:										
Investments in associates and joint ventures	*1,439*	–	–	*1*	–	–	*1,125*	*6,185*	–	*8,750*
Unallocated assets										38,771
Total assets										12,992,419
Segment liabilities	(2,929,814)	(1,219,145)	(1,872,761)	(1,364,697)	(960,633)	(462,599)	(1,086,273)	(4,364,445)	2,305,474	(11,954,893)
Unallocated liabilities										(1,786)
Total liabilities										(11,956,679)

	As at 31 December 2021									
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Eliminations	Total
Segment assets	2,881,066	1,059,386	1,711,386	1,277,003	881,918	409,288	1,095,657	4,459,033	(2,141,041)	11,633,696
Including:										
Investments in associates and joint ventures	*4*	–	–	*1*	–	–	*201*	*5,573*	–	*5,779*
Unallocated assets										32,061
Total assets										11,665,757
Segment liabilities	(2,658,802)	(1,042,577)	(1,688,784)	(1,239,658)	(870,308)	(417,068)	(1,046,572)	(3,863,904)	2,141,041	(10,686,632)
Unallocated liabilities										(1,889)
Total liabilities										(10,688,521)

Business information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

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

48 SEGMENTAL ANALYSIS *(Continued)*

Business information *(Continued)*

The business information of the Group is summarised as follows:

	Year ended 31 December 2022				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	79,079	44,883	45,831	144	169,937
Inter-segment net interest income/ (expense)	16,197	24,406	(40,603)	–	–
Net interest income	95,276	69,289	5,228	144	169,937
Net fee and commission income	9,984	28,095	6,381	179	44,639
Net gains/(loss) arising from trading activities	3,204	566	13,850	(13)	17,607
Net (loss)/gains arising from financial investments	(13)	887	(398)	18	494
Share of profits/(loss) of associates and joint ventures	28	(1)	(54)	319	292
Insurance business income	77	18,023	–	–	18,100
Other operating income	17,626	3,044	786	1,003	22,459
Total operating income-net	126,182	119,903	25,793	1,650	273,528
Credit impairment (losses)/reversal	(38,073)	(23,889)	1,552	(1)	(60,411)
Other assets impairment losses	(1,891)	(6)	–	–	(1,897)
Insurance business expense	(24)	(19,356)	–	–	(19,380)
Other operating expense					
– Depreciation and amortisation	(3,359)	(4,557)	(583)	(151)	(8,650)
– Others	(37,394)	(40,997)	(4,877)	(1,707)	(84,975)
Profit/(loss) before tax	45,441	31,098	21,885	(209)	98,215
Income tax					(6,185)
Net profit for the year					92,030
Depreciation and amortisation	(3,359)	(4,557)	(583)	(151)	(8,650)
Capital expenditure	(27,190)	(3,692)	(457)	(169)	(31,508)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS *(Continued)*

Business information *(Continued)*

	Year ended 31 December 2021				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	74,792	47,357	39,422	122	161,693
Inter-segment net interest income/ (expense)	17,100	17,840	(34,940)	–	–
Net interest income	91,892	65,197	4,482	122	161,693
Net fee and commission income	10,341	30,743	6,330	159	47,573
Net gains arising from trading activities	8,522	1,553	12,940	329	23,344
Net gains arising from financial investments	40	833	438	–	1,311
Share of profits of associates and joint ventures	6	–	–	271	277
Insurance business income	56	16,459	–	–	16,515
Other operating income	15,153	2,857	269	756	19,035
Total operating income-net	126,010	117,642	24,459	1,637	269,748
Credit impairment losses	(47,024)	(19,079)	(259)	(9)	(66,371)
Other assets impairment losses	(2,265)	(55)	–	–	(2,320)
Insurance business expense	(17)	(17,037)	–	–	(17,054)
Other operating expense					
– Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
– Others	(35,500)	(40,167)	(4,996)	(1,282)	(81,945)
Profit before tax	38,263	36,844	18,563	289	93,959
Income tax					(5,020)
Net profit for the year					88,939
Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
Capital expenditure	(8,332)	(12,636)	(1,817)	(162)	(22,947)

	As at 31 December 2022				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
Segment assets	**5,448,671**	**2,256,628**	**5,202,781**	**45,568**	**12,953,648**
Including:					
Investments in associates and joint ventures	***2,427***	***3***	***1,436***	***4,884***	***8,750***
Unallocated assets					**38,771**
Total assets					**12,992,419**
Segment liabilities	**(5,312,511)**	**(3,150,383)**	**(3,424,365)**	**(63,697)**	**(11,950,956)**
Unallocated liabilities					**(5,723)**
Total liabilities					**(11,956,679)**

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

48 SEGMENTAL ANALYSIS *(Continued)*

Business information *(Continued)*

	As at 31 December 2021				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	4,770,278	2,197,968	4,588,862	76,588	11,633,696
Including:					
Investments in associates and joint ventures	*1,156*	*4*	*–*	*4,619*	*5,779*
Unallocated assets					32,061
Total assets					11,665,757
Segment liabilities	(4,999,768)	(2,533,625)	(3,078,851)	(69,663)	(10,681,907)
Unallocated liabilities					(6,614)
Total liabilities					(10,688,521)

There were no significant transactions with a single external customer that the Group mainly relied on.

The comparative information was prepared in accordance with the categorisation of the current period since the assessment rules of the income and expense distribution between various business segments have been adjusted.

49 FINANCIAL STATEMENTS OF THE BANK

(1) Statement of financial position of the Bank

	As at 31 December 2022	As at 31 December 2021
Assets		
Cash and balances with central banks	**801,402**	721,912
Due from and placements with banks and other financial institutions	**793,966**	720,824
Derivative financial assets	**65,871**	38,426
Loans and advances to customers	**6,767,462**	6,083,046
Financial investments at fair value through profit or loss	**577,709**	507,745
Financial investments at amortised cost	**2,353,127**	2,147,313
Financial investments at fair value through other comprehensive income	**625,454**	472,635
Investments in associates and joint ventures	**6,300**	5,118
Investments in subsidiaries	**84,279**	79,269
Property and equipment	**51,038**	50,297
Deferred income tax assets	**36,248**	29,950
Other assets	**60,844**	86,801
Total assets	**12,223,700**	10,943,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(1) Statement of financial position of the Bank *(Continued)*

	As at 31 December 2022	As at 31 December 2021
Liabilities and Equity		
Liabilities		
Due to banks and other financial institutions	1,864,487	1,807,016
Financial liabilities at FVTPL	32,172	16,799
Derivative financial liabilities	54,805	36,740
Due to customers	7,644,612	6,769,618
Certificates of deposits issued	1,080,787	882,435
Current income tax liabilities	2,572	2,952
Debt securities issued	461,224	413,552
Deferred income tax liabilities	–	41
Other liabilities	120,021	98,910
Total liabilities	11,260,680	10,028,063

	As at 31 December 2022	As at 31 December 2021
Equity		
Share capital	74,263	74,263
Other equity investments	174,790	174,790
Including: Preference shares	*44,952*	*44,952*
Perpetual bonds	*129,838*	*129,838*
Capital surplus	111,227	111,226
Other reserves	353,238	336,666
Retained earnings	249,502	218,328
Total equity	963,020	915,273
Total equity and liabilities	12,223,700	10,943,336

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 30 March 2023 and signed on its behalf by:

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

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

49 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(2) Statement of changes in equity of the Bank

	Share capital	Other equity instruments: Preference Share	Other equity instruments: Perpetual bonds	Capital surplus	Other reserves: Statutory reserve	Other reserves: Discretionary reserve	Other reserves: Statutory general reserve	Other reserves: Revaluation reserve and impairment reserve for financial assets at fair value through other comprehensive income	Other reserves: Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Other reserves: Effective portion of gains or losses on hedging instruments in cash flow hedges	Other reserves: Translation differences for foreign operations	Other reserves: Actuarial changes reserve	Other reserves: Others	Retained earnings	Total
As at 1 January 2022	74,263	44,952	129,838	111,226	77,044	139,764	122,341	(12)	(24)	53	(3,804)	(87)	1,391	218,328	915,273
Total comprehensive income	-	-	-	-	-	-	-	(5,871)	(133)	(89)	3,689	(34)	44	83,986	81,592
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,363)	(26,363)
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,832)	(1,832)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,651)	(5,651)
Transfer to reserves	-	-	-	-	7,522	-	11,437	-	-	-	-	-	-	(18,959)	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	7	-	-	-	-	-	(7)	-
Others	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1
As at 31 December 2022	74,263	44,952	129,838	111,227	84,566	139,764	133,778	(5,876)	(157)	(36)	(115)	(121)	1,435	249,502	963,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(2) Statement of changes in equity of the Bank *(Continued)*

		Other equity instruments			Other reserves										
	Share capital	Preference Share	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve and impairment reserve for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation differences for foreign operations	Actuarial changes reserve	Others	Retained earnings	Total
As at 1 January 2021	74,263	44,952	88,340	111,226	70,147	139,764	115,920	(769)	12	40	(1,964)	(142)	1,375	185,586	828,750
Total comprehensive income	–	–	–	–	–	–	–	752	(36)	13	(1,840)	55	16	75,219	74,179
Capital contribution by holders of other equity instruments	–	–	41,498	–	–	–	–	–	–	–	–	–	–	–	41,498
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(23,541)	(23,541)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,755)	(1,755)
Interest paid to perpetual bond holders	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,858)	(3,858)
Transfer to reserves	–	–	–	–	6,897	–	6,421	–	–	–	–	–	–	(13,318)	–
Transferred from other comprehensive income	–	–	–	–	–	–	–	5	–	–	–	–	–	(5)	–
As at 31 December 2021	74,263	44,952	129,838	111,226	77,044	139,764	122,341	(12)	(24)	53	(3,804)	(87)	1,391	218,328	915,273

50 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

Profit distribution after reporting period

On 30 March 2023, the Board of Directors of the Bank proposed to appropriate RMB8,399 million to the statutory reserve and RMB13,399 million to the statutory general reserve. A cash dividend of RMB0.373 (before tax) for each share, totalling RMB27,700 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2022 was also proposed. The proposal will be subject to the approval by the General Meeting of Shareholders.

51 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

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

1 CURRENCY CONCENTRATIONS

As at 31 December 2022	USD	HKD	Others	Total
Spot assets	908,713	259,892	241,149	1,409,754
Spot liabilities	(942,837)	(300,722)	(145,452)	(1,389,011)
Forward purchases	1,203,294	190,054	141,921	1,535,269
Forward sales	(1,386,509)	(105,679)	(208,133)	(1,700,321)
Net option position	(89)	94	1,292	1,297
Net (short) /long position	(217,428)	43,639	30,777	(143,012)
Net structural position	145,847	29,508	7,788	183,143

As at 31 December 2021	USD	HKD	Others	Total
Spot assets	1,016,873	233,474	174,843	1,425,190
Spot liabilities	(956,839)	(305,411)	(125,300)	(1,387,550)
Forward purchases	1,446,642	227,581	171,559	1,845,782
Forward sales	(1,571,846)	(130,762)	(222,085)	(1,924,693)
Net option position	5,503	(12)	(747)	4,744
Net (short) /long position	(59,667)	24,870	(1,730)	(36,527)
Net structural position	121,168	31,246	7,799	160,213

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

– Investments in fixed assets and properties, net of depreciation charges;

– Capital and statutory reserve of overseas branches;

– Investments in overseas subsidiaries and related companies; and

– Loan capital

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

As at 31 December 2022	**Bank**	**Official sector**	**Non-bank Private sector**	**Others**	**Total**
Asia Pacific	**680,295**	**109,709**	**711,608**	**–**	**1,501,612**
Of which attributed to Hong Kong	***211,057***	***66,346***	***350,515***	**–**	***627,918***
North and South America	**20,389**	**12,455**	**28,645**	**–**	**61,489**
Africa	**701**	**1,702**	**96**	**–**	**2,499**
Europe	**10,389**	**593**	**25,469**	**–**	**36,451**
Total	**711,774**	**124,459**	**765,818**	**–**	**1,602,051**

As at 31 December 2021	Bank	Official sector	Non-bank Private sector	Others	Total
Asia Pacific	448,033	122,959	717,912	–	1,288,904
Of which attributed to Hong Kong	*62,204*	*21,533*	*304,709*	–	*388,446*
North and South America	34,071	21,351	65,018	–	120,440
Africa	442	1,887	–	–	2,329
Europe	42,156	3,878	23,337	–	69,371
Total	524,702	150,075	806,267	–	1,481,044

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

3 OVERDUE AND RESTRUCTURED ASSETS

(1) Balance of overdue loans

	As at 31 December 2022	As at 31 December 2021
Loans and advances to customers which have been overdue for:		
– Less than 3 months	27,737	23,164
– 3 to 6 months	16,524	15,966
– 6 to 12 months	16,956	13,467
– Over 12 months	23,611	34,565
Total	84,828	87,162
Percentage (%):		
– Less than 3 months	0.38	0.35
– 3 to 6 months	0.23	0.24
– 6 to 12 months	0.23	0.21
– Over 12 months	0.32	0.53
Total	1.16	1.33

(2) Overdue and restructured loans

	As at 31 December 2022	As at 31 December 2021
Total restructured loans and advances to customers	13,660	8,792
Including: Restructured loans and advances to customers overdue above 3 months	*1,533*	*1,625*
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	0.02	0.02

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

4 SEGMENTAL INFORMATION OF LOANS

(1) Impaired loans and advances to customers by geographical area

	As at 31 December 2022		As at 31 December 2021	
	Impaired loans and advances to customers	Allowance for impairment losses	Impaired loans and advances to customers	Allowance for impairment losses
PRC domestic regions				
– Yangtze River Delta	21,107	(11,898)	22,399	(13,277)
– Pearl River Delta	8,403	(4,872)	5,559	(3,389)
– Bohai Rim Economic Zone	10,707	(8,992)	13,893	(9,786)
– Central China	14,520	(6,287)	19,224	(10,244)
– Western China	9,333	(6,022)	9,661	(6,402)
– North Eastern China	13,595	(10,588)	12,090	(9,299)
– Head Office	9,310	(8,158)	10,831	(10,064)
Subtotal	86,975	(56,817)	93,657	(62,461)
Hong Kong, Macau, Taiwan and overseas regions	11,551	(5,260)	3,139	(1,421)
Total	98,526	(62,077)	96,796	(63,882)

(2) Overdue loans and advances to customers by geographical area

	As at 31 December 2022		As at 31 December 2021	
	Overdue loans	Allowance for impairment losses	Overdue loans	Allowance for impairment losses
PRC domestic regions				
– Yangtze River Delta	9,076	(5,276)	16,399	(9,189)
– Pearl River Delta	7,165	(4,091)	5,853	(3,166)
– Bohai Rim Economic Zone	9,361	(7,438)	9,749	(6,561)
– Central China	13,298	(5,261)	15,170	(8,080)
– Western China	6,707	(3,553)	7,176	(4,333)
– North Eastern China	9,661	(7,065)	9,119	(6,644)
– Head Office	20,116	(15,595)	20,468	(12,767)
Subtotal	75,384	(48,279)	83,934	(50,740)
Hong Kong, Macau, Taiwan and overseas regions	9,444	(4,809)	3,228	(1,516)
Total	84,828	(53,088)	87,162	(52,256)

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

5 LOANS AND ADVANCES TO CUSTOMERS

(1) The risk concentration analysis for loans and advances to customers by industry sectors (gross)

	As at 31 December 2022			As at 31 December 2021		
Hong Kong		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Petroleum and chemical	*356*	*0.15*	*1*	*1,130*	*0.54*	*148*
– Electronics	*1,247*	*0.52*	*13*	*1,577*	*0.76*	*25*
– Textile and clothing	*308*	*0.13*	*5*	*148*	*0.07*	*7*
– Other manufacturing	*8,010*	*3.37*	*3,692*	*25,506*	*12.24*	*5,284*
Production and supply of power, heat, gas and water	717	0.30	429	1,418	0.68	320
Construction	6,961	2.93	1,418	5,051	2.42	1,159
Transportation, storage and postal service	10,829	4.56	2,421	9,482	4.55	3,375
Information transmission, software and IT services	4,264	1.79	56	3,537	1.70	20
Wholesale and retail	12,633	5.32	3,425	15,584	7.48	4,052
Finance	5,419	2.28	1,136	6,730	3.23	826
Real estate	98,548	41.49	24,474	60,900	29.23	16,186
Leasing and commercial services	10,948	4.61	4,235	11,711	5.62	3,838
Others	23,321	9.82	1,352	22,489	10.79	4,175
Total corporate loans	183,561	77.27	42,657	165,263	79.31	39,415
Personal loans						
Residential mortgages	39,705	16.71	39,575	29,857	14.33	29,837
Credit cards	105	0.04	–	94	0.05	–
Others	14,214	5.98	3,467	13,149	6.31	12,539
Total personal loans	54,024	22.73	43,042	43,100	20.69	42,376
Gross amount of loans and advances to customers before impairment allowance	237,585	100.00	85,699	208,363	100.00	81,791
Outside Hong Kong	7,058,570			6,352,037		

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledge loans to the total loans of the Group was 47% as at 31 December 2022 (31 December 2021: 52%).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

5 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(2) Allowance on loans and advances to customers by type of loan

	As at 31 December 2022		As at 31 December 2021	
	Impaired loans	Allowance for impairment losses	Impaired loans	Allowance for impairment losses
Corporates	78,523	(48,157)	77,628	(49,172)
Individuals	20,003	(13,920)	19,168	(14,710)
	98,526	(62,077)	96,796	(63,882)

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

	Year ended 31 December 2022			Year ended 31 December 2021		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	35,060	(24,584)	3,339	45,986	(32,886)	4,443
Individuals	23,042	(21,729)	1,807	16,959	(14,633)	1,881
	58,102	(46,313)	5,146	62,945	(47,519)	6,324

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

Leverage ratio disclosure is disclosed according to Note 3 *Leverage Ratio Disclosure Format of the Measures for the Administration* of *the Ratio of Commercial Banks (Revised).*

Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

Serial Number	Item	31 December 2022	31 December 2021
1	Total consolidated assets	**12,992,419**	11,665,757
2	Adjustments of consolidation	**(106,912)**	(91,385)
3	Adjustments item of customer's assets	**0**	0
4	Adjustments of derivatives	**36,022**	41,498
5	Adjustments of securities financing transactions	**23,078**	725
6	Adjustments of off-balance sheet item	**1,411,948**	1,021,988
7	Other Adjustments	**(6,941)**	(6,010)
8	Balance of adjusted on- and off-balance sheet assets	**14,349,614**	12,632,573

Leverage Ratio Information

(in millions of RMB unless otherwise stated)

Serial Number	Item	31 December 2022	31 December 2021
1	On-balance-sheet assets (excluding derivatives and securities financing transactions)	**12,636,526**	11,426,283
2	Less: Deduction of tier-1 capital	**(6,941)**	(6,010)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	**12,629,585**	11,420,273
4	Replacement costs of derivatives (less eligible margin)	**67,164**	39,220
5	Potential risk exposure of derivatives	**38,544**	41,498
6	Sum of collaterals deducted from the balance sheet	**0**	0
7	Less: Assets receivable from providing eligible margin	**0**	0
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	**0**	0
9	Notional principal of sold credit derivatives	**0**	0
10	Less: Deductible balance of sold credit derivatives	**0**	0
11	Derivative asset balance	**105,708**	80,718
12	Accounting asset balance of securities financing transactions	**179,295**	108,869
13	Less: Balance of deductible securities financing transaction assets	**0**	0
14	Counterparty credit risk exposure of securities financing transactions	**23,078**	725
15	Balance of securities financing transaction assets from acting for securities financing transactions	**0**	0
16	Securities financing assets balance	**202,373**	109,594
17	Balance of off-balance-sheet items	**3,046,801**	2,373,602
18	Less: Balance of off-balance-sheet items arising from the reduction of credit transfer	**(1,634,853)**	(1,351,614)
19	Adjusted off-balance sheet items balance	**1,411,948**	1,021,988
20	Net tier-1 capital	**1,016,644**	960,225
21	Adjusted balance of on- and off-balance sheet assets	**14,349,614**	12,632,573
22	Leverage ratio (%)	**7.08**	7.60

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FOURTH QUARTER OF 2022

(in millions of RMB unless otherwise stated)

Serial Number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		2,388,723
Cash Outflow			
2	Retail deposits, small business deposits, including:	2,747,732	264,967
3	Stable deposit	194,182	9,612
4	Less stable deposit	2,553,550	255,355
5	Unsecured wholesale funding, including:	5,101,270	2,111,148
6	Business relationship deposit (excluding agency business)	2,826,136	705,160
7	Non-business relationship deposit (including all counterparties)	2,236,905	1,367,759
8	Unsecured debt	38,229	38,229
9	Secured funding		15,686
10	Other items, including:	2,210,427	1,123,232
11	Cash outflow relates to derivatives and other collateral/pledged assets	1,080,242	1,062,060
12	Cash outflow relates to loss of funding on asset-blocked securities	303	303
13	Committed credit and liquidity facilities	1,129,882	60,869
14	Other contractual obligation to extend funds	80,052	80,052
15	Contingent funding obligations	2,026,501	71,890
16	Total expected cash outflow		3,666,975
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	134,793	134,793
18	Inflows from fully performing exposure	915,705	599,583
19	Other cash inflow	1,101,042	1,078,657
20	Total expected cash inflow	2,151,540	1,813,033
			Amount after adjustment
21	The qualified high-quality liquid assets		2,250,835
22	Net cash outflow		1,853,942
23	Liquidity Coverage Ratio (%)		122.00

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2022

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	1,005,711	–	–	139,991	1,145,702
2	Regulatory Capital	1,005,711	–	–	139,991	1,145,702
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small enterprises	870,511	1,990,094	37,115	3,837	2,621,888
5	Stable deposits	197,301	3,331	1,436	388	192,353
6	Less stable deposits	673,209	1,986,763	35,679	3,449	2,429,535
7	Wholesale funding	2,639,920	3,746,288	832,878	519,564	3,299,608
8	Operational deposits	2,587,049	149,406	91,243	21,283	1,435,132
9	Other wholesale funding	52,871	3,596,882	741,635	498,280	1,864,476
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	73,897	363,653	76,111	273,427	284,973
12	Net stable funding ratio derivative liabilities				88,908	
13	All other liabilities and equities not included in the above categories	73,897	363,653	76,111	184,519	284,973
14	Total available stable funding					7,352,171
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					363,582
16	Business relationship deposits held at other financial institutions	124,560	330	–	–	62,445
17	Loans and securities	44,065	1,913,109	1,189,402	5,238,268	5,901,618
18	Loans to financial institutions secured by Level 1 assets	–	38,760	–	–	5,800
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	363,101	224,579	143,593	310,348
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	24	1,466,731	917,934	3,128,351	3,843,404
21	Including: with a risk weight less than or equal to 35%	–	5,890	5,222	42,848	33,407
22	Residential mortgages	–	812	986	1,481,925	1,260,535
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	44,041	43,706	45,903	484,399	481,531
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	195,605	81,220	11,198	166,694	370,161
27	Physical traded commodities (including gold)	24,270				20,630

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2022 *(CONTINUED)*

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				12,283	10,441
29	Net stable funding ratio derivative assets				107,173	18,265
30	Derivative with additional requirements				88,908	17,782
31	All other assets not included in the above	171,334	81,220	11,198	47,237	303,044
32	Off-balance-sheet items				3,525,380	147,217
33	Total required stable funding					6,845,021
34	Net stable funding ratio (%)					107.41

Notes:

1. The "no maturity" bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2022

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	1,028,679	–	–	189,989	1,218,668
2	Regulatory Capital	1,028,679	–	–	189,989	1,218,668
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small enterprises	931,216	2,089,356	27,536	3,900	2,758,479
5	Stable deposits	220,228	3,809	1,588	461	214,804
6	Less stable deposits	710,988	2,085,547	25,948	3,440	2,543,675
7	Wholesale funding	2,767,604	3,597,655	1,031,300	525,278	3,369,274
8	Operational deposits	2,732,850	154,711	111,654	21,443	1,521,050
9	Other wholesale funding	34,754	3,442,944	919,646	503,835	1,848,224
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	70,852	284,674	110,805	226,356	293,314
12	Net stable funding ratio derivative liabilities				46,804	
13	All other liabilities and equities not included in the above categories	70,852	284,674	110,805	179,553	293,314
14	Total available stable funding					7,639,736
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					433,150
16	Business relationship deposits held at other financial institutions	135,643	110	2,089	2,000	70,921
17	Loans and securities	55,095	1,947,208	1,209,764	5,326,997	6,013,531
18	Loans to financial institutions secured by Level 1 assets	–	32,126	–	–	4,817
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	358,813	216,292	144,291	306,259
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	–	1,501,692	936,071	3,175,773	3,910,020
21	Including: with a risk weight less than or equal to 35%	–	8,215	12,809	43,857	39,019
22	Residential mortgages	–	812	959	1,467,783	1,248,502
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	55,095	53,764	56,441	539,150	543,935
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	206,197	85,060	12,321	84,406	338,479
27	Physical traded commodities (including gold)	32,025				27,221

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2022 *(CONTINUED)*

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value No Maturity	Less than 6 months	6-12 months	Over 1 year	Weighted value
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				12,225	10,391
29	Net stable funding ratio derivative assets				69,687	22,883
30	Derivative with additional requirements				46,804	9,361
31	All other assets not included in the above	174,172	85,060	12,321	2,495	268,623
32	Off-balance-sheet items				3,422,457	142,411
33	Total required stable funding					6,998,492
34	Net stable funding ratio (%)					109.16

Notes:

1. The "no maturity" bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

(I) Unaudited interim condensed consolidated statement of profit or loss and other comprehensive income

(All amounts presented in millions of RMB except when otherwise indicated)

	Three months ended 31 March	
	2023	2022 (Restated)
Interest income	**112,010**	99,665
Interest expense	**(71,362)**	(57,146)
Net interest income	**40,648**	42,519
Fee and commission income	**13,774**	14,940
Fee and commission expense	**(1,089)**	(1,201)
Net fee and commission income	**12,685**	13,739
Net gains arising from trading activities	**8,304**	2,170
Net (losses)/gains arising from financial investments	**(132)**	44
Including: Net gains on derecognition of financial assets measured at amortised cost	**15**	–
Share of profits of associates and joint ventures	**53**	22
Other operating income	**5,611**	5,193
Net operating income	**67,169**	63,687
Credit impairment losses	**(15,398)**	(15,419)
Other assets impairment (losses)/reversal	**(72)**	2
Other operating expenses	**(25,297)**	(23,136)
Profit before tax	**26,402**	25,134
Income tax expense	**(1,451)**	(1,821)
Net profit for the period	**24,951**	23,313

(All amounts presented in millions of RMB except when otherwise indicated)

	Three months ended 31 March	
	2023	2022 (Restated)
Other comprehensive income, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of debt instruments measured at fair value through other comprehensive income		
Amount recognised in equity	**733**	(4,047)
Amount reclassified to profit or loss	**6**	(240)
Expected credit losses of debt instruments measured at fair value through other comprehensive income		
Amount recognised in equity	**(115)**	196
Amount reclassified to profit or loss	**–**	–
Effective portion of gains or losses on hedging instruments in cash flow hedges		
Amount recognised in equity	**305**	646
Amount reclassified to profit or loss	**(424)**	(67)
Translation differences for foreign operations	**(1,788)**	(675)
Others	**(61)**	87
Subtotal	**(1,344)**	(4,100)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on pension benefits	**(1)**	(10)
Changes in fair value of equity investments designated at fair value through other comprehensive income	**665**	354
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss	**(114)**	12
Others	**(17)**	28
Subtotal	**533**	384

(All amounts presented in millions of RMB except when otherwise indicated)

	Three months ended 31 March	
	2023	2022 (Restated)
Other comprehensive income, net of tax	**(811)**	(3,716)
Total comprehensive income for the period	**24,140**	19,597
Net profit attributable to:		
Shareholders of the parent company	**24,633**	23,320
Non-controlling interests	**318**	(7)
	24,951	23,313
Total comprehensive income attributable to:		
Shareholders of the parent company	**23,578**	19,557
Non-controlling interests	**562**	40
	24,140	19,597
Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)	**0.33**	0.31

(II) Unaudited interim condensed consolidated statement of financial position

(All amounts presented in millions of RMB except when otherwise indicated)

	As at 31 March 2023	As at 31 December 2022 (Restated)
ASSETS		
Cash and balances with central banks	**822,695**	806,102
Due from and placements with banks and other financial institutions	**843,103**	690,421
Derivative financial assets	**57,294**	69,687
Loans and advances to customers	**7,512,901**	7,135,454
Financial investments at fair value through profit or loss	**664,965**	705,357
Financial investments at amortised cost	**2,538,334**	2,450,775
Financial investments at fair value through other comprehensive income	**824,165**	799,075
Investments in associates and joint ventures	**8,803**	8,750
Property and equipment	**198,705**	194,169
Deferred tax assets	**40,854**	39,512
Other assets	**142,454**	92,269
Total assets	**13,654,273**	12,991,571
LIABILITIES AND EQUITY		
LIABILITIES		
Due to and placements from banks and other financial institutions	**2,000,615**	2,034,894
Financial liabilities at fair value through profit or loss	**37,079**	47,949
Derivative financial liabilities	**36,125**	46,804
Deposits from customers	**8,498,740**	7,949,072
Certificates of deposits issued	**1,225,749**	1,092,366
Income taxes payable	**5,161**	3,937
Debt securities issued	**554,761**	530,861
Deferred tax liabilities	**2,110**	1,786
Other liabilities	**236,347**	250,380
Total liabilities	**12,596,687**	11,958,049

(All amounts presented in millions of RMB except when otherwise indicated)

	As at 31 March 2023	As at 31 December 2022 (Restated)
EQUITY		
Share capital	**74,263**	74,263
Other equity instruments	**174,790**	174,790
Including: Preference shares	**44,952**	44,952
Perpetual bonds	**129,838**	129,838
Capital surplus	**111,429**	111,429
Other reserves	**368,039**	368,808
Retained earnings	**317,399**	292,734
Equity attributable to shareholders of the parent company	**1,045,920**	1,022,024
Equity attributable to non-controlling interests of ordinary shares	**8,277**	8,040
Equity attributable to non-controlling interests of other equity instruments	**3,389**	3,458
Non-controlling interests	**11,666**	11,498
Total equity	**1,057,586**	1,033,522
Total equity and liabilities	**13,654,273**	12,991,571

(III) Unaudited interim condensed consolidated statement of cash flows

(All amounts presented in millions of RMB except when otherwise indicated)

	Three months ended 31 March	
	2023	2022 (Restated)
Cash flows from operating activities:		
Profit before tax:	**26,402**	25,134
Adjustments for:		
Provision for credit impairment losses	**15,398**	15,419
Provision/(reversal) for other assets impairment losses	**72**	(2)
Depreciation and amortization	**4,611**	3,891
(Reversal)/provision for outstanding litigation and unsettled obligation	**(36)**	78
Net gains on the disposal of property, equipment and other assets	**(220)**	(57)
Interest income on financial investments	**(27,036)**	(22,932)
Fair value net (gains)/losses	**(4,511)**	2,046
Net gains on investments in associates and joint ventures	**(53)**	(22)
Net losses/(gains) on financial investments	**132**	(44)
Interest expense on debt securities issued	**3,834**	3,817
Interest expense on lease liabilities	**41**	46
Operating cash flows before movements in operating assets and liabilities	**18,634**	27,374
Net increase in balances with central banks	**(15,481)**	(68,602)
Net decrease in due from and placements with banks and other financial institutions	**(107,572)**	(116,785)
Net increase in loans and advances to customers	**(397,612)**	(377,766)
Net decrease in financial assets at fair value through profit or loss	**37,240**	19,432
Net increase in other assets	**(42,777)**	(19,335)
Net (decrease)/increase in due to and placements from banks and other financial institutions	**(22,254)**	6,568
Net (decrease)/increase in financial liabilities at fair value through profit or loss	**(8,278)**	1,585
Net increase in deposits from customers and certificates of deposit issued	**691,322**	561,383
Net (decrease)/increase in other liabilities	**(20,524)**	68,641
Net increase in value-added tax and other taxes payable	**799**	417
Income taxes paid	**(520)**	(1,291)
Net cash flows generated in operating activities	**132,977**	101,621

(All amounts presented in millions of RMB except when otherwise indicated)

	Three months ended 31 March	
	2023	2022 (Restated)
Cash flows from investing activities:		
Cash payment for investment in subsidiaries, associated ventures and joint ventures	**–**	(1,550)
Cash payments for financial investments	**(284,180)**	(247,803)
Proceeds from disposal or redemption of financial investments	**172,347**	161,367
Dividends received	**2**	92
Interest received from financial investments	**19,975**	16,815
Acquisition of intangible assets and other assets	**(465)**	(367)
Cash received from the sale of intangible assets and other assets	**1**	63
Acquisition of property, equipment	**(11,613)**	(4,400)
Cash received from disposal of property, equipment	**2,236**	1,922
Net cash flows used in investing activities	**(101,697)**	(73,861)
Cash flows from financing activities:		
Proceeds from issue of debt securities	**47,393**	36,644
Repayment of principal and interest of lease liabilities	**(648)**	(583)
Repayment of principals of debt securities issued	**(23,468)**	(20,164)
Payment of interest on debt securities	**(2,184)**	(1,219)
Dividends paid	**(172)**	–
Dividends paid to non-controlling interests	**(65)**	(59)
Net cash flows generated from financing activities	**20,856**	14,619
Effect of exchange rate fluctuations on cash and cash equivalents held	**(1,018)**	(843)
Net increase in cash and cash equivalents	**51,118**	41,536
Cash and cash equivalents at the beginning of the period	**248,803**	194,308
Cash and cash equivalents at the end of the period	**299,921**	235,844
Net cash flows from operating activities include:		
Interest received	**83,714**	76,616
Interest paid	**(62,535)**	(49,519)

ISSUER

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for the years ended 31 December 2020 and 2021

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Registered Public Interest Entity Auditor
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for the year ended 31 December 2022

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Appendix 2

Supplemental Offering Circular dated 23 August 2023

IMPORTANT NOTICE

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THIS SUPPLEMENTAL OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS SUPPLEMENTAL OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view this Supplemental Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. This Supplemental Offering Circular is being sent at your request and by accepting the e-mail and accessing this Supplemental Offering Circular, you shall be deemed to have represented to Bank of Communications Co., Ltd. Hong Kong Branch (the "**Issuer**"), Bank of Communications Co., Ltd. Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, Agricultural Bank of China Limited Hong Kong Branch, Agricultural Bank of China Limited Macao Branch, Bank of China Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, China Construction Bank Corporation, Singapore Branch, China Everbright Bank Co., Ltd., Hong Kong Branch, China Galaxy International Securities (Hong Kong) Co., Limited, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, CMB International Capital Limited, CMB Wing Lung Bank Limited, Guotai Junan Securities (Hong Kong) Limited, Huatai Financial Holdings (Hong Kong) Limited, Hua Xia Bank Co., Limited Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited, Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch and Industrial Bank Co., Ltd. Hong Kong Branch (together, the "**Joint Lead Managers**") that you and any customers you represent are persons outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the attached Supplemental Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that this Supplemental Offering Circular has been delivered to you on the basis that you are a person into whose possession this Supplemental Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Supplemental Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

The materials relating to the offering of securities to which this Supplemental Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer (as defined in this Supplemental Offering Circular) in such jurisdiction. For a description of certain restrictions on offers, sales and transfer of securities and on the distribution of this Supplemental Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular (as defined in this Supplemental Offering Circular).

This Supplemental Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Bank of Communications Co., Ltd. (the "**Bank**"), the Joint Lead Managers, any person who controls any of the Joint Lead Managers, any director, officer, employee nor agent of the Issuer, the Bank, the Joint Lead Managers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Supplemental Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Bank of Communications Co., Ltd. Hong Kong Branch

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

Issue of U.S.$500,000,000 Floating Rate Notes due 2026 issued under the U.S.$12,000,000,000 Medium Term Note Programme

This supplemental offering circular (this "**Supplemental Offering Circular**") is supplemental to, forms part of and must be read and construed in conjunction with, to the offering circular dated 7 June 2023 (the "**Original Offering Circular**", together with this Supplemental Offering Circular, the "**Offering Circular**") prepared by Bank of Communications Co., Ltd. Hong Kong Branch (the "**Issuer**"), in connection with the U.S.$12,000,000,000 Medium Term Note Programme described in the Original Offering Circular (the "**Programme**"). This Supplemental Offering Circular is prepared in connection with the U.S.$500,000,000 Floating Rate Notes due 2026 (the "**Notes**") to be issued by the Issuer under the Programme only and does not otherwise modify the Programme. Terms given a defined meaning in the Original Offering Circular shall, unless the context otherwise requires, have the same meaning when used in this Supplemental Offering Circular. To the extent there is any inconsistency between any statement in this Supplemental Offering Circular and any statement in the Original Offering Circular, the statement in this Supplemental Offering Circular shall prevail. Capitalised terms used but not defined in this Supplemental Offering Circular have the meanings given to them in the Original Offering Circular.

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Bank, the Group (as defined below) or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Notes will be issued in registered form and initially represented by a Global Certificate which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date (as defined in the Pricing Supplement in respect of the Notes) with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**").

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered or sold within the United States except in accordance with Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act") or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain restrictions on offers and sales of the Notes and the distribution of the Original Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular. The Notes may be subject to additional selling restrictions as set out in the Pricing Supplement.

The Notes are expected to be assigned a rating of "A2" by Moody's Investors Service, Inc. ("**Moody's**"). The Programme has been rated "A2" by Moody's and "A" by Fitch Ratings Ltd. ("**Fitch**"). These ratings are only correct as at the date of this Supplemental Offering Circular. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves certain risks and may not be suitable for all investors. See "*Risk Factors*" herein and in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Supplemental Offering Circular and the Original Offering Circular and the merits and risks of investing in the Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase the Notes unless they understand and are able to bear risks associated with the Notes.

The Notes will be issued as "green bonds" under the Bank's Green Bond Framework, a summary of which is set out in the section entitled "*Green Bond Framework*" on page 21.

The sections of the Original Offering Circular entitled "*Risk Factors*", "*Use of Proceeds*", "*Description of the Bank*", "*Management of the Bank*" and "*General Information*" have been supplemented and/or amended with the information in this Supplemental Offering Circular.

With effect from the date of this Supplemental Offering Circular the information appearing in the Original Offering Circular with respect to the Notes shall be amended and/or supplemented by the inclusion of the information set out below.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Bank of Communications	**Crédit Agricole CIB**	**HSBC**

Joint Bookrunners and Joint Lead Managers

Agricultural Bank of China	**Bank of China**	**BOCOM International**	**China CITIC Bank International**	**China Construction Bank**
China Everbright Bank Hong Kong Branch	**China Galaxy International**	**China International Capital Corporation**	**CITIC Securities**	**China Merchants Bank**
Guotai Junan International	**Huatai International**	**Hua Xia Bank Co., Limited Hong Kong Branch**	**ICBC**	**Industrial Bank Co., Ltd. Hong Kong Branch**

Green Structuring Banks

Bank of Communications	**Crédit Agricole CIB**	**HSBC**

Supplemental Offering Circular dated 23 August 2023

IMPORTANT NOTICE

This Supplemental Offering Circular (read together with the Original Offering Circular) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer, the Bank and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular (read together with the Original Offering Circular) and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Notes will be issued on the terms set out under "*Terms and Conditions of the Notes*" in the Original Offering Circular, as amended and/or supplemented by the Pricing Supplement in respect of the Notes (the "**Pricing Supplement**") set out in this Supplemental Offering Circular. This Supplemental Offering Circular and the Original Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to the Notes, must be read and construed together with the Pricing Supplement. This Supplemental Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of the Original Offering Circular.

The distribution of this Supplemental Offering Circular (together with the Original Offering Circular) and the Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplemental Offering Circular (together with the Original Offering Circular) comes are required by the Issuer, the Bank and its subsidiaries (the "**Group**"), Bank of Communications Co., Ltd. Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, Agricultural Bank of China Limited Hong Kong Branch, Agricultural Bank of China Limited Macao Branch, Bank of China Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, China Construction Bank Corporation, Singapore Branch, China Everbright Bank Co., Ltd., Hong Kong Branch, China Galaxy International Securities (Hong Kong) Co., Limited, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, CMB International Capital Limited, CMB Wing Lung Bank Limited, Guotai Junan Securities (Hong Kong) Limited, Huatai Financial Holdings (Hong Kong) Limited, Hua Xia Bank Co., Limited Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited, Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch and Industrial Bank Co., Ltd. Hong Kong Branch (together, the "**Joint Lead Managers**") to inform themselves about and to observe any such restrictions. None of the Issuer, the Group or the Joint Lead Managers represents that this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplement may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Group or the Joint Lead Managers which would permit a public offering of the Notes or distribution of this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Supplemental Offering Circular (together with the Original Offering Circular), the Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and Taiwan, and to persons connected therewith.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Notes may not be offered or sold within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of the Original Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular. The Notes may be subject to additional selling restrictions as set out in the Pricing Supplement.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Notes, the Issuer or the Group. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" herein and in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer or the Group to give any information or to make any representation not contained in or not consistent with this Supplemental Offering Circular (read together with the Original Offering Circular) or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Group or any of the Joint Lead Managers.

No representation or warranty, express or implied, is made by the Joint Lead Managers, any fiscal agent, paying agents or any of their respective officers, employees, affiliates, advisors or agents as to the accuracy, completeness or sufficiency of the information contained in this Supplemental Offering Circular, and nothing contained in this Supplemental Offering Circular is, or should be, relied upon as a promise or representation by the Joint Lead Managers, fiscal agent, paying agent or their officers, employees, affiliates, advisors or agents. The Joint Lead Managers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Joint Lead Managers, the fiscal agent, the paying agents or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Supplemental Offering Circular or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer, the Bank, the Group or the issue and offering of the Notes. The Joint Lead Managers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Supplemental Offering Circular or any such statement.

Neither the delivery of this Supplemental Offering Circular (read together with the Original Offering Circular) nor the Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances create any implication that the information contained this Supplemental Offering Circular (read together with the Original Offering Circular) is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer of the Group since the date hereof or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Group during the term of the Notes or to advise any investor in the Notes of any information coming to their attention.

None of the Joint Lead Managers or any Agents (as defined under "*Terms and Conditions of the Notes*" in the Original Offering Circular) has separately verified the information contained in this Supplemental Offering Circular or the Original Offering Circular. To the fullest extent permitted by law, none of the Joint Lead Managers or any Agents or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Supplemental Offering Circular or the Original Offering Circular. To the fullest extent permitted by law, none of the Joint Lead Managers or any Agents or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Supplemental Offering Circular or the Original Offering Circular or for any other statement made or purported to be made by any Joint Lead Manager, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Bank, the Group, the Notes or the issue and offering of the Notes. Each Joint Lead Manager and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Supplemental Offering Circular or the Original Offering Circular or any such statement.

Neither this Supplemental Offering Circular nor the Original Offering Circular describes all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in the Notes. Each potential purchaser of the Notes should refer to and consider carefully the Pricing Supplement for the Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Supplemental Offering Circular (read together with the Original Offering Circular) and the Pricing Supplement is provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Supplemental Offering Circular, the Original Offering Circular nor any other information provided or incorporated by reference in connection with the Programme and the Notes are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Group or the Joint Lead Managers, or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Supplemental Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Supplemental Offering Circular (read together with the Original Offering Circular) and its purchase of the Notes should be based upon such investigation as it deems necessary. None of the Joint Lead Managers or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Supplemental Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Lead Managers, the Agents or any of them.

The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Supplemental Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular.

Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors: Prospective investors should be aware that certain intermediaries in the context of the offering of the Notes (as defined in this Supplemental

Offering Circular), including certain Joint Lead Managers are "capital market intermediaries" (the "**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" (together, the "**OCs**") for the offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, Bank of Communications Co., Ltd. (the "**Bank**"), a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with the Issuer, the Bank, the CMI or the relevant group company. Prospective investors associated with the Issuer, the Bank or any CMI (including its group companies) should specifically disclose this when placing an order for the Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the offering, such order is hereby deemed not to negatively impact the price discovery process in relation to such offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is an asset management arm affiliated with any Joint Lead Manager, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the Joint Lead Manager or its group company has more than 50 per cent. interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the offering of the Notes. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any Joint Lead Manager, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Joint Lead Manager when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to such offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the Joint Lead Managers and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Bank, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the offering of the Notes. Failure to provide such information may result in that order being rejected.

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Business*" and elsewhere in this Supplemental Offering Circular constitute "*forward-looking statements*". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or the negative thereof, or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Supplemental Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Supplemental Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

STABILISATION

In connection with the issue of the Notes, one or more of the Joint Lead Managers as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the Pricing Supplement may over allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

This Supplemental Offering Circular should be read and construed in conjunction with the Original Offering Circular (and the documents incorporated by reference therein) and all amendments and supplements from time to time to this Supplemental Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Supplemental Offering Circular and which shall be deemed to modify or supersede the contents of this Supplemental Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated by reference in, and to form part of, this Supplemental Offering Circular and the Original Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Issuer and of the Fiscal Agent.

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RISK FACTORS

The risk factors relevant to the Issuer, the Bank and the Notes shall consist of the risk factors set out herein and in the section entitled "Risk Factors" of the Original Offering Circular. Prior to making any investment decision, prospective investors should carefully consider all of the information in this Supplemental Offering Circular and the Original Offering Circular, including but not limited to the risks and uncertainties described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to repay principal, pay interest or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive. The following factors are contingencies which may or may not occur and each of the Bank and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Any of the risks or uncertainties described below, as well as additional risks or uncertainties, including those which are not currently known to the Bank or which the Bank currently deems to be immaterial, may affect the Group's business, financial condition or results of operations or the Issuer's ability to fulfil its obligations under the Notes.

The section entitled "Risk Factors" on pages 22 to 54 in the Original Offering Circular shall be deemed to be supplemented with the following:

Risks Relating to the Notes

The Notes being issued as "green bonds" may not be a suitable investment for all investors seeking exposure to green assets.

In connection with the issue of the Notes, the Issuer has engaged Moody's Investors Service, Inc. to provide a second party opinion in August 2023 (the "**SPO**") confirming, among other things, its alignment with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles 2021 (including the June 2022 Appendix 1) (the "**Green Bond Principles**") as more particularly described in the section entitled "*Green Bond Framework*". The SPO is not incorporated into, and it does not form part of, this Supplemental Offering Circular. The SPO is not a recommendation to buy, sell or hold securities (including the Notes) and is only current as of its date of issue and is subject to certain disclaimers set out therein and may be updated, suspended or withdrawn at any time. The SPO may not reflect the potential impact of all risks related to the structure or market, or any other risk factors discussed in this Supplemental Offering Circular and other factors which may affect the value of the Notes. In addition, the SPO is for information purposes only and none of the Issuer, the Bank or the Joint Lead Managers accepts any form of liability for the substance of the SPO or any liability for loss arising from the use of the SPO and/or the information it provides. Currently, providers of second party opinions and certifications are not subject to any regulatory regime or oversight. Investors in such Notes shall have no recourse against the Issuer, the Bank, the Joint Lead Managers, or the provider of any such opinion, report or certification for the contents of any such opinion, report or certification.

None of the Issuer, the Bank or the Joint Lead Managers makes any representation as to the suitability or reliability for any purpose of the SPO or whether the Notes fulfil the relevant environmental and/or other criteria. No assurance is given by the Issuer, the Bank or the Joint Lead Managers as to whether the use of proceeds from the issue of the Notes will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to any Eligible Green Assets/Projects. In addition, none of the Joint Lead Managers makes any assurances as to whether the net proceeds from the issue of the Notes will be used for Eligible Green Assets/Projects. Each potential investor in the Notes should have regard to the relevant projects and eligibility criteria described in the section entitled "*Green Bond Framework*" in this Supplemental Offering Circular and determine for itself the relevance of the information contained in this Supplemental Offering Circular regarding the use of proceeds, and its purchase of any Notes should be based upon such investigation as it deems necessary. The Green Bond Framework is not, nor shall it be deemed to be, incorporated in and/or form part of this Supplemental Offering Circular. The Green Bond Framework may be amended at any time without the consent of Noteholders and none of the Issuer, the Bank or the Joint Lead Managers assumes any obligation or responsibility to release any update or revision to the Green Bond Framework and/or information to reflect events or circumstances after the date of publication of the Green Bond Framework.

Besides, there is currently no market consensus on what precise attributes are required for a particular project to be categorised as "green" and therefore no assurance can be provided to potential investors that the Eligible Green Assets/Projects will meet all investor expectations regarding "green" or that any adverse environmental, social and/or other impact will not result in the course of the implementation of the Eligible Green Assets/Projects. Although the Eligible Green Assets/Projects have been selected in accordance with the categories recognised by the Green Bond Framework and will be developed in accordance with the relevant legislation and standards, there can be no assurance that adverse environmental and/or social impact will not occur during the design, construction, commissioning and operation of such projects. In addition, where negative impact is insufficiently mitigated, the Eligible Green Assets/Projects undertaken may become controversial and/or may be criticised by activist groups or other stakeholders. Accordingly, the Notes may not be a suitable investment for all investors seeking exposure to green assets. None of the Joint Lead Managers has undertaken, or are responsible for, any assessment of the eligibility of projects within the definition of Eligible Green Assets/Projects.

Neither the Issuer or the Bank is contractually committed to allocating an amount equal to the net proceeds from the issue of the Notes to the Eligible Green Assets/Projects, and a failure to do so could adversely affect the value of the Notes.

Whilst it is the intention of the Issuer to apply the proceeds of any Notes so specified for Eligible Green Assets/Projects in, or substantially in, the manner summarised in this Supplemental Offering Circular, there can be no assurance that the relevant asset(s) or project(s) or use(s) the subject of, or related to, any Eligible Green Assets/Projects will be capable of being implemented in, or substantially in, such manner and/or in accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Green Assets/Projects. Nor can there be any assurance that such Eligible Green Assets/Projects will be purchased or completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. The Joint Lead Managers shall not be responsible for the ongoing monitoring of the use of proceeds in respect of any such Notes. Prospective investors should consult with their legal and other advisers before making an investment in any such Notes and must determine for themselves the relevance of the information set out in this Supplemental Offering Circular and the Pricing Supplement for the purpose of any investment in such Notes together with any other investigation such investor deems necessary.

While the Bank has agreed to certain obligations relating to reporting and use of proceeds as described in the section entitled "*Green Bond Framework*" in this Supplemental Offering Circular, it would not be an Event of Default under the Terms and Conditions of the Notes if (i) the Bank or the Issuer were to fail to comply with such obligations or were to fail to use the proceeds from the issue of the Notes in the manner specified in this Supplemental Offering Circular and/or (ii) the SPO issued in connection with the Notes were to be withdrawn. A withdrawal of the SPO or any failure to use the net proceeds from the issue of the Notes in connection with the Eligible Green Assets/Projects and/or failure to meet, or to continue to meet, the investment requirements of certain investors with environmental and/or social concerns with respect to the Notes, may affect the value and/or trading price of the Notes, and/or may have consequences for certain investors with portfolio mandates to invest in green assets.

PRICING SUPPLEMENT IN RESPECT OF THE NOTES

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

Pricing Supplement dated 23 August 2023

Bank of Communications Co., Ltd. Hong Kong Branch

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

Legal entity identifier (LEI) of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09

Issue of U.S.$500,000,000 Floating Rate Notes due 2026 (the "Notes")
under the U.S.$12,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the offering circular dated 7 June 2023 (the "**Original Offering Circular**") and the supplemental offering circular dated 23 August 2023 (the "**Supplemental Offering Circular**", together with the Original Offering Circular, the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") ("**Professional Investors**") only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme or the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

The Joint Lead Managers and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Joint Lead Managers or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Pricing Supplement or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the Programme. The Joint Lead Managers and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Pricing Supplement or any such statement.

This Pricing Supplement, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

1	Issuer:		Bank of Communications Co., Ltd. Hong Kong Branch
2	(i)	Series Number:	50
	(ii)	Tranche Number:	01
	(iii)	Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3	Specified Currency or Currencies:		U.S. Dollar ("**U.S.$**")
4	Aggregate Nominal Amount:		U.S.$500,000,000
5	(i) Issue Price:		100.00 per cent. of the Aggregate Nominal Amount
	(ii) Gross proceeds:		U.S.$500,000,000
6	Use of Proceeds:		The net proceeds of the Notes shall be used to finance and/or refinance Eligible Green Assets/Projects as defined in Bank of Communications Co., Ltd. Green Bond Framework
7	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
8	(i)	Issue Date:	30 August 2023
	(ii)	Interest Commencement Date:	Issue Date
9	Maturity Date:		Interest Payment Date falling on or nearest to 30 August 2026
10	Interest Basis:		SOFR Compounded Index + 0.60 per cent. Floating Rate (further particulars specified below)
11	Redemption/Payment Basis:		Redemption at par
12	Change of Interest or Redemption/ Payment Basis:		Not Applicable
13	Put/Call Options:		Not Applicable
14	(i)	Status of the Notes:	Senior Notes

	(ii) Regulatory approval for issuance of Notes obtained:	Quota approval from the National Development and Reform Commission of the PRC obtained on 28 September 2022
15	Listing:	The Stock Exchange of Hong Kong Limited on 31 August 2023
16	Method of distribution:	Syndicated
17	Private Bank Rebate/Commission:	Not Applicable

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18	Fixed Rate Note Provisions	Not Applicable
19	Floating Rate Note Provisions	Applicable
	(i) Interest Period(s):	Each period beginning on (and including) the Interest Commencement Date or any Specified Interest Payment Date and ending on (but excluding) the next Specified Interest Payment Date, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
	(ii) Specified Interest Payment Dates:	28 February, 30 May, 30 August and 30 November in each year up to and including the Maturity Date, with the first Interest Payment Date being 30 November 2023, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
	(iii) Interest Period Date(s):	Not Applicable
	(iv) Business Day Convention:	Modified Following Business Day Convention
	(v) Business Centre(s) (Condition 5(j)):	Hong Kong and New York
	(vi) Manner in which the Rate(s) of Interest is/ are to be determined:	Screen Rate Determination (SOFR)
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	Bank of Communications Co., Ltd. Hong Kong Branch as Fiscal Agent
	(viii) Screen Rate Determination (Condition 5(b)(iii))	Not Applicable
	(viii)(A) Screen Rate Determination (SOFR) (Condition 5(b)(iii)(D)):	
	• Reference Rate:	SOFR Compounded Index, as defined in and to be determined in accordance with the Annex hereto
	• Interest Determination Date:	The fifth U.S. Government Securities Business Day prior to the last day of each Interest Accrual Period

		• SOFR Observation Shift Days:	Five (5) U.S. Government Securities Business Days
		• SOFR $Index_{Start}$:	Five (5) U.S. Government Securities Business Days
		• SOFR $Index_{End}$:	Five (5) U.S. Government Securities Business Days
	(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	Not Applicable
	(x)	Margin(s):	+ 0.60 per cent. per annum
	(xi)	Minimum Rate of Interest:	Not Applicable
	(xii)	Maximum Rate of Interest:	Not Applicable
	(xiii)	Day Count Fraction (Condition 5(j)):	Actual/360
	(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	Not Applicable
20	Zero Coupon Note Provisions		Not Applicable
21	Index Linked Interest Note Provisions		Not Applicable
22	Dual Currency Note Provisions		Not Applicable

PROVISIONS RELATING TO REDEMPTION

23	Call Option		Not Applicable
24	Put Option		Not Applicable
25	Final Redemption Amount of each Note		U.S.$1,000 per Calculation Amount
26	Early Redemption Amount		
	(i)	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27	Form of Notes:	Registered Notes Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate
28	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Not Applicable

29	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
30	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
31	Details relating to Instalment Notes:	Not Applicable
32	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
33	Consolidation provisions:	Not Applicable
34	Other terms or special conditions:	Refer to Schedule 1

DISTRIBUTION

35	(i) If syndicated, names of Joint Lead Managers:	*Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners* 1. Bank of Communications Co., Ltd. Hong Kong Branch 2. Crédit Agricole Corporate and Investment Bank 3. The Hongkong and Shanghai Banking Corporation Limited *Joint Lead Managers and Joint Bookrunners* 1. Agricultural Bank of China Limited Hong Kong Branch 2. Agricultural Bank of China Limited Macao Branch 3. Bank of China Limited 4. Bank of China (Hong Kong) Limited 5. BOCOM International Securities Limited 6. China CITIC Bank International Limited 7. China Construction Bank (Asia) Corporation Limited 8. China Construction Bank Corporation, Singapore Branch 9. China Everbright Bank Co., Ltd., Hong Kong Branch 10. China Galaxy International Securities (Hong Kong) Co., Limited

			11. China International Capital Corporation Hong Kong Securities Limited 12. CLSA Limited 13. CMB International Capital Limited 14. CMB Wing Lung Bank Limited 15. Guotai Junan Securities (Hong Kong) Limited 16. Huatai Financial Holdings (Hong Kong) Limited 17. Hua Xia Bank Co., Limited Hong Kong Branch 18. Industrial and Commercial Bank of China (Asia) Limited 19. Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch 20. Industrial Bank Co., Ltd. Hong Kong Branch
	(ii)	Stabilisation Manager (if any):	Any of the Joint Lead Managers appointed and acting in its capacity as stabilisation manager
36	If non-syndicated, name of Dealer:		Not Applicable
37	U.S. Selling Restrictions		Reg. S Category 1; TEFRA Not Applicable
38	Additional selling restrictions:		Not Applicable
39	Prohibition of Sales to EEA Retail Investors:		Not Applicable
40	Prohibition of Sales to UK Retail Investors:		Not Applicable

OPERATIONAL INFORMATION

41	ISIN Code:	XS2673392796
42	Common Code:	267339279
43	CMU Instrument Number:	Not Applicable
44	Any clearing system(s) other than Euroclear, Clearstream and the CMU and the relevant identification number(s):	Not Applicable
45	Delivery:	Delivery against payment
46	Additional Paying Agents (if any):	Not Applicable
47	Ratings:	The Notes to be issued are expected to be rated: Moody's: A2

GENERAL

48	Translation of the aggregate principal amount of Notes issued:	Not Applicable

49	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
50	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
HONG KONG SFC CODE OF CONDUCT		
51	Contact email addresses where underlying investor information in relation to omnibus orders should be sent:	dcm@bankcomm.com.hk HKG-Syndicate@ca-cib.com GCDCM.execution@ca-cib.com hk_syndicate_omnibus@hsbc.com.hk

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$12,000,000,000 Medium Term Note Programme of Bank of Communications Co., Ltd. Hong Kong Branch.

STABILISATION

In connection with the issue of the Notes, any of the Joint Lead Managers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot and effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and regulations.

MATERIAL ADVERSE CHANGE STATEMENT

Except as disclosed in the Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2022.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of

BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH

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

By: ________________________________

Duly authorised

SCHEDULE 1

The following provisions shall be added to the Conditions as Condition 5(b)(iii)(D) (Screen Rate Determination (SOFR)) and Condition 5(b)(iii)(E) (Benchmark Replacement (SOFR)) solely for the purposes of the Notes:

5(b)(iii)(D) Screen Rate Determination (SOFR)

(x) *SOFR Compounded Index*: Where Screen Rate Determination (SOFR) is specified in the relevant Pricing Supplement as the manner in which the Rate of Interest is to be determined and where the Reference Rate is specified as being SOFR Compounded Index, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be the SOFR Compounded Index plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent on the relevant Interest Determination Date (subject to Condition 5(b)(iii)(E) (*Benchmark Replacement (SOFR)*).

For the purposes of this Condition 5(b)(iii)(D):

"**SOFR Compounded Index**" means, with respect to an Interest Accrual Period, the compounded average of daily Secured Overnight Financing Rate ("**SOFR**") reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR Index**", with respect to any U.S. Government Securities Business Day, means:

(a) the SOFR Index value as published on the SOFR Administrator's Website at or about 3:00 p.m. (New York time) on such U.S. Government Securities Business Day (the "**SOFR Index Determination Time**"); provided that in the event that the value originally published by the SOFR Administrator at or about 3:00 p.m. (New York time) on any U.S. Government Securities Business Day is subsequently corrected and such corrected value is published by the SOFR Administrator on the original date of publication, then such corrected value, instead of the value that was originally published, shall be deemed the SOFR Index value as of the SOFR Index Determination Time in relation to such U.S. Government Securities Business Day; and

(b) if a SOFR Index value does not so appear as specified in (a) above of this definition, then:

(i) if a SOFR Benchmark Event and its related Benchmark Replacement Date have not occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to Condition 5(b)(iii)(D)(y) (*SOFR Index Unavailable*); or

(ii) if a SOFR Benchmark Event and its related Benchmark Replacement Date have occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to Condition 5(b)(iii)(E) (*Benchmark Replacement (SOFR)*).

"**SOFR Index$_{End}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date which is the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement preceding the last day of such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

"**SOFR Index$_{Start}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date which is the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement preceding the first day of such Interest Accrual Period;

"**d_c**" means the number of calendar days in the relevant SOFR Observation Period,

"**SOFR Administrator**" means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate;

"**SOFR Administrator's Website**" means the website of the SOFR Administrator (currently being, https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind), or any successor source;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement;

"**SOFR Observation Period**" means, in respect of an Interest Accrual Period, the period from (and including) the date which is the number of SOFR Observation Shift Days preceding the first date of such Interest Accrual Period (and in respect of the first Interest Accrual Period, the number of SOFR Observation Shift Days preceding the Issue Date) to, but excluding, the date which is the number of SOFR Observation Shift Days preceding the last day of such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date); and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(y) *SOFR Index Unavailable*: If a SOFR Index value is not published on the relevant Interest Determination Date and a SOFR Benchmark Event and its related Benchmark Replacement Date has not occurred with respect to SOFR, then the SOFR Index shall be calculated in accordance with the Compounded SOFR formula and the related definitions as set out below in this Condition 5(b)(iii)(D)(y):

"**Bloomberg Screen SOFRRATE Page**" means the Bloomberg screen designated "SOFRRATE" or any successor page or service;

"**Compounded SOFR**" means, for the applicable Interest Accrual Period for which the SOFR Index is not available, the rate of return on a daily compounded interest investment during the relevant SOFR Observation Period (with the daily SOFR reference rate as the reference rate for the calculation of interest) and calculated by the Calculation Agent in accordance with the following formula, and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)):

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right) \times \left(\frac{360}{d_c}\right)$$

where:

"**d_c**" means the number of calendar days in the relevant SOFR Observation Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Days in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a "**U.S. Government Securities Business Day (i)**");

"**n_i**" for any U.S. Government Securities Business Day (i) in the relevant SOFR Observation Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day (i) up to (but excluding) the following U.S. Government Securities Business Day (i);

"**Reuters Page USDSOFR=**" means the Reuters page designated "USDSOFR=" or any successor page or service;

"**SOFR**" means, with respect to any U.S. Government Securities Business Day:

(a) the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Bloomberg Screen SOFRRATE Page, the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Reuters Page USDSOFR=, or the Secured Overnight Financing Rate that appears at the SOFR Determination Time on the SOFR Administrator's Website; or

(b) if the rate specified in (a) above does not appear, the SOFR published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website;

"**SOFR Administrator**" means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate;

"**SOFR Administrator's Website**" means the website of the SOFR Administrator (currently being, https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind), or any successor source;

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day;

"**$SOFR_i$**" for any U.S. Government Securities Business Day (i) in the relevant SOFR Observation Period, is equal to SOFR in respect of that U.S. Government Securities Business Day (i);

"**SOFR Observation Period**" means, in respect of each Interest Accrual Period, the period from (and including) the date falling a number of U.S. Government Securities Business Days equal to the Observation Shift Days preceding the first date in such Interest Accrual Period to (but excluding) the date falling a number of U.S. Government Securities Business Days equal to the number of Observation Shift Days preceding the last day of such Interest Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the relevant Pricing Supplement; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

5(b)(iii)(E) Benchmark Replacement (SOFR)

(x) *Benchmark Replacement*: If the Issuer or its designee determines on or prior to the relevant Reference Time that a SOFR Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(y) *Benchmark Replacement Conforming Changes*: In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, any of the Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(b)(iii)(E). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by any of the Agents (if required). Further, none of the Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(z) *Decisions and Determinations*: Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(b)(iii)(E), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (i) will be conclusive and binding absent manifest error, (ii) will be made in the sole discretion of the Issuer or its designee, as applicable, and (iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the Noteholders or any other party.

The following defined terms shall have the meanings set out below for purpose of Condition 5(b)(iii)(D) (*Screen Rate Determination (SOFR)*) and this Condition 5(b)(iii)(E):

"**Benchmark**" means, initially, SOFR Compounded Index; provided that if the Issuer or its designee determines on or prior to the Reference Time that a SOFR Benchmark Event and its related Benchmark Replacement Date have occurred with respect to SOFR Compounded Index (including any daily published component used in the calculation thereof) or the then-current Benchmark, then "**Benchmark**" means the applicable Benchmark Replacement;

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(i) the sum of:

(1) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(2) the Benchmark Replacement Adjustment;

(ii) the sum of:

(1) the ISDA Fallback Rate; and

(2) the Benchmark Replacement Adjustment; or

(iii) the sum of:

(1) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and

(2) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(i) in the case of sub-paragraph (i) or (ii) of the definition of "**SOFR Benchmark Event**", the later of:

(1) the date of the public statement or publication of information referenced therein; and

(2) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(ii) in the case of sub-paragraph (iii) of the definition of "**SOFR Benchmark Event**", the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**designee**" means a designee as selected and separately appointed by the Issuer in writing;

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time, including the 2021 ISDA Interest Rate Derivatives Definitions (as amended or supplemented from time to time);

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Compounded Index, the SOFR Index Determination Time; or (2) if the Benchmark is not the SOFR Compounded Index, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto;

"**SOFR Benchmark Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

USE OF PROCEEDS

The net proceeds of the Notes shall be used to finance and/or refinance Eligible Green Assets/Projects as defined in the Green Bond Framework as described in more details in the section entitled "*Green Bond Framework*".

"**Eligible Green Assets/Projects**" concurrently align with the ICMA Green Bond Principles 2021 and the China Green Bond Endorsed Projects Catalogue (2021 Edition). On this basis, the Bank may also flexibly reference the Common Ground Taxonomy Instruction Report to select Eligible Green Assets/Projects, that is, in addition to the abovementioned eligibility criteria, the selection process of Eligible Green Assets/Projects may take reference to key scenarios under the Common Ground Taxonomy Instruction Report and follow a more stringent technical screening criteria under respective scenarios.

"**Eligible Green Assets/Projects**" comprise of assets in the Eligible Green Asset/Project Categories as defined in the Green Bond Framework. Such Eligible Green Asset/Project Categories include those which relate to renewable energy, clean transportation, sustainable water and wastewater management and green buildings.

All Eligible Green Assets/Projects will be subject to a lookback period of not more than 24 months.

For the avoidance of doubt, in any case, the Eligible Green Assets/Projects shall exclude assets/projects that are involved in the following sectors: (i) fossil fuel-related assets/projects, (ii) weapons and ammunition, (iii) production and trade of tobacco and tobacco products, and (iv) production and trade of distilled, refined and mixed alcoholic beverages.

Assets/Projects in eligible categories shall at least reach the threshold of relevant official green standards of environmental impacts recognised in the local jurisdictions. In case of no official standards locally recognised, corresponding international standards shall apply.

GREEN BOND FRAMEWORK

Set out below is a summary of the Bank's Green Bond Framework.

The Bank established a Green Bond Framework, which serves as the basis for the Bank to finance or refinance, in whole or in part, Eligible Green Assets/Projects via issuance of green bonds. The Green Bond Framework is publicly available on the official website of the Bank (http://www.bankcomm.com/). The Green Bond Framework is prepared in both Chinese and English. If there is any discrepancy between the Chinese and English version of the Green Bond Framework, the Chinese version shall prevail.

For the avoidance of doubt, the Green Bond Framework is not incorporated by reference into, and does not form part of, the Original Offering Circular or this Supplemental Offering Circular. None of the Joint Lead Managers or any Agents or any of their respective director, officer, employee, representative, adviser, agent, or affiliate accepts any responsibility for the contents of the Green Bond Framework.

Use of Proceeds

The proceeds of the green bonds issued by the Bank will be used to finance or refinance Eligible Green Assets/Projects that concurrently align with the ICMA Green Bond Principles 2021 and the China Green Bond Endorsed Projects Catalogue (2021 Edition). In addition to the abovementioned eligibility criteria, the Bank may select Eligible Green Assets/Projects in accordance with a more stringent technical screening criteria under the Common Ground Taxonomy Instruction Report.

All Eligible Green Assets/Projects will be subject to a lookback period of not more than 24 months.

In any case, the Eligible Green Assets/Projects shall exclude assets/projects that are involved in the following sectors below:

- Fossil fuel-related assets/projects
- Weapons and ammunition
- Production and trade of tobacco and tobacco products
- Production and trade of distilled, refined and mixed alcoholic beverages

Project Evaluation and Selection

The Bank's various business lines (including overseas and local branches and subsidiaries) will select green assets/projects for the Bank's green bond working group (the "**Working Group**")'s review. The Working Group will review all proposed green assets/projects and evaluate their eligibility in accordance with the criteria set out in this green bond framework (the "**Green Bond Framework**") prior to the issuance of the green bonds. Green assets/projects in compliance with the Green Bond Framework will be flagged as "Eligible Green Assets/Projects" and be listed under an "Eligible Green Asset/Projects List".

The Working Group will review the allocation of the proceeds to the Eligible Green Asset/Projects List and determine if any necessary changes shall be made annually, as well as decide any necessary update on the Eligible Green Asset/Projects List (such as replacement, deletion, or addition of projects) to maintain the eligibility of the Use of Proceeds.

Management of Proceeds

Prior to the issuance of the green bonds, the Bank will develop the preliminary Eligible Green Asset/Projects List to ensure the proceeds from the green bond issuance can be allocated to Eligible Green Asset/Projects in a timely manner.

The Bank has established the green bonds allocation register (the "**Register**") to record and monitor the allocation of the proceeds of the green bonds. The proceeds of each green bond issuance will be deposited in the Bank's general funding accounts and allocate to Eligible Green Assets/Projects under different business line, all proceeds will be "earmarked" until allocation to Eligible Green Asset/Projects.

The Register will contain the information of each Green Bond issued including:

(a) Details of Green Bond

- pricing date, settlement date and maturity date
- currency and issue size
- ISIN, etc.

(b) Details of Eligible Green Asset List

- Eligible Green Asset Categories
- Summary of details of projects financed, such as project size, project description, project duration, etc.
- Amount of allocated proceeds on the projects
- Expected environmental impact
- Balance of any unallocated amount of proceeds
- Use of proceeds of any unallocated amount
- Other necessary information so that the green bond issuance proceeds allocated to the Eligible Green Assets/Projects is recorded at all times

Any balance of issuance proceeds not allocated to Eligible Green Assets/Projects will be held in accordance with the Bank's robust and prudent liquidity management policy. Unallocated proceeds shall not be invested in any fossil-fuel, highly polluting or energy intensive assets/projects and shall be handled in compliance with the relevant green bond standards, which includes temporary investment in Green Bonds issued by non-financial enterprises, short-term money market instruments with satisfactory ratings and market liquidity in the domestic and international capital markets or kept in cash, until being fully allocated into Eligible Green Assets/Projects. The Bank intends to fully allocate the net proceeds of each Green Bond within 24 months after issuance of such Green Bond.

Reporting

The Bank will publish a Green Bond Report on an annual basis to provide information on proceeds allocation and environmental impact until all net proceeds have been fully allocated and provide timely updates should there be any material changes to the projects allocated.

External Review

The Bank has engaged Moody's Investors Service, Inc. to provide a Second Party Opinion Report based on the evaluation of the alignment of the Green Bond Framework with the Green Bond Principles. The Second Party Opinion report by Moody's Investors Service, Inc. will be published on the Bank's official website (www.bankcomm.com).

The Bank will appoint an independent third-party organisation to provide an external review report(s) on the Green Bond Annual Report(s). Post-issuance Green Bond Report(s) will include information related to the allocation and environmental impact. External review report(s) will be published on the Bank's official website (www.bankcomm.com).

DESCRIPTION OF THE BANK

The sub-section entitled "Proposed appointments of executive directors and independent director" and "Proposed appointments of company secretary" under "Recent Developments" of "Description of the Bank" on pages 103 to 104 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

RECENT DEVELOPMENTS

Proposed appointments of executive directors and independent director

As at the date of this Supplemental Offering Circular, the Board of the Bank comprises 16 members being two executive directors, eight non-executive directors and six independent non-executive directors. Each director of the Bank is elected at a shareholder meeting for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by a simple majority of the Board. The Board of the Bank has resolved to propose the appointment of Mr. Yin Jiuyong as an Executive Director and a member of Risk Management and Related Party Transactions Control Committee and the appointment of Mr. Zhou Wanfu as an Executive Director and a member of Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee on 13 January 2023. The Board of the Bank has also resolved to propose the appointment of Mr. Wong Tin Chak as an Independent Non-executive Director and a member of Audit Committee and Risk Management and Related Party Transaction Control Committee on 28 April 2023.

On 1 March 2023, the appointment of Mr. Yin and Mr. Zhou as Executive Directors of the Board of the Bank was approved by the shareholders at the Bank's 2023 first extraordinary general meeting. On 27 June 2023, the appointment of Mr. Wong as an Independent Non-executive Director of the Board of the Bank was approved by the shareholders at the Bank's 2022 Annual General Meeting for Shareholders.

In accordance with the laws, regulations and the Articles of Association, the appointments of Mr. Yin and Mr. Zhou as Executive Directors and members of the special committees under the Board are subject to the approval by the banking regulatory authority of the State Council on their qualification as the Executive Directors and the appointment of Mr. Wong as an Independent Director and a member of the special committees under the Board is subject to the approval by the banking regulatory authority of the State Council on his qualification as the Independent Non-executive Director. Please refer to details in "*Management of the Bank – Directors – Executive Directors*" and "*Management of the Bank – Directors – Independent Non-executive Director*", respectively.

Appointment of company secretary

The Board of the Bank resolved on 30 March 2023 to appoint Mr. He Zhaobin as Secretary of the Board, Company Secretary and Authorised Representative of the Bank. The appointment of Mr. He will be effective upon the approval by the regulatory authority of the banking industry of the State Council on his qualification as secretary of the Board.

Since Mr. He does not possess the qualifications to fulfil the requirements under Rule 3.28 of the Listing Rules on the Hong Kong Stock Exchange, the Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 3.28 of the Listing Rules for a period of three years in respect of the appointment of Mr. He as Company Secretary of the Bank, on the condition that (i) Mr. He must be assisted by Mr. Ng Ping Kwong during the waiver period, and (ii) the waiver could be revoked if there are material breaches of the Listing Rules by the Bank.

The Board of the Bank announced on 9 June 2023 that the Bank has obtained the Approval from the National Administration of Financial Regulation on the Qualification of Mr. He Zhaobin of Bank of Communications

(Jin Fu [2023] No. 34), pursuant to which the qualification of Mr. He as Secretary of the Board of the Bank was approved by the National Administration of Financial Regulation on 6 June 2023. Mr. He's appointments as Secretary of the Board, Company Secretary and Authorised Representative of the Bank took effect on 6 June 2023.

Please refer to details in "*Management of the Bank – Senior Management*" in the Original Offering Circular.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The information relating to Mr. Raymond WOO Chin Wan, Ms. LI Xiaohui and Mr. WANG Tianze under sub-section entitled "Independent Non-Executive Directors" of "Management of the Bank" on pages 145 to 147 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

Mr. Raymond WOO Chin Wan[1], Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo serves as an Independent Non-executive Director of the Bank from November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he has been Senior Associate, Manager, Senior Manager, Partner and Managing Partner.

He served as Managing Partner of Ernst & Young Greater China from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also the member of Ernst & Young Greater China Management Committee from 1998 to 2015. Mr. Woo is currently an Independent Non-executive Director of Dah Chong Hong Holdings Limited and Great Wall Pan Asia Holdings Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

Ms. LI Xiaohui[2], Independent Non-executive Director. Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics from September 2003. From July 2001 to August 2003, she worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. From April 1993 to August 1998, Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li is a national leading accountant, and a member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants, a member of the Audit Committee of the Accounting Society of China and a member of the Audit Standards Committee of the China Internal Audit Association. Ms. Li currently serves as Independent Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., Jizhong Energy Co., Ltd., and Camel Group Co., Ltd. Ms. Li previously served as Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd. and China U-Ton Holdings Limited. Ms. Li received a Doctorate degree in Economics from Central University of Finance and Economics in 2001.

Mr. WONG Tin Chak[3], Independent Non-executive Director. Mr. Wong is an Associate of the Institute of Chartered Accountants in England and Wales. Since November 2022, Mr. Wong has been the Chief Partner of Shanghai Dekun Tianyu Management Consulting Partnership (Limited Partnership) and a member of the Digital Economy Strategy Committee of the Chinese Association of Development Strategy Studies. Mr. Wong has previously worked as, among others, a Chief Commercial Officer, a Risk Advisory Managing Partner and a member of Management Committee of Deloitte China, a member of the Risk Advisory Management Committee of Deloitte Asia Pacific, an Audit and Assurance Deputy Managing Partner and a Partner of Deloitte

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1 According to the resolution of the Board of the Bank on 28 April 2022 and the announcement of the Bank on 11 May 2023, Mr. Woo will cease to serve as an Independent Non-executive Director of the Bank, a member of the Audit Committee of the Board of the Bank and a member of the Personnel and Remuneration Committee of the Board of the Bank after the approval by the banking regulatory authority of the State Council on Mr. Wong Tin Chak's qualification as the Independent Non-executive Director.

2 According to the announcement of the Bank on 11 May 2023, Ms. Li will serve as a member of the Personnel and Remuneration Committee of the Board of the Bank and cease to serve as a member of the Risk Management and Related Party Transactions Control Committee of the Board after the approval by the banking regulatory authority of the State Council on Mr. Wong Tin Chak's qualification as the Independent Non-executive Director.

3 The Board considered and approved the appointment of Mr. Wong Tin Chak as Independent Non-executive Director and a member of the special committees under the Board on 28 April 2023. Such appointment is approved by the shareholders at the Bank's 2022 Annual General Meeting for Shareholders and is subject to the approval by the banking regulatory authority of the State Council.

Touche Tohmatsu Certified Public Accountants and a Partner of Deloitte Touche Tohmatsu. Mr. Wong obtained a Bachelor of Social Science degree from The University of Hong Kong in 1988, majoring in accounting and economics.

The footer under the resume of Mr. HE Zhaobin under sub-section entitled "Senior Management" of "Management of the Bank" on page 149 of the Original Offering Circular shall be deleted in its entirety.

GENERAL INFORMATION

The sub-sections entitled "Listing" and "No Material Adverse Change" in "General Information" on page 182 of the Original Offering Circular shall be deemed to be deleted in its entirety and replaced with the following:

1. **Listing**: Application has been made to Hong Kong Stock Exchange for listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of the Original Offering Circular on the Hong Kong Stock Exchange. Application will be made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. The issue price of the Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of the nominal amount of such Notes. It is expected that dealings will, if permission is granted to deal in and for the listing of the Notes, commence on or about the date of listing of the Notes.

2. **No Material Adverse Change**: Except as disclosed in this Supplemental Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2022.

ISSUER

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street
Central
Hong Kong

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for the years ended 31 December 2020 and 2021

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
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AUDITORS OF THE BANK
for the year ended 31 December 2022

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Registered Public Interest Entity Auditor
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Appendix 3
Pricing Supplement dated 23 August 2023

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

Pricing Supplement dated 23 August 2023

Bank of Communications Co., Ltd. Hong Kong Branch

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

Legal entity identifier (LEI) of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09

Issue of U.S.$500,000,000 Floating Rate Notes due 2026 (the "Notes")
under the U.S.$12,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the offering circular dated 7 June 2023 (the "**Original Offering Circular**") and the supplemental offering circular dated 23 August 2023 (the "**Supplemental Offering Circular**", together with the Original Offering Circular, the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") ("**Professional Investors**") only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme or the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

The Joint Lead Managers and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Joint Lead Managers or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Pricing Supplement or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the Programme. The Joint Lead Managers and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Pricing Supplement or any such statement.

This Pricing Supplement, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

1	Issuer:		Bank of Communications Co., Ltd. Hong Kong Branch
2	(i)	Series Number:	50
	(ii)	Tranche Number:	01
	(iii)	Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3	Specified Currency or Currencies:		U.S. Dollar ("**U.S.$**")
4	Aggregate Nominal Amount:		U.S.$500,000,000
5	(i) Issue Price:		100.00 per cent. of the Aggregate Nominal Amount
	(ii) Gross proceeds:		U.S.$500,000,000
6	Use of Proceeds:		The net proceeds of the Notes shall be used to finance and/or refinance Eligible Green Assets/Projects as defined in Bank of Communications Co., Ltd. Green Bond Framework
7	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
8	(i)	Issue Date:	30 August 2023
	(ii)	Interest Commencement Date:	Issue Date
9	Maturity Date:		Interest Payment Date falling on or nearest to 30 August 2026
10	Interest Basis:		SOFR Compounded Index + 0.60 per cent. Floating Rate (further particulars specified below)
11	Redemption/Payment Basis:		Redemption at par
12	Change of Interest or Redemption/ Payment Basis:		Not Applicable
13	Put/Call Options:		Not Applicable
14	(i)	Status of the Notes:	Senior Notes

	(ii)	Regulatory approval for issuance of Notes obtained:	Quota approval from the National Development and Reform Commission of the PRC obtained on 28 September 2022
15		Listing:	The Stock Exchange of Hong Kong Limited on 31 August 2023
16		Method of distribution:	Syndicated
17		Private Bank Rebate/Commission:	Not Applicable

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18		Fixed Rate Note Provisions	Not Applicable
19		Floating Rate Note Provisions	Applicable
	(i)	Interest Period(s):	Each period beginning on (and including) the Interest Commencement Date or any Specified Interest Payment Date and ending on (but excluding) the next Specified Interest Payment Date, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
	(ii)	Specified Interest Payment Dates:	28 February, 30 May, 30 August and 30 November in each year up to and including the Maturity Date, with the first Interest Payment Date being 30 November 2023, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
	(iii)	Interest Period Date(s):	Not Applicable
	(iv)	Business Day Convention:	Modified Following Business Day Convention
	(v)	Business Centre(s) (Condition 5(j)):	Hong Kong and New York
	(vi)	Manner in which the Rate(s) of Interest is/ are to be determined:	Screen Rate Determination (SOFR)
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	Bank of Communications Co., Ltd. Hong Kong Branch as Fiscal Agent
	(viii)	Screen Rate Determination (Condition 5(b)(iii))	Not Applicable
	(viii)(A)	Screen Rate Determination (SOFR) (Condition 5(b)(iii)(D)):	
		• Reference Rate:	SOFR Compounded Index, as defined in and to be determined in accordance with the Annex hereto
		• Interest Determination Date:	The fifth U.S. Government Securities Business Day prior to the last day of each Interest Accrual Period

	• SOFR Observation Shift Days:	Five (5) U.S. Government Securities Business Days
	• SOFR $\text{Index}_{\text{Start}}$:	Five (5) U.S. Government Securities Business Days
	• SOFR $\text{Index}_{\text{End}}$:	Five (5) U.S. Government Securities Business Days
	(ix) ISDA Determination (Condition 5(b)(iii)(A)):	Not Applicable
	(x) Margin(s):	+ 0.60 per cent. per annum
	(xi) Minimum Rate of Interest:	Not Applicable
	(xii) Maximum Rate of Interest:	Not Applicable
	(xiii) Day Count Fraction (Condition 5(j)):	Actual/360
	(xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	Not Applicable
20	Zero Coupon Note Provisions	Not Applicable
21	Index Linked Interest Note Provisions	Not Applicable
22	Dual Currency Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

23	Call Option	Not Applicable
24	Put Option	Not Applicable
25	Final Redemption Amount of each Note	U.S.$1,000 per Calculation Amount
26	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27	Form of Notes:	Registered Notes Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate
28	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Not Applicable

29	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
30	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
31	Details relating to Instalment Notes:	Not Applicable
32	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
33	Consolidation provisions:	Not Applicable
34	Other terms or special conditions:	Refer to Schedule 1

DISTRIBUTION

35	(i) If syndicated, names of Joint Lead Managers:	_Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners_ 1. Bank of Communications Co., Ltd. Hong Kong Branch 2. Crédit Agricole Corporate and Investment Bank 3. The Hongkong and Shanghai Banking Corporation Limited _Joint Lead Managers and Joint Bookrunners_ 1. Agricultural Bank of China Limited Hong Kong Branch 2. Agricultural Bank of China Limited Macao Branch 3. Bank of China Limited 4. Bank of China (Hong Kong) Limited 5. BOCOM International Securities Limited 6. China CITIC Bank International Limited 7. China Construction Bank (Asia) Corporation Limited 8. China Construction Bank Corporation, Singapore Branch 9. China Everbright Bank Co., Ltd., Hong Kong Branch 10. China Galaxy International Securities (Hong Kong) Co., Limited

		11. China International Capital Corporation Hong Kong Securities Limited 12. CLSA Limited 13. CMB International Capital Limited 14. CMB Wing Lung Bank Limited 15. Guotai Junan Securities (Hong Kong) Limited 16. Huatai Financial Holdings (Hong Kong) Limited 17. Hua Xia Bank Co., Limited Hong Kong Branch 18. Industrial and Commercial Bank of China (Asia) Limited 19. Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch 20. Industrial Bank Co., Ltd. Hong Kong Branch
	(ii) Stabilisation Manager (if any):	Any of the Joint Lead Managers appointed and acting in its capacity as stabilisation manager
36	If non-syndicated, name of Dealer:	Not Applicable
37	U.S. Selling Restrictions	Reg. S Category 1; TEFRA Not Applicable
38	Additional selling restrictions:	Not Applicable
39	Prohibition of Sales to EEA Retail Investors:	Not Applicable
40	Prohibition of Sales to UK Retail Investors:	Not Applicable

OPERATIONAL INFORMATION

41	ISIN Code:	XS2673392796
42	Common Code:	267339279
43	CMU Instrument Number:	Not Applicable
44	Any clearing system(s) other than Euroclear, Clearstream and the CMU and the relevant identification number(s):	Not Applicable
45	Delivery:	Delivery against payment
46	Additional Paying Agents (if any):	Not Applicable
47	Ratings:	The Notes to be issued are expected to be rated: Moody's: A2

GENERAL

48	Translation of the aggregate principal amount of Notes issued:	Not Applicable

49	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
50	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
HONG KONG SFC CODE OF CONDUCT		
51	Contact email addresses where underlying investor information in relation to omnibus orders should be sent:	dcm@bankcomm.com.hk HKG-Syndicate@ca-cib.com GCDCM.execution@ca-cib.com hk_syndicate_omnibus@hsbc.com.hk

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$12,000,000,000 Medium Term Note Programme of Bank of Communications Co., Ltd. Hong Kong Branch.

STABILISATION

In connection with the issue of the Notes, any of the Joint Lead Managers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot and effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and regulations.

MATERIAL ADVERSE CHANGE STATEMENT

Except as disclosed in the Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2022.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of

BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH

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

By: ______________________________

Duly authorised

SCHEDULE 1

The following provisions shall be added to the Conditions as Condition 5(b)(iii)(D) (Screen Rate Determination (SOFR)) and Condition 5(b)(iii)(E) (Benchmark Replacement (SOFR)) solely for the purposes of the Notes:

5(b)(iii)(D) Screen Rate Determination (SOFR)

(x) *SOFR Compounded Index*: Where Screen Rate Determination (SOFR) is specified in the relevant Pricing Supplement as the manner in which the Rate of Interest is to be determined and where the Reference Rate is specified as being SOFR Compounded Index, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be the SOFR Compounded Index plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent on the relevant Interest Determination Date (subject to Condition 5(b)(iii)(E) (*Benchmark Replacement (SOFR)*).

For the purposes of this Condition 5(b)(iii)(D):

"**SOFR Compounded Index**" means, with respect to an Interest Accrual Period, the compounded average of daily Secured Overnight Financing Rate ("**SOFR**") reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR Index**", with respect to any U.S. Government Securities Business Day, means:

(a) the SOFR Index value as published on the SOFR Administrator's Website at or about 3:00 p.m. (New York time) on such U.S. Government Securities Business Day (the "**SOFR Index Determination Time**"); provided that in the event that the value originally published by the SOFR Administrator at or about 3:00 p.m. (New York time) on any U.S. Government Securities Business Day is subsequently corrected and such corrected value is published by the SOFR Administrator on the original date of publication, then such corrected value, instead of the value that was originally published, shall be deemed the SOFR Index value as of the SOFR Index Determination Time in relation to such U.S. Government Securities Business Day; and

(b) if a SOFR Index value does not so appear as specified in (a) above of this definition, then:

(i) if a SOFR Benchmark Event and its related Benchmark Replacement Date have not occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to Condition 5(b)(iii)(D)(y) (*SOFR Index Unavailable*); or

(ii) if a SOFR Benchmark Event and its related Benchmark Replacement Date have occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to Condition 5(b)(iii)(E) (*Benchmark Replacement (SOFR)*).

"**SOFR Index$_{End}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date which is the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement preceding the last day of such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

"**SOFR Index$_{Start}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date which is the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement preceding the first day of such Interest Accrual Period;

"**d_c**" means the number of calendar days in the relevant SOFR Observation Period,

"**SOFR Administrator**" means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate;

"**SOFR Administrator's Website**" means the website of the SOFR Administrator (currently being, https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind), or any successor source;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement;

"**SOFR Observation Period**" means, in respect of an Interest Accrual Period, the period from (and including) the date which is the number of SOFR Observation Shift Days preceding the first date of such Interest Accrual Period (and in respect of the first Interest Accrual Period, the number of SOFR Observation Shift Days preceding the Issue Date) to, but excluding, the date which is the number of SOFR Observation Shift Days preceding the last day of such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date); and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(y) *SOFR Index Unavailable*: If a SOFR Index value is not published on the relevant Interest Determination Date and a SOFR Benchmark Event and its related Benchmark Replacement Date has not occurred with respect to SOFR, then the SOFR Index shall be calculated in accordance with the Compounded SOFR formula and the related definitions as set out below in this Condition 5(b)(iii)(D)(y):

"**Bloomberg Screen SOFRRATE Page**" means the Bloomberg screen designated "SOFRRATE" or any successor page or service;

"**Compounded SOFR**" means, for the applicable Interest Accrual Period for which the SOFR Index is not available, the rate of return on a daily compounded interest investment during the relevant SOFR Observation Period (with the daily SOFR reference rate as the reference rate for the calculation of interest) and calculated by the Calculation Agent in accordance with the following formula, and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)):

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\left(\frac{360}{d_c}\right)$$

where:

"**d_c**" means the number of calendar days in the relevant SOFR Observation Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Days in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a "**U.S. Government Securities Business Day (i)**");

"**n_i**" for any U.S. Government Securities Business Day (i) in the relevant SOFR Observation Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day (i) up to (but excluding) the following U.S. Government Securities Business Day (i);

"**Reuters Page USDSOFR=**" means the Reuters page designated "USDSOFR=" or any successor page or service;

"**SOFR**" means, with respect to any U.S. Government Securities Business Day:

(a) the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Bloomberg Screen SOFRRATE Page, the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Reuters Page USDSOFR=, or the Secured Overnight Financing Rate that appears at the SOFR Determination Time on the SOFR Administrator's Website; or

(b) if the rate specified in (a) above does not appear, the SOFR published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website;

"**SOFR Administrator**" means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate;

"**SOFR Administrator's Website**" means the website of the SOFR Administrator (currently being, https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind), or any successor source;

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day;

"**$SOFR_i$**" for any U.S. Government Securities Business Day (i) in the relevant SOFR Observation Period, is equal to SOFR in respect of that U.S. Government Securities Business Day (i);

"**SOFR Observation Period**" means, in respect of each Interest Accrual Period, the period from (and including) the date falling a number of U.S. Government Securities Business Days equal to the Observation Shift Days preceding the first date in such Interest Accrual Period to (but excluding) the date falling a number of U.S. Government Securities Business Days equal to the number of Observation Shift Days preceding the last day of such Interest Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the relevant Pricing Supplement; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

5(b)(iii)(E) Benchmark Replacement (SOFR)

(x) *Benchmark Replacement*: If the Issuer or its designee determines on or prior to the relevant Reference Time that a SOFR Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(y) *Benchmark Replacement Conforming Changes*: In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, any of the Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(b)(iii)(E). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by any of the Agents (if required). Further, none of the Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(z) *Decisions and Determinations*: Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(b)(iii)(E), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (i) will be conclusive and binding absent manifest error, (ii) will be made in the sole discretion of the Issuer or its designee, as applicable, and (iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the Noteholders or any other party.

The following defined terms shall have the meanings set out below for purpose of Condition 5(b)(iii)(D) (*Screen Rate Determination (SOFR)*) and this Condition 5(b)(iii)(E):

"**Benchmark**" means, initially, SOFR Compounded Index; provided that if the Issuer or its designee determines on or prior to the Reference Time that a SOFR Benchmark Event and its related Benchmark Replacement Date have occurred with respect to SOFR Compounded Index (including any daily published component used in the calculation thereof) or the then-current Benchmark, then "**Benchmark**" means the applicable Benchmark Replacement;

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(i) the sum of:

(1) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(2) the Benchmark Replacement Adjustment;

(ii) the sum of:

(1) the ISDA Fallback Rate; and

(2) the Benchmark Replacement Adjustment; or

(iii) the sum of:

(1) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and

(2) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(i) in the case of sub-paragraph (i) or (ii) of the definition of "**SOFR Benchmark Event**", the later of:

    (1) the date of the public statement or publication of information referenced therein; and

    (2) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(ii) in the case of sub-paragraph (iii) of the definition of "**SOFR Benchmark Event**", the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**designee**" means a designee as selected and separately appointed by the Issuer in writing;

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time, including the 2021 ISDA Interest Rate Derivatives Definitions (as amended or supplemented from time to time);

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Compounded Index, the SOFR Index Determination Time; or (2) if the Benchmark is not the SOFR Compounded Index, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

“**Relevant Governmental Body**” means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto;

“**SOFR Benchmark Event**” means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative; and

“**Unadjusted Benchmark Replacement**” means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.