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Confirmation of Your Representation: This offering circular is being sent to you at your request, and by accepting the e-mail and accessing the attached document, you shall be deemed to represent to each of China Construction Bank Corporation 中國建設銀行股份有限公司 (the "**Bank**"), China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行 (the "**Hong Kong Branch**") or such other branch of the Bank as specified in the relevant Pricing Supplement (a "**Branch Issuer**" and together with the Bank and the Hong Kong Branch, an "**Issuer**") China Construction Bank (Asia) Corporation Limited and The Hongkong and Shanghai Banking Corporation Limited (together, the "**Arrangers**") that (1) you and any customers you represent are not U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) that you consent to delivery of the attached and any amendments or supplements thereto by electronic transmission.

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中国建设银行
China Construction Bank

CHINA CONSTRUCTION BANK CORPORATION
中國建設銀行股份有限公司

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

CHINA CONSTRUCTION BANK CORPORATION HONG KONG BRANCH
中國建設銀行股份有限公司香港分行

U.S.$15,000,000,000
Medium Term Note Programme

On 29 May 2015, China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行 (the "**Hong Kong Branch**") established a U.S.$6,000,000,000 Medium Term Note Programme (the "**Programme**") and prepared an offering circular dated 29 May 2015, 26 September 2016, 24 November 2017 and 28 June 2018. With effect from 28 June 2018, the size of the Programme has been increased from U.S.$6,000,000,000 to U.S.$15,000,000,000. This Offering Circular supersedes the offering circular dated 28 June 2018 and all other offering circulars before such date. Any Notes (as defined below) issued under this Programme on or after the date of this Offering Circular are issued subject to the provisions described herein save for, in the case of the terms and conditions of the Notes, any Notes issued on or after the date of this Offering Circular so as to be consolidated and form a single series with any Series (as defined under "*Terms and Conditions of the Notes*") of Notes issued before the date of this Offering Circular. Under the Programme, China Construction Bank Corporation 中國建設銀行股份有限公司 (the "**Bank**"), the Hong Kong Branch or such other branch of the Bank as specified in the relevant Pricing Supplement (a "**Branch Issuer**" and, together with the Bank and the Hong Kong Branch, an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$15,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the 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 by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. 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, the Bank or the Hong Kong Branch 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 Offering Circular, 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 Offering Circular.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted to the Bank by the National Development and Reform Commission of the PRC (the "**NDRC**") or registration will be completed by the Bank with the NDRC pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資[2015]2044號)) issued by the NDRC which came into effect on 14 September 2015 and the applicable implementation rules or policies thereof as issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the time period as required by the NDRC.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the "**Pricing Supplement**").

Approval in-principle has been received from Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the establishment of the Programme and application will be made to the SGX-ST for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission of any Notes to the Official List of, and the quotation of any Notes on, the SGX-ST, are not to be taken as indications of the merits of the Issuer, the Hong Kong Branch or the Bank, its subsidiaries, its associated companies (if any), the Programme or such Notes. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes if traded, will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in other currencies).

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order than the correct technical meaning may be ascribed to them under applicable law.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

Each Tranche of Notes of each Series (as defined in "*Form of the Notes*") in bearer form will be represented on issue by a temporary global note in bearer form (each a "**Temporary Bearer Global Note**" or "**Temporary Global Note**") or a permanent global note in bearer form (each a "**Permanent Bearer Global Note**" or "**Permanent Global Note**"). Notes in registered form will initially be represented by a global note in registered form (each a "**Registered Global Note**" or "**Global Certificate**" and together with any Temporary Bearer Global Notes and Permanent Bearer Global Notes, the "**Global Notes**" and each a "**Global Note**"). Registered Global Notes will be registered in the name of, or in the name of a nominee for, one or more clearing systems. Global Notes may be deposited on the issue date with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Global Notes may also be deposited with a sub-custodian for the Hong Kong Monetary Authority (the "**HKMA**"), as operator of the Central Moneymarkets Unit Service, operated by the HKMA (the "**CMU Service**" or "**CMU**"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Form of the Notes*".

The Issuer may agree with any Dealer (as defined herein) that the Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Hong Kong Stock Exchange) 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 Bank has been rated A1 by Moody's Investors Service ("**Moody's**"). The Programme has been rated A1 by Moody's. Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) 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, change or withdrawal at any time by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of 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 Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. ***See "Risk Factors" beginning on page 53 for a discussion of certain factors to be considered in connection with an investment in the Notes.***

Arrangers

China Construction Bank (Asia) **HSBC**

Dealers

China Construction Bank (Asia) **HSBC**

The date of this Offering Circular is 14 October 2019.

IMPORTANT NOTICE

Each of the Issuer, the Hong Kong Branch and the Bank having made all reasonable enquiries confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Hong Kong Branch and the Bank and its subsidiaries taken as a whole (the "**Group**") and to the Notes which is material in the context of the issue and offering of the Notes (including all information required by applicable laws and the information which, according to the particular nature of the Issuer, the Hong Kong Branch, the Bank and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer, the Hong Kong Branch and the Group and of the rights attaching to the Notes); (ii) the statements contained herein relating to the Issuer, the Hong Kong Branch, the Bank, the Group and the Notes are in every material respect true and accurate and not misleading and (iii) there are no other facts in relation to the Issuer, the Hong Kong Branch, the Bank, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material aspect.

This 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 Hong Kong Branch and the Bank. Each of the Issuer, the Hong Kong Branch and the Bank accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having taken all reasonable care and made all reasonable enquiries, that the information contained in this Offering Circular is in accordance with the facts and that to the best of its knowledge and belief there are no other facts the omission of which would make any statements herein misleading or would likely affect the import of such statements.

No person is or has been authorised by the Issuer, the Hong Kong Branch or the Bank to give any information or to make any representations other than those contained in this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Hong Kong Branch, the Bank, the Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates.

The Arrangers and the Dealers have not separately verified the information contained in this Offering Circular to the fullest extent permitted by law. None of the Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates 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 Offering Circular. To the fullest extent permitted by law, none of the Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates accepts any responsibility for the contents of this Offering Circular. Each of the Arrangers and the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates 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 Offering Circular or any such statement. Neither this Offering Circular nor any financial statements included or incorporated herein 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 Hong Kong Branch, the Bank, the Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates that any recipient of this Offering Circular or any such financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Hong Kong Branch, the Bank and the risks involved. The purchase of Notes by investors should be based upon their investigation, as they deem necessary. None of the Arrangers nor the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates undertakes to review the financial condition or affairs of the Issuer, the Hong Kong Branch, the Bank and 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 Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates.

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 the Issuer, the Hong Kong Branch, the Bank, any of the Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer, the Hong Kong Branch or the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers and the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates expressly do not undertake to review the financial condition or affairs of the Issuer, the Hong Kong Branch or the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES OF THE SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES. HOWEVER, THERE IS NO OBLIGATION ON SUCH STABILISING MANAGER(S) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and Bearer Notes 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 Category 2 of Regulation S Notes) to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*" and the applicable Pricing Supplement.

PRIIPs/IMPORTANT – EEA RETAIL INVESTORS – If the 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**") or (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 Directive 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.

MIFID II product governance/target market – The 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 offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; 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 Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (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 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).

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. The distribution of this Offering Circular or any Pricing Supplement and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Hong Kong Branch, the Bank, the Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates represents that this Offering Circular or any Pricing Supplement 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, no action has been taken by the Issuer, the Hong Kong Branch, the Bank, the Arrangers or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement 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 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. 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 the Notes in the United States, the European Economic Area (including the United Kingdom), Singapore, Japan, Hong Kong, the People's Republic of China, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the State of Qatar. See "*Subscription and Sale*" and the relevant Pricing Supplement.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the audited consolidated financial statements of the Group as at and for the year ended 31 December 2017 (the "**Group 2017 Annual Financial Statements**") and the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018 (the "**Group 2018 Annual Financial Statements**"). The Group 2017 Annual Financial Statements and the Group 2018 Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The Group 2017 Annual Financial Statements and the Group 2018 Annual Financial Statements have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PricewaterhouseCoopers**") in accordance with Hong Kong Standards on Auditing ("**HKSA**") and are included elsewhere in this Offering Circular.

Since 1 January 2019, the independent auditor of the Bank has been changed from PricewaterhouseCoopers to Ernst & Young, Certified Public Accountants, Hong Kong ("**Ernst & Young**"), in accordance with the requirement of the Ministry of Finance with respect to the maximum number of years of service of an auditor for a financial enterprise. The selected consolidated interim financial information of the Group as at and for the six months ended 30 June 2018 and 2019 included in this Offering Circular was extracted from the unaudited but reviewed consolidated interim financial statements of the Group as at and for the six months ended 30 June 2019 (the "**Group 2019 Interim Financial Statements**") included in the half-year report of the Group (the "**Group 2019 Interim Report**") published on 27 September 2019 and prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the IASB.

The Group 2019 Interim Financial Statements (which include the comparative financial information as at and for the six months ended 30 June 2018) has been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the Hong Kong Institute of Certified Public Accountants and are included elsewhere in this Offering Circular. However, the Group 2019 Interim Statements should not be relied upon by prospective investors to provide the same quality of information associated with information that has been subject to an audit. Prospective investors must exercise caution when using such data to evaluate the Bank's or the Group's financial condition and results of operations. The consolidated interim financial information as at and for the six months ended 30 June 2019 should not be taken as an indication of the expected financial condition and results of operations for the Group for the full financial year ending 31 December 2019.

As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 4 of the Group 2018 Annual Financial Statements. The adoption of IFRS 9 reduced the Bank's net assets by approximately 1 per cent. as at 1 January 2018. According to the IFRS 9 transitional arrangement, upon initial application of IFRS 9, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 is adjusted to the beginning balance of retained earnings and other comprehensive income.

The Group has adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in note 2(4) of the Group 2019 Interim Financial Statements. The Group has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc. Total assets and total liabilities at the consolidated level as at 1 January 2019 both increased by RMB19,944 million as compared to the end of 2018. In addition to land use rights, the Group recognised other right-of-use assets and lease liabilities of RMB21,752 million and RMB19,914 million at the date of initial application, respectively. The reconciliation between the operating lease commitments disclosed in the Group 2018 Annual Financial Statements, and the lease liabilities recognised in the statement of financial position at the date of initial application is further set out in note 2(4) of the Group 2019 Interim Financial Statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires, references herein to the "**Bank**" refer to China Construction Bank Corporation 中國建設銀行股份有限公司; references to the "**Hong Kong Branch**" refer to China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行; references to the "**Issuer**" refer to the Bank, the Hong Kong Branch or such other branch of the Bank as specified in the relevant Pricing Supplement as being the issuer of a Series of Notes; references to the "**Group**" refer to the Bank and its subsidiaries taken as a whole; references herein to "**U.S. dollars**" and "**U.S.$**" are to the lawful currency of the United States of America (the "**USA**" or the "**U.S.**"); references to "**Hong Kong dollars**", "**HK dollars**" and "**HK$**" are to the lawful currency of Hong Kong; references to "**Renminbi**", "**RMB**" and "**CNY**" are to the lawful currency of the People's Republic of China (the "**PRC**"); references to "**Sterling**" and "**£**" are to the lawful currency of the United Kingdom and references to "**EUR**", "**euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In addition, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the PRC, references to "**Macau**" are to the Macau Special Administrative Region of the PRC, references to "**Mainland China**" are to the PRC excluding Hong Kong and Macau and references to "**Greater China**" are to the PRC including Hong Kong and Macau.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Offering Circular which contain words or phrases such as "will", "would", "aim", "aimed", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "anticipated", "estimate", "estimating", "intend", "plan", "seeking to", "future", "objective", "should", "can", "could", "may", and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Issuer's or the Bank's expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to pay dividends, its ability to roll over its short-term funding sources, its exposure to operational, market, credit, interest rate and currency risks and the market acceptance of and demand for internet banking services. These forward-looking statements speak only as of the date of this Offering Circular. The Bank expressly disclaims any obligation or undertaking to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

THIRD PARTY INFORMATION

The Issuer confirms that all third party information in this Offering Circular has been accurately reproduced and, so far as it is aware and has been able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited consolidated financial statements of the Bank and the most recently published unaudited but reviewed consolidated interim financial statements of the Bank, together with any audit or review reports prepared in connection therewith and the most recently published unaudited and unreviewed consolidated quarterly financial statements of the Bank; and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office, as set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the office of The Hongkong and Shanghai Banking Corporation Limited (the "**Fiscal Agent**") at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong. Pricing Supplements relating to unlisted Notes will only be available for inspection by a holder of such Notes and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Notes and its identity.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject to those matters set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement hereto will only be valid for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$15,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the Issuer, either as at the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in Hong Kong, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the Hong Kong foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SELECTED CONSOLIDATED FINANCIAL DATA

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

The selected consolidated financial data as at and for the years ended 31 December 2016, 2017 and 2018 are extracted from the Group 2017 Annual Financial Statements and Group 2018 Annual Financial Statements as prepared and presented in accordance with IFRS and have been audited by PricewaterhouseCoopers.

The selected consolidated interim financial information of the Group as at and for the six months ended 30 June 2018 and 2019 was extracted from the Group 2019 Interim Financial Statements included in the Group 2019 Interim Report published on 27 September 2019 and prepared in accordance with IAS 34 issued by the IASB. The Group 2019 Interim Financial Statements (which include the comparative financial information as at and for the six months ended 30 June 2018) included in this Offering Circular has been reviewed by Ernst & Young.

However, the Group 2019 Interim Statements should not be relied upon by prospective investors to provide the same quality of information associated with information that has been subject to an audit. Prospective investors must exercise caution when using such data to evaluate the Bank's or the Group's financial condition and results of operations. The consolidated interim financial information as at and for the six months ended 30 June 2019 should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending 31 December 2019.

As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 4 of the Group 2018 Annual Financial Statements. The adoption of IFRS 9 reduced the Bank's net assets by approximately 1 per cent. as at 1 January 2018. According to the IFRS 9 transitional arrangement, upon initial application of IFRS 9, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 is adjusted to the beginning balance of retained earnings and other comprehensive income.

The Group has adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in note 2(4) of the Group 2019 Interim Financial Statements. The Group has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc. Total assets and total liabilities at the consolidated level as at 1 January 2019 both increased by RMB19,944 million as compared to the end of 2018. In addition to land use rights, the Group recognised other right-of-use assets and lease liabilities of RMB21,752 million and RMB19,914 million at the date of initial application, respectively. The reconciliation between the operating lease commitments disclosed in the Group 2018 Annual Financial Statements, and the lease liabilities recognised in the statement of financial position at the date of initial application is further set out in note 2(4) of the Group 2019 Interim Financial Statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Group, including the notes thereto, included elsewhere in this Offering Circular.

Consolidated Statement of Financial Position as at 31 December 2016, 2017 and 2018

	As at 31 December		
	2016	2017	2018
	(audited)		
	(RMB millions, unless otherwise stated)		
Assets:			
Cash and deposits with central banks	2,849,261	2,988,256	2,632,863
Deposits with banks and non-bank financial institutions	494,618	175,005	486,949
Precious metals	202,851	157,036	33,928
Placements with banks and non-bank financial institutions	260,670	325,233	349,727
Positive fair value of derivatives	89,786	82,980	50,601
Financial assets held under resale agreements	103,174	208,360	201,845
Interest receivable	101,645	116,993	–
Loans and advances to customers	11,488,355	12,574,473	13,365,430
Financial investments:			
Financial assets measured at fair value through profit or loss	488,370	578,436	731,217
Financial assets measured at amortised cost	–	–	3,272,514
Financial assets measured at fair value through other comprehensive income	–	–	1,711,178
Available-for-sale financial assets	1,633,834	1,550,680	–
Held-to-maturity investments	2,438,417	2,586,722	–
Investment classified as receivables	507,963	465,810	–
Interests in associates and joint ventures	7,318	7,067	–
Long-term equity investments	–	–	8,002
Fixed assets	170,095	169,679	169,574
Land use rights	14,742	14,545	14,373
Intangible assets	2,599	2,752	3,622
Goodwill	2,947	2,751	2,766
Deferred tax assets	31,062	46,189	58,730
Other assets	75,998	71,416	129,374
Total assets	20,963,705	22,124,383	23,222,693
Liabilities:			
Borrowings from central banks	439,339	547,287	554,392
Deposits from banks and non-bank financial institutions	1,612,995	1,336,995	1,427,476
Placements from banks and non-bank financial institutions	322,546	383,639	420,221
Financial liabilities measured at fair value through profit or loss	396,591	414,148	431,334
Negative fair value of derivatives	90,333	79,867	48,525
Financial assets sold under repurchase agreements	190,580	74,279	30,765
Deposits from customers	15,402,915	16,363,754	17,108,678
Accrued staff costs	33,870	32,632	36,213
Taxes payable	44,900	54,106	77,883
Interest payable	211,330	199,588	–
Provisions	9,276	10,581	37,928
Debt securities issued	451,554	596,526	775,785
Deferred tax liabilities	570	389	485
Other liabilities	167,252	234,765	281,414
Total liabilities	19,374,051	20,328,556	21,231,099
Equity:			
Share capital	250,011	250,011	250,011
Other equity instruments preference shares	19,659	79,636	79,636
Capital reserve	133,960	135,225	134,537
Investment revaluation reserve	(976)	(26,004)	–
Other comprehensive income	–	–	18,451
Surplus reserve	175,445	198,613	223,231
General reserve	211,193	259,680	279,725
Retained earnings	786,860	886,921	990,872
Exchange reserve	348	(4,322)	–
Total equity attributable to equity shareholders of the Bank	1,576,500	1,779,760	1,976,463
Non-controlling interests	13,154	16,067	15,131
Total equity	1,589,654	1,795,827	1,991,594
Total liabilities and equity	20,963,705	22,124,383	23,222,693

Consolidated Statement of Financial Position as at 30 June 2019

	As at 31 December 2018	As at 30 June 2019
	(audited)	(reviewed)
	(RMB millions, unless otherwise stated)	
Assets:		
Cash and deposits with central banks	2,632,863	2,466,167
Deposits with banks and non-bank financial institutions	486,949	365,628
Precious metals	33,928	36,911
Placements with banks and non-bank financial institutions	349,727	447,872
Positive fair value of derivatives.	50,601	28,962
Financial assets held under resale agreements	201,845	450,226
Loans and advances to customers	13,365,430	14,087,296
Financial investments:		
Financial assets measured at fair value through profit or loss	731,217	678,147
Financial assets measured at amortised cost.	3,272,514	3,575,473
Financial assets measured at fair value through other comprehensive income	1,711,178	1,797,431
Long-term equity investments	8,002	10,424
Fixed assets	169,574	165,561
Land use rights	14,373	14,123
Intangible assets	3,622	3,632
Goodwill	2,766	2,780
Deferred tax assets	58,730	63,730
Other assets	129,374	188,788
Total assets	23,222,693	24,383,151
Liabilities:		
Borrowings from central banks	554,392	446,769
Deposits from banks and non-bank financial institutions	1,427,476	1,452,410
Placements from banks and non-bank financial institutions	420,221	441,948
Financial liabilities measured at fair value through profit or loss	431,334	301,500
Negative fair value of derivatives	48,525	28,017
Financial assets sold under repurchase agreements	30,765	35,164
Deposits from customers	17,108,678	18,214,072
Accrued staff costs	36,213	31,581
Taxes payable	77,883	54,422
Provisions	37,928	39,652
Debt securities issued	775,785	789,358
Deferred tax liabilities	485	390
Other liabilities	281,414	475,830
Total liabilities	21,231,099	22,311,113
Equity:		
Share Capital	250,011	250,011
Other equity instruments preference shares	79,636	79,636
Capital reserve	134,537	134,537
Other comprehensive income	18,451	20,057
Surplus reserve	223,231	223,231
General reserve	279,725	280,045
Retained earnings	990,872	1,068,239
Total equity attributable to equity shareholders of the Bank	1,976,463	2,055,756
Non-controlling interests	15,131	16,282
Total equity	1,991,594	2,072,038
Total liabilities and equity	23,222,693	24,383,151

Consolidated Statement of Comprehensive Income for the years ended 31 December 2016, 2017 and 2018

	For the year ended 31 December		
	2016	2017	2018
		(audited)	
	(RMB millions, unless otherwise stated)		
Interest income	696,637	750,154	811,026
Interest expense	(278,838)	(297,698)	(324,748)
Net interest income	417,799	452,456	486,278
Fee and commission income	127,863	131,322	138,017
Fee and commission expense	(9,354)	(13,524)	(14,982)
Net fee and commission income	118,509	117,798	123,035
Net trading (loss)/gain	3,975	4,858	12,614
Dividend income	2,558	2,195	773
Net gain/(loss) arising from investment securities	11,098	(835)	3,444
Net losses on derecognition of financial assets measured at amortised cost	–	–	(2,241)
Other operating income, net:			
– Other operating income	55,340	49,009	35,918
– Other operating expense	(49,419)	(31,450)	(26,049)
Other operating income, net	5,921	17,559	9,869
Operating income	559,860	594,031	633,772
Operating expenses	(171,515)	(167,043)	(174,764)
	388,345	426,988	459,008
Impairment losses on:			
Loans and advances to customers	(89,588)	(123,389)	(143,045)
Others	(3,616)	(3,973)	(7,943)
Impairment losses	(93,204)	(127,362)	(150,988)
Share of profit of associates and joint ventures	69	161	140
Profit before tax	295,210	299,787	308,160
Income tax expense	(62,821)	(56,172)	(52,534)
Net profit	232,389	243,615	255,626
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	(839)	593	(296)
Changes of equity instruments designated as measured at fair value through other comprehensive income	–	–	120
Others	68	208	43
Subtotal	(771)	801	(133)
Items that may be reclassified subsequently to profit or loss:			
Fair value changes of debt instruments measured at fair value through other comprehensive income	–	–	35,887
Losses of available-for-sale financial assets arising during the period	(27,841)	(38,151)	–
Income tax impact relating to available-for-sale financial assets	7,055	9,230	–
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	–	–	303
Reclassification adjustments included in profit or loss due to disposals	–	–	(149)
Reclassification adjustments included in profit or loss	(3,930)	3,403	–
Net (loss)/gain on cash flow hedges	(150)	470	(267)
Exchange difference on translating foreign operations	5,885	(4,748)	2,573
Subtotal	(18,981)	(29,796)	38,347
Other comprehensive income for the year, net of tax	(19,752)	(28,995)	38,214
Total comprehensive income for the year	212,637	214,620	293,840
Net profit attributable to:			
Equity shareholders of the Bank	231,460	242,264	254,655
Non-controlling interests	929	1,351	971
	232,389	243,615	255,626
Total comprehensive income attributable to:			
Equity shareholders of the Bank	212,418	213,837	292,705
Non-controlling interests	219	783	1,135
	212,637	214,620	293,840
Basic and diluted earnings per share (in RMB Yuan)	0.92	0.96	1.00

Consolidated Statement of Comprehensive Income for the six months ended 30 June 2018 and 2019

	For the six months ended 30 June	
	2018	2019
	(reviewed)	
	(RMB millions, unless otherwise stated)	
Interest income	395,320	432,446
Interest expense	(155,834)	(182,010)
Net Interest income	239,486	250,436
Fee and commission income	75,371	84,167
Fee and commission expense	(6,367)	(7,472)
Net fee and commission income	69,004	76,695
Net trading gain	7,912	4,858
Dividend income	412	414
Net gain arising from investment securities	3,119	6,541
Net gain/(loss) on derecognition of financial assets measured at amortised cost	(2,365)	1,435
Other operating income, net:		
Other operating income	23,503	21,505
Other operating expense	(18,342)	(17,497)
Other operating income, net	5,161	4,008
Operating income	322,729	344,387
Operating expenses	(74,681)	(78,549)
	248,048	265,838
Credit impairment losses	(67,029)	(74,638)
Other impairment losses	249	(148)
Share of profits of associates and joint ventures	152	128
Profit before tax	181,420	191,180
Income tax expense	(33,955)	(35,472)
Net Profit	147,465	155,708
Other Comprehensive Income		
(1) Other comprehensive income that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	(178)	110
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	(33)	318
Others	(5)	(3)
Subtotal	(216)	425
(2) Other comprehensive income that may be reclassified subsequently to profit or loss:		
Fair value changes of debt instruments measured at fair value through other comprehensive income	14,974	(168)
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	(161)	1,359
Reclassification adjustments included in profit or loss due to disposals	(102)	(93)
Net loss on cash flow hedges	(342)	(174)
Exchange difference on translating foreign operations	(550)	(76)
Subtotal	13,819	848
Other comprehensive income for the period, net of tax	13,603	1,273
Total comprehensive income for the period	161,068	156,981
Net profit attributable to:		
Equity shareholders of the Bank	147,027	154,190
Non-controlling interests	438	1,518
	147,465	155,708
Total comprehensive income attributable to:		
Equity shareholders of the Bank	160,572	155,796
Non-controlling interests	496	1,185
	161,068	156,981
Basic and diluted earnings per share (in RMB Yuan)	0.59	0.62

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Bank	China Construction Bank Corporation 中國建設銀行股份有限公司
Hong Kong Branch	China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行
Issuer	The Bank, the Hong Kong Branch or such branch of the Bank as specified in the relevant Pricing Supplement as being the Issuer of a Series of Notes.
Description	Medium Term Note Programme.
Arrangers	China Construction Bank (Asia) Corporation Limited and The Hongkong Shanghai Banking Corporation Limited.
Dealers	China Construction Bank (Asia) Corporation Limited, The Hongkong Shanghai Banking Corporation Limited and any other Dealers appointed in accordance with the Dealer Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*" and the relevant Pricing Supplement) including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are received in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".
Fiscal Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
CMU Lodging and Paying Agent	The Hongkong and Shanghai Banking Corporation Limited
Programme Size	Up to U.S.$15,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Bank or the Hong Kong Branch may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.

Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: (a) 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., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer. 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.
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 or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes.	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
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 the Issuer and the relevant Dealer may agree.
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount, or offered and sold at their nominal amount and be redeemed at a premium, and will not bear interest.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons, or pursuant to a winding-up of the Issuer following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Denomination of Notes.	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. See "*Certain Restrictions*" above.
Taxation	All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without deduction for or on account of withholding taxes imposed by the PRC and, if the Issuer is a branch of the Bank, the jurisdiction where that branch is located, or in each case any political subdivision or any authority therein or thereof having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Notes, Receipts and the Coupons, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Events of Default	Events of Default for the Notes are set out in Condition 10.
Cross Acceleration	The terms of the Notes will contain a cross-acceleration provision as further described in Condition 10(c).
Status of the Notes	The Notes and the Receipts and the Coupons relating to them will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, ranking *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.
Listing	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only on the Hong Kong Stock Exchange during the 12-month period from the date of this Offering Circular. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Approval in-principle has been received from the SGX-ST for the establishment of the Programme and application will be made to the SGX-ST for permission to deal in, and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of any Notes to the Official List of, and the quotation of any Notes on, the SGX-ST, are not to be taken as indications of the merits of the Issuer, the Hong Kong Branch or the Bank, its subsidiaries, its associated companies (if any), the Programme or such Notes. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies). The Notes may also be listed on the Hong Kong Stock Exchange, the SGX-ST and on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. 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).

Ratings	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, revision, reduction or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.
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 may be brought in such courts.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, the European Economic Area, Singapore, Japan, Hong Kong, the PRC, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the State of Qatar and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*" and the relevant Pricing Supplement.
United States Selling Restrictions	Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. Whether TEFRA C or D rules apply or whether TEFRA is not applicable will be specified in the applicable Pricing Supplement.
Clearing Systems	The CMU Service, Euroclear, Clearstream and/or any other clearing system as specified in the applicable Pricing Supplement. See "*Form of the Notes*".

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

Bearer Notes

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a Temporary Bearer Global Note or, if so specified in the applicable Pricing Supplement, a Permanent Bearer Global Note which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the "**Common Depositary**") for, Euroclear and Clearstream or (ii) a sub-custodian for the CMU Service.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or the CMU Lodging and Paying Agent and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent (as defined in "*Terms and Conditions of the Notes*"). On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that the purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Bearer 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 Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, 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 Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i), in the case of Notes held by a Common Depositary for Euroclear and Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii), in the case of Notes held through a sub-custodian for the CMU Service, from the relevant account holders therein to the CMU Lodging and Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have, or in the case of Notes cleared through the CMU Service, the CMU Service has, been closed for business for a continuous period of

14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Fiscal Agent. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"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."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream or the CMU Service, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to outside the United States, will initially be represented by a global note in registered form (a "**Registered Global Note**", together with any Bearer Global Note, the "**Global Notes**"). Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear, Clearstream or the CMU Service and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with a Common Depositary for, and registered in the name of a common nominee of, Euroclear, Clearstream and/or deposited with a sub-custodian for the CMU Service (if applicable), as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Registered Global Notes. None of the Issuer, the Bank, the Hong Kong Branch, the Fiscal Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(b)(ii)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered where the Notes represented by the Registered Global Notes in definitive form or (iii) the Issuer has been notified that both Euroclear and Clearstream and, in the case of Notes cleared through the CMU Service, the CMU Service have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes registered in the name of a nominee for a Common Depositary for Euroclear and Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) and/or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein may give notice to the Registrar or the CMU Lodging and Paying Agent, as the case may be, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar or the CMU Lodging and Paying Agent, as the case may be.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream and the CMU Service, in each case to the extent applicable.

General

Pursuant to the Fiscal Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number which are different from the common code, CMU instrument number and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act), if any, applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream or the CMU Service, each person (other than Euroclear and/or Clearstream or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Bank, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purposes the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Bank, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules (as defined in the Fiscal Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer and the Bank in respect of that payment under such Note.

Any reference herein to Euroclear and/or Clearstream and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (Hong Kong time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear, Clearstream and/or the CMU Service, as the case may be, will become entitled to proceed directly against the Issuer and the Bank on the basis of statements of account provided by Euroclear, Clearstream and/or the CMU Service on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 24 November 2017 and executed by the Bank and the Hong Kong Branch.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6 (except Condition 6(c)), 7, 12 or 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange), they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Bank shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement that will be issued in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[**MiFID II Product Governance/target market –** [*appropriate target market legend to be included*]]

[PRIIPs Regulation/Prospectus Regulation/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 (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 (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.]

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (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]/[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 Recommendations on Investment Products).] *(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.)*

Pricing Supplement dated [●]

China Construction Bank Corporation 中國建設銀行股份有限公司/
China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行/
[*specify other foreign branch*]

([a branch of China Construction Bank Corporation, which is] a joint stock company incorporated in the People's Republic of China with limited liability)

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$15,000,000,000 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 (the "**Conditions**") set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [●] [and the supplemental Offering Circular dated [*date*]]. 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 supplemental Offering Circular dated [●]] and this Pricing Supplement. In particular, investors in the Notes should read the section titled "*Risk Factors*" contained therein, which applies to the issue of Notes described herein.

[*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 pricing supplement of the Notes and must be read in conjunction with the Offering Circular dated [*current date*], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. In particular, investors in the Notes should read the section titled "*Risk Factors*" contained therein, which apply to the issue of Notes described herein.]

[*The following language applies if the Notes are to be listed on The Stock Exchange of Hong Kong Limited.*

This document 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 and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (together, "**Professional Investors**")) only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Stock Exchange of Hong Kong Limited (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 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 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.

This document (read together with the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]) 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 document 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.]

[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 sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]

1	Issuer:		China Construction Bank Corporation 中國建設銀行股份有限公司/China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行/[*specify other foreign branch as Issuer*]]
2	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number:	[●]
	(*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.*)]		
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	(i)	Specified Denominations[1]:	[●]
	(ii)	Calculation Amount[2]:	[●]

7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8	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) [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.*]
9	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR/CNH HIBOR/*Specify reference rate*] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)]
11	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12	Put/Call Options:	[Put Option] [Call Option] [(further particulars specified below)]
13	Listing:	[Hong Kong/Singapore/Other (*specify*)/None]
14	Method of distribution:	[Syndicated/Non-syndicated]

Provisions relating to Interest (if any) Payable

15	Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]

	(ii) Interest Payment Date(s):	[[●] in each year[(5)] [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[(2)]
	(iv) Broken Amount(s):	[●] 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*][(2)(4)]
	(v) Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual-ISDA/Actual/Actual-ICMA/ Actual/365(Fixed)/[(6)] *specify other*] *(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. dollars, Renminbi or Hong Kong dollars)*
	(vi) Determination Date(s) (Condition 5(j)):	[Not applicable/*give details*][(7)]
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[Not applicable/*give details*]
	(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not applicable/*give details*]
16	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:	[●] *(Not applicable unless different from the Interest Payment Date(s))*
	(iii) Interest Commencement 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)):	[Not Applicable/*give details*]
	(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/or Interest Amount(s) (if not the Calculation Agent):	[●]
	(viii) Screen Rate Determination (Condition 5(b)(iii)(B)):	

		– Reference Rate:	LIBOR/EURIBOR/HIBOR/CNH HIBOR, *Specify reference rate*
		– Interest Determination Date(s):	[*[●] [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:	*[For example, Reuters LIBOR 01/EURIBOR 01]*
		– Relevant Time:	*[For example, 11.00 a.m. London time/Brussels time]*
		– Relevant Financial Centre:	*[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro]*
	(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):	[●]
		– ISDA Benchmarks Supplement:	[Applicable/Not Applicable]
	(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)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17	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:	[●]
18	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 Exchange (if not the Calculation Agent):	[●]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(v)	Interest Determination Date(s):	[●]
	(vi)	Interest Accrual Period(s):	[●]
	(vii)	Specified Interest Payment Dates:	[●] *(Not applicable unless different from the Interest Payment Date(s))*
	(viii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Other (*give details*)]
	(ix)	Business Centre(s):	[●]
	(x)	Minimum Rate of Interest:	[●] per cent. per annum
	(xi)	Maximum Rate of Interest:	[●] per cent. per annum
	(xii)	Day Count Fraction (Condition 5(j)):	[●]
19	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 responsible for calculating the Rate(s) of Exchange (if not the Calculation 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

20	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:	[●]
21	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:	[●]
22	Final Redemption Amount of each Note:	[●] per Calculation Amount
23	Early Redemption Amount:	[●]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c) or, where otherwise specified herein, Condition 6(d) or Condition 6(e)) or an 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

24	Form of Notes:	Bearer Notes: [*delete as appropriate*] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][(8)] [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.]

		Registered Notes: [Registered Notes may not be exchanged for Bearer Notes. Global Certificate exchangeable for Certificates in the limited circumstances described in the Global Certificate.]
25	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*. *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which items 16(v) and 18(ix) relate]*
26	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*]
27	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*]
28	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
29	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
30	Other terms or special conditions:	[Not Applicable/*give details*](9)

Distribution

31	(i)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii)	Date of Subscription Agreement:	[●]
	(iii)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
32	If non-syndicated, name of the relevant Dealer:		[Not Applicable/*give name and address*]
33	U.S. Selling Restrictions:		Reg. S Category [1/2]; [TEFRA C/TEFRA D/TEFRA Not Applicable]
34	Prohibition of Sales to EEA Retail Investors:		[Applicable/Not Applicable] *(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*
35	Additional selling restrictions:		[Not Applicable/*give details*]

Yield

36	Indication of yield:	[●]

Operational Information

37	ISIN Code:	[●]
38	Common Code:	[●]

39	CMU Instrument Number:	[●]
40	Legal Entity Identifier:	[●]
41	Any clearing system(s) other than Euroclear/Clearstream and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
42	Delivery:	Delivery [against/free of] payment
43	Additional Paying Agent(s) (if any):	[●]
44	Ratings:	[●]

General

45	The aggregate nominal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars):	[Not Applicable/U.S.$[●]]
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable]
47	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable]
48	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
49	(i) [Date of [Board] approval for issuance of Notes obtained:]	[●] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*
	(ii) Date of any regulatory approval for the issuance of the Notes:	[NDRC Registration Certificate dated [●]/Not Applicable/*specify other applicable regulatory approvals*]

[**Use of proceeds**

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

[**Listing**

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.$15,000,000,000 Medium Term Note Programme of China Construction Bank Corporation 中國建設銀行股份有限公司 and China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行.]

[**Stabilising**

In connection with the issue of any Tranche of Notes, the Managers or Dealer(s) (if any) named as the Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in this Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the price of the Notes of the series at a level higher than that which might otherwise prevail for a limited period after the issue date of the relevant Tranche of Notes. However, there is no obligation on such Stabilising Manager(s) to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

[**Material adverse change statement**

[Except as disclosed in this document, there/There][(10)] has been no significant change in the financial or trading position of the Issuer or of the Group since [●] and no material adverse change in the financial position or prospects of the Issuer or of the Group since [●].]

Responsibility

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

[The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. The approval in-principle from, and the admission of the Notes to the Official List of, and the quotation of the Notes on, the SGX-ST are not to be taken as indications of the merits of the Issuer, its subsidiaries, its associated companies (if any), the Programme or the Notes.]

[*The following signature block is to be signed if the Issuer is not the Hong Kong Branch.*]

[Signed on behalf of **CHINA CONSTRUCTION BANK CORPORATION**[, Branch]:

By: ________________________
Duly authorised]

Signed on behalf of **CHINA CONSTRUCTION BANK CORPORATION HONG KONG BRANCH 中國建設銀行股份有限公司香港分行**:

By: ________________________
Duly authorised]

Notes:

(1) 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".

(2) 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 with CNY0.05 or above rounded upwards/HK$0.01 with HK$0.005 or above rounded upwards]."

(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) Only relevant where corporate (or similar) authorisation is required for the particular tranche of Notes.

(5) 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."

(6) Applicable to Renminbi and Hong Kong dollar denominated Fixed Rate Notes.

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

(8) If the Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradable 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) 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.

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 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 the relevant Pricing Supplements. 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 the issuer specified hereon (the "**Issuer**") and are issued pursuant to a fiscal agency agreement (as amended, restated or supplemented as at the Issue Date, the "**Fiscal Agency Agreement**") dated [●] October 2019 which has been entered into in relation to the Notes between China Construction Bank Corporation (the "**Bank**") (on behalf of itself and on behalf of any of its branches other than the Hong Kong Branch (as defined below)), China Construction Bank Corporation Hong Kong Branch (the "**Hong Kong Branch**"), The Hongkong and Shanghai Banking Corporation Limited as fiscal agent, CMU lodging and paying 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 24 November 2017 executed by the Bank (on behalf of itself and on behalf of any of its branches other than the Hong Kong Branch) and the Hong Kong Branch in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agent(s) 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**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**" (such Fiscal Agent, CMU Lodging and Paying Agent, Paying Agents, Registrar and Transfer Agent(s) being together referred to as the "**Agents**"). 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. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during usual business hours at the specified offices of the Paying Agents.

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 entitled to the benefit of and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

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

If specified hereon that the Issuer is the Hong Kong Branch or such other branch of the Bank, notwithstanding that the Issuer is not a separate and independent legal person of the Bank, any obligations of the Bank under these Conditions shall be construed subject to, and in accordance with, applicable law.

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 Basis 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 Fiscal 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**: Subject to Condition 2(f) (*Closed Periods*), 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 to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. 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 such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Fiscal Agency Agreement). The regulations may be changed by the Issuer, with the prior written approval of the Registrar and, to the extent reasonably expected to be prejudicial to the interests of the Noteholders, 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. New Certificates shall only be issued against surrender of the existing Certificates to a Registrar or any other 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 2(c) shall be available for delivery within three business days of receipt of a duly completed 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 Registrar or any other Transfer Agent (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 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 Registrar or the relevant other Transfer Agent (as the case may be).

(e) **Transfers Free of Charge**: Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption 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 and/or security and/or pre-funding as the Issuer, the Registrar or the relevant other Transfer Agent may require) in respect of taxes or charges.

(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 (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days ending on (and including) any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6 or (iii) during the period of seven days ending on (and including) any Record Date.

3 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.

4 OTHER COVENANTS

Where the NDRC Circular and/or the PBOC Circular applies to the Tranche of Notes to be issued, each of the Issuer and/or the Bank undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the NDRC, PBOC and/or SAFE within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Circular and/or the PBOC Circular.

In these Conditions:

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**NDRC Circular**" means the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time;

"**PBOC**" means the People's Bank of China;

"**PBOC Circular**" means the Macro-Prudential Management of Cross-Border Financing in Full Aperture (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) issued by the PBOC and which came into effect on 12 January 2017, and any implementation rules as issued by the PBOC from time to time; and

"**SAFE**" means the State Administration of Foreign Exchange or its local counterparts.

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 by the Calculation Agent 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 by the Calculation Agent 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 indicated in the applicable 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:

(1) the Floating Rate Option is as specified hereon;

(2) the Designated Maturity is a period specified hereon; and

(3) 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*

(1) 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:

(I) the offered quotation; or

(II) 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. (London time in the case of LIBOR, 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. (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 LIBOR, EURIBOR, HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon;

(2) 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) above 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 LIBOR, the principal London office of each of the Reference Banks or, 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 and, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 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. 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

(3) 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 LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 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. 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 LIBOR, the London inter-bank market or, 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 LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 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. 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 LIBOR, the London inter-bank market or, 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).

(iv) ***Benchmark Replacement***: In addition, notwithstanding the provisions of this Condition 5(b), if the Issuer determines that a Benchmark Event has occurred in relation to the relevant Reference Rate specified hereon 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:

(A) 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 Accrual 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;

(B) 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;

(C) 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 Accrual Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iv)); provided, however, that if sub-paragraph (B) 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 Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Accrual 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 of Interest that applied to such preceding Interest Accrual Period for the Margin, Maximum Rate of Interest or Minimum Rate of Interest that is to be applied to the relevant Interest Accrual Period); for the avoidance of doubt, the proviso in this sub-paragraph (C) shall apply to the relevant Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iv));

(D) 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 Fiscal Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(iv). 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

(E) 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.

(v) ***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 by the Calculation Agent 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 by the Calculation Agent 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 halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves 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.

In the case of Notes represented by a Global Note or Global Certificate, interest shall be calculated in respect of any period by applying the Rate of Interest to the total aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate.

(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 each Interest Determination Date, or such other time 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 5 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 and the Noteholders.

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

"**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:

(i) 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

(ii) 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

(iii) 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:

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

(ii) 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);

(iii) 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;

(iv) 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;

(v) 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

(vi) 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 (ii), (iii) and (iv) 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.

"**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 specified hereon, 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.

"**Calculation Amount**" means the amount by reference to which the Interest Amount, Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount are calculated as specified hereon.

"**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:

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

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:

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

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:

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

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 (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

"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,

(A) 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 (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

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

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

(2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) 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; and

"**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.

"**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.

"**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, 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 not Sterling, euro, Hong Kong dollars, 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 provided that in this definition, "Business Day" shall mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London or Hong Kong (as the case may be).

"**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 otherwise specified hereon.

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

"**ISDA Benchmarks Supplement**" means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified hereon)) published by the International Swaps and Derivatives Association, Inc.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon and, if specified as such hereon, as supplemented by the ISDA Benchmarks Supplement.

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

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, 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 Nominating Body**" means, in respect of a reference rate:

(i) 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

(ii) 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.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

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

"**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.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note is outstanding (as defined in the Fiscal 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 Condition 6(a)(i), 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) (as applicable) 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) or Condition 6(d) 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 Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked 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 a Tax Jurisdiction (as defined in Condition 8) or any political subdivision or any authority thereof or therein having power to tax, 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 authorised signatories 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 15 nor more than 30 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 15 nor more than 30 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 other Transfer Agent at its specified office, together with a duly completed option exercise notice (an "Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any other 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 Fiscal 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 6 and the provisions specified hereon.

(g) **Purchases**: The Issuer, the Bank and its Subsidiaries 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. Such Notes may, at the option of the Issuer, be held, reissued, resold or surrendered to the Fiscal Agent for cancellation.

(h) **Cancellation**: All Notes purchased by or on behalf of the Issuer, the Bank 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)(ii)), 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, "**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 or, in the case of Renminbi, in Hong Kong.

(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 Condition 7(b)(iii) 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**") and in the manner provided in Condition 7(b)(iii) below.

(iii) Payments of principal or interest, as the case may be, on each Registered Note shall be made:

(x) in the case of 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 Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(iii), "**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.

*So long as the Notes are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payment, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

Payment of interest or principal by the CMU Lodging and Paying Agent to the person for whose account a relevant interest in the Global Certificate is credited as being held by the CMU Service at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the relevant CMU rules) or any other relevant notification by the CMU Service 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 any applicable fiscal or other laws, regulations and directives in Hong Kong or any other place of payment, but without prejudice to the provisions of Condition 8 and 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, any 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 and the Transfer Agents 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 Registrar and the Transfer Agents appointed under the Fiscal Agency Agreement and any Calculation Agent(s) appointed in respect of any Notes 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 the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, in each case in accordance with the Fiscal Agency Agreement, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes outside the United Kingdom, (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, (vi) a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Notes are issued in definitive form, for so long as the Notes are listed on the Singapore Exchange Securities Trading Limited or any successor thereto (the "**SGX-ST**") and the rules of the SGX-ST so require and (vii) 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), such 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 relevant 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 and the relevant place of presentation (if presentation and/or surrender of such Note, Receipt or Coupon is required) 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 or 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 Renminbi) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; or

(iii) (in the case of a payment in euro) which is a TARGET Business Day.

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 a Tax Jurisdiction or any political subdivision or any authority therein or thereof having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Notes, Receipts and the Coupons, 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 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) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the relevant Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) **Lawful avoidance of withholding**: to, or to a third party 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 a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(c) **Presentation more than 30 days after the Relevant Date**: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions:

(i) "**Relevant Date**" in respect of any Note, Receipt or Coupon means whichever is the later of (a) the date on which payment in question first becomes due and (b) if the full amount payable has not been paid on or prior to such due date, the date on which the full amount has been paid and notice to that effect has been given to the Noteholders; and

(ii) "**Tax Jurisdiction**" means (A) the PRC and, (B) if the Issuer is a branch of the Bank, the jurisdiction where that branch is located, or in each case any political subdivision or any authority therein or thereof having power to tax.

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.

For the avoidance of doubt, the Issuer's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on the Notes, the Receipts or the Coupons; provided that the Issuer shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the Tax Jurisdiction or any political subdivision thereof or any taxing authority thereof or therein, with respect to the Fiscal Agency Agreement or as a consequence of the issuance of the Notes, the Receipts or the Coupons.

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 (each an "**Event of Default**") occurs and is continuing, any Noteholder may give notice to the Issuer at the specified office of the Fiscal Agent that any Note held by it is and shall immediately become, due and payable at the Early Redemption Amount of such Note together with accrued interest (if any) to the date of payment without further formality:

(a) **Non-Payment**: The Issuer fails to pay the principal of or any 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 which default continues for a period of 45 days after written notice of such default shall have been given to the Issuer by the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Acceleration**: Any other present or future Public External Indebtedness of the Bank 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 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 (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank of the day of which this paragraph operates); or

(d) **Insolvency**: The Bank 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 Bank 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 Bank or any of its Material Subsidiaries, or the Bank 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 of the Noteholders, or (ii) in the case of a Material Subsidiary of the Bank, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Bank or another of its 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.

In these Conditions:

"**Material Subsidiary**" means a Subsidiary of the Bank whose total assets or total revenue as at the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which these audited financial statements relate, account for 5 per cent. or more of the consolidated assets or consolidated revenue of the Bank as at such date or for such period. If a Material Subsidiary transfers all of its assets and business to another Subsidiary of the Bank, the transferee shall become a Material Subsidiary and the transferor shall cease to be a Material Subsidiary on completion of such transfer.

"**Public External Indebtedness**" means any indebtedness of the Bank (or, for the purposes of Condition 10, any Subsidiary), or any guarantee or indemnity by the Bank 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 issued outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administrative Regions or Taiwan) ("**PRC**") and 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 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.

"**Subsidiary**" means any entity 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 Bank.

None of the Agents shall be required to take any steps to ascertain whether any Event of Default has occurred and none of them shall be responsible or liable to the Noteholders, the Issuer or any other person for any loss arising from any failure to do so.

11 MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Noteholders**: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution 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 more than 50 per cent. 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 and/or Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum Rate of Interest, Instalment Amount or Redemption Amount, (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, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 66 2/3 per cent., or at any adjourned meeting not less than 25 per cent., in 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 Fiscal 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 Fiscal Agency Agreement**: The Bank and the Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if:

(i) to do so could not be expected to be prejudicial to the interests of the Noteholders; or

(ii) such modification 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.

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 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 that 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 securities having the same terms and conditions as the Notes (except for the first payment of interest and if applicable, the timing for notification to the NDRC, PBOC and/or SAFE and save that for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be the first issue date of the Notes) 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 or, so long as Notes are listed on the SGX-ST, published on the website of the SGX-ST www.sgx.com. 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 (which is expected to be the Asian Wall Street Journal). 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 first date on which publication is made, 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.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear 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 (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate, except that if the Notes are listed on the SGX-ST, and the rules of the SGX-ST so require, notice will in any event also be published on the website of the SGX-ST.

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 CURRENCY INDEMNITY

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

17 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 ("**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 the 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**: The Issuer further irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the Issuer, and the Issuer irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement, the net proceeds of each issue of the Notes will be applied by the Issuer for its funding and general corporate purposes.

RISK FACTORS

Investors should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Issuer, the Bank and the Group may be adversely affected by any of these risks. The risks described below are not the only ones relevant to the Issuer, the Bank or the Notes. The Issuer and the Bank believe the risks described below represent the principal risks inherent when considering an investment in the Notes. Additional risks and uncertainties not presently known to the Issuer or the Bank, or which the Issuer or the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur and the Issuer and the Bank are not in a position to express a view on the likelihood of any such contingency occurring.

The Issuer does not represent that the statements below regarding the risk factors of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

Risks Relating to the Bank's Business

Uncertainties and instability in global market conditions could adversely affect the Bank'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, 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.

While the International Monetary Fund expects global economic growth to be 3.2 per cent. in 2019, there are a number of uncertainties ahead. The ongoing trade dispute between the PRC and the United States and the increase in tariffs that the United States plans to impose on Chinese imports have contributed to increased market volatility, weakened business and consumer confidence and diminished expectations for economic growth around the world. 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 key trading currencies such as the Euro and/or greater volatility of markets in general due to the increased uncertainty.

The implications for the world and the Group are significant. First, a rise in global trade protectionism will negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and aggressive 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 and results of operations could be significantly and adversely affected.

Investors should be aware that there is a recent history of 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.

The Bank has a concentration of credit exposure to certain customers and certain sectors

As at 30 June 2019, the Bank's corporate loans and advances to the domestic (i) transportation, storage and postal services industries; (ii) manufacturing industry; (iii) leasing and commercial services industries; (iv) production and supply of electric power, heat, gas and water industries; and (v) wholesale and retail trade industries accounted for 9.28 per cent., 7.56 per cent., 7.17 per cent., 5.53 per cent. and 3.11 per cent. of the Bank's total loans and advances to customers, respectively. If any of these industries in which the Bank's loans are highly concentrated experiences a significant downturn, the Bank's asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

Any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, as well as increase the level of the Bank's impaired loans and related provisions for impaired loans, any of which could in turn reduce its net profit and adversely affect its business, financial condition and results of operations.

The Bank is also exposed to the fluctuations of the real estate market through its extension of personal residential mortgage loans, individual commercial property mortgage loans and home equity loans. The Bank's real estate related loans mainly include both corporate real estate loans and personal residential mortgage loans. As at 30 June 2019, corporate real estate loans amounted to RMB551,920 million, representing 3.81 per cent. of the Group's gross loans and advances to customers, and its corresponding NPL ratio was 1.25 per cent. As at 30 June 2019, personal residential mortgages amounted to RMB5,055,429 million, representing 34.77 per cent. of the Group's gross loans and advances to customers and its corresponding NPL ratio was 0.27 per cent. Notwithstanding prudential measures the Bank has put in place to maintain a portfolio of high quality real estate loans with sustainable growth, including imposing stringent standards for the acceptance of new customers for personal residential mortgage loans, the PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. In the event that PRC real estate prices experience a significant prolonged decline, the Bank's asset quality will likely be negatively affected. Further, the PRC government has already implemented and continues to implement certain adjustment measures aimed at managing the fluctuations of the real estate market. These policies may have an adverse effect on the quality of loans extended to the real estate industry and may also adversely affect the quality of the Bank's mortgage loan portfolio. In addition, if the real estate market in China experiences a significant downturn, the value of the real estate securing the Bank's loans may decrease, resulting in a reduction in the amount the Bank can recover. Any of the above developments or a combination thereof may adversely affect the Bank's asset quality, business, financial condition and results of operations, which in turn may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

In accordance with national policies aimed at limiting the over-development of certain industries with excess capacity, including the iron and steel, cement, electrolytic aluminium, plate glass and shipbuilding industries, the Bank carefully manages its exposure to these industries and has adopted a strict policy towards extending loans to these industries in order to reduce its loan exposure and risks associated with loans to these high-risk industries.

Notwithstanding the credit measures the Bank has put in place, in the event the PRC government issues policies to further restrict such industries or there is deterioration in the production and operation of the Bank's customers from industries with overcapacity, the quality of the Bank's loans could suffer, which could in turn have an adverse effect on its business, financial position and results of operations, and may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

Since 2012, with the aim of reinforcing the risk management of loans to local government financing vehicles ("**LGFV**"), the PRC State Council ("**State Council**"), the China Banking Regulatory Commission ("**CBRC**") and the People's Bank of China ("**PBOC**"), along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to further optimise and strengthen their risk management measures regarding their loans to LGFV. The Bank has implemented a series of measures such as imposing stringent controls on granting loans to the LGFV and strengthening credit related policies to manage and control the risks associated with loans to LGFV. Unfavourable developments in macroeconomic conditions, adverse changes to state policies, the financial condition of local governments or other factors may adversely affect the debt repayments of these financing platforms, which may in turn adversely affect the Bank's asset quality, financial condition and results of operations. Such developments may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

While the Bank introduced heightened criteria in 2009 to manage the risks associated with LGFV loans, including stricter requirements for guarantees, it cannot be assured that these loans will not default in the event of macroeconomic instability or other policy changes introduced by the PRC government. Given their importance to the composition of the Bank's loan portfolio, the default of any portion of such loans for any reason may affect its loan quality and will adversely affect its business, financial position and results of operations. Such developments may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes. As at 30 June 2019 the Group's gross loans and advances to customers were RMB14,539,839 million representing an increase of 5.49 per cent. from 31 December 2018, mainly due to an increase in domestic loans; its NPL ratio as at 30 June 2019 was 1.43 per cent., representing a decrease of 0.03 percentage points as compared to the corresponding ratio as at 31 December 2018. As at 30 June 2019, the NPL ratio for corporate loans and advances was 2.50 per cent., a decrease of 0.1 percentage points from 31 December 2018, and the NPL ratio for personal loans and advances was 0.46 per cent., an increase of 0.05 percentage points from 31 December 2018. The NPL ratio for overseas operations and subsidiaries as at 30 June 2019 was 0.82 per cent., representing an increase of 0.13 percentage points from 31 December 2018.

The Bank may be unable to realise the full value of the collateral or guarantees securing the Bank's loan portfolio

As at 30 June 2019, the balances of the Group's unsecured loans, guaranteed loans, loans secured by property and other immovable assets and other pledged loans were RMB4,658,932 million, RMB2,024,654 million, RMB6,578,736 million and RMB1,239,613 million, respectively, accounting for 32.04 per cent., 13.92 per cent., 45.25 per cent. and 8.53 per cent. of the Group's gross loans and advances to customers, respectively. If there is substantial deterioration in the business condition of a borrower which adversely affects the borrower's ability to repay, the Bank may not be able to recover the amounts lent under unsecured loans, which will in turn adversely affect the Bank's financial position and results of operations, and may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes. Guaranteed loans are loans that are guaranteed by affiliates of the borrower or other third parties. Notwithstanding the fact that such loans are guaranteed, the Bank's exposure to the guarantor is generally unsecured and if the financial position of the guarantor deteriorates significantly, its ability to recover such loans will correspondingly deteriorate. Furthermore, the guarantee provided by such guarantor may be determined by the court as invalid if the guarantor fails to comply with certain laws and regulations in the PRC, including the "PRC Property Law" and "PRC Security Law". A significant percentage of the Bank's loan portfolio is secured by collateral, consisting mainly of domestic assets such as properties, land use rights and securities. The value of the collateral is generally higher than the amount loaned but such value is affected by factors the Bank cannot control including those affecting the PRC economy. If the PRC economy deteriorates, it could result in a decrease in the value of the collateral which will lead to the reduction of the amount of the loan that can be recovered. In addition, the procedures for liquidating or otherwise realising the value of collateral of borrowers in China may be protracted, and the enforcement process in China may be difficult. According to a judicial interpretation issued by the Supreme Court of the PRC, effective from 21 December 2005 and amended in December 2008, courts may not enforce the eviction of a borrower and his dependent families out of their residence if such residence under collateral is their primary residence in the six months following the courts' decision authorising that such collateral be auctioned, sold or liquidated. As a result, it may be difficult and time-consuming for banks to take control of or liquidate the collateral securing NPLs. Furthermore, certain specified claims may enjoy priority over the Bank's rights on loan collaterals. According to the "PRC Enterprise Bankruptcy Law" promulgated on 27 August 2006 and effective as of 1 June 2007, claims raised by employees on arrears of pay as well as other fees and expenditures prior to 27 August 2006 for enterprises in bankruptcy proceedings shall be given priority over the Bank's rights to collateral, on the premise that other assets of the enterprise are not sufficient to fulfil such claims. Accordingly, if a borrower fails to repay and if the Bank is not able to timely realise the entire or sufficient part of the value of collateral, pledged assets or guarantees represented, the Bank's asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may not be able to maintain or reduce its current NPL ratio

The Bank's results of operations have been negatively affected by its NPLs, which may continue to affect the Bank's current and future business performance. As at 30 June 2019, the amount of the Group's NPLs was 208,069 million and the NPL ratio was 1.43 per cent., representing a decrease of 0.03 percentage points as compared to the corresponding ratio as at 31 December 2018. As at 30 June 2019, the NPL ratio for corporate loans and advances was 2.50 per cent., a decrease of 0.10 percentage points from 31 December 2018, and the NPL ratio for personal loans was 0.46 per cent., an increase of 0.05 percentage points from 31 December 2018. The NPL ratio for overseas operations and subsidiaries as at 30 June 2019 was 0.82 per cent., representing an increase of 0.13 percentage points from 31 December 2018. The NPL ratio for credit card loans as at 30 June 2019 was 1.21 per cent., representing an increase of 0.23 percentage points from 31 December 2018.

It cannot be assured that the Bank will be able to reduce or even maintain the same level in the future. This is because the quality of the Bank's loan portfolio is affected by factors which the Bank is unable to control, including any adverse changes to the PRC economic structure, deterioration in the PRC's economy, deterioration in the global economy. Adverse changes in the economic environment in the PRC as well as force majeure events including natural disasters or outbreak of diseases may all have negative impact on the Bank's customers' ability to repay the loans. Factors such as deterioration in the credit conditions of the Bank's customers' trading partners, decline in both residential and commercial property prices, an increase in the unemployment rate in China and a deterioration in the profitability of corporate borrowers will also lead to a reduction in the quality of the Bank's assets. All of these factors can lead to an increase in the Bank's NPL ratio, which will correspondingly adversely affect its business, financial condition and results of operations, and may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's allowance for impairment losses may not be adequate to cover future actual losses to its loan portfolio

As at 30 June 2019, the Group's allowance for impairment losses on loans was RMB452,543 million, the ratio of its allowance for impairment losses to total assets was 1.86 per cent. The amount of the allowance for impairment losses to loans is based on the Bank's current assessment of and expectations concerning various factors that may affect the quality of its loan portfolio. These factors include, among other things, the borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral and the likelihood of support from guarantors, as well as the PRC's economy, macroeconomic policies, interest rates, exchange rates and legal and regulatory environment. The above-mentioned factors are beyond the Bank's control. If the Bank's assessment of and expectations concerning these factors differ from actual developments in the future, or if the quality of its loan portfolio deteriorates, its allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may adversely affect its business, financial condition and results of operations and, in turn, may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The expanding range of products and services exposes the Bank to new risks

The Bank has expanded and intends to continue to expand the range of its products and services. As at 30 June 2019, the Group had 37 tier-one branches and 33 overseas institutions, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, the United Arab Emirates, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, the Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia, Poland and Kazakhstan and maintained wholly-owned operating subsidiaries including China Construction Bank (Asia) Corporation Limited ("**CCB Asia**"), China Construction Bank (London) Limited ("**CCB London**"), China Construction Bank (Russia) Limited Liability Company ("**CCB Russia**"), China Construction Bank (Europe) S.A. ("**CCB Europe**"), China Construction Bank (New Zealand) Limited ("**CCB New Zealand**"), China Construction Bank (Brasil) Banco Múltiplo S.A. ("**CCB Brasil**") and China Construction Bank (Malaysia) Berhad ("**CCB Malaysia**") and held 60 per cent. of the total share capital of PT Bank China Construction Bank Indonesia Tbk ("**CCB Indonesia**"). Expansion of its business activities exposes the Bank to a number of risks and challenges, including the following:

- the Bank may have limited or no experience in certain new business activities or geographies and may not be able, or may take a relatively long period, to compete effectively in these areas;

- the Bank may not be able to devote sufficient resources or management capacity to certain new business activities or geographies;
- there is no guarantee that the new business activities will meet the Bank's expectations of their profitability;
- the Bank may not be able to hire new personnel or retrain existing personnel who are able to conduct new business activities; and
- the Bank may not be able to continually add to the capability of its risk management and information technology systems to support a broader range of activities.

If the Bank is not able to achieve the intended results in these new business areas, its business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes. In addition, if the Bank fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, it may fail to maintain its market share or lose some of its existing customers to its competitors.

Furthermore, the Bank's international expansion into multiple jurisdictions exposes the Bank to a variety of new regulatory and business challenges and risks and has increased the complexity of its risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. If the Bank is unable to manage the risks resulting from its international expansion, its reputation, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank is subject to liquidity risk

The Bank regularly monitors the gap between its assets and liabilities for various maturities in order to assess its liquidity risk for different periods. As at 30 June 2019, the total equity of the Group was RMB2,072,038 million, an increase of RMB80,444 million as compared to RMB1,991,594 million as at 31 December 2018. As a result, there is a mismatch between the maturities of the Bank's liabilities and assets. Customer deposits have historically been the main source of the Bank's funding. Generally, the Bank's short-term customer deposits have not been withdrawn upon maturity and have represented a stable source of funding. However, it cannot be assured that this will continue to be the case. If a substantial portion of the Bank's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Bank may have no choice but to seek other sources of funding to meet its funding requirements. It cannot be assured that the Bank can source financing based on normal commercial terms when necessary. Furthermore, the Bank's ability to obtain additional funds may also be affected by other factors including factors that the Bank may find difficult to control or be totally incapable of controlling, such as the deterioration of overall market conditions, severe disturbance to the financial market or a bleak outlook for industries where it has substantial credit exposure. Any of these factors could result in adverse effects on the Bank's liquidity, business, financial position and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The adoption of the PRC deposit insurance scheme may adversely affect the Bank's deposit-taking business and financial position

The "Deposit Insurance Regulation" formulated by the State Council came into effect on 1 May 2015, and it has resulted in the formal establishment of a deposit insurance scheme in the PRC. The Deposit Insurance Regulation requires that the commercial banks and other deposit-taking banking financial institutions established in the PRC shall take out deposit insurance and pay deposit insurance premiums to relevant deposit insurance fund management institutions, with such premiums to be used as deposit insurance funds to compensate depositors in the event of the liquidation or similar event of any PRC bank. Under the deposit insurance scheme, upon the liquidation or similar event of any PRC bank, the maximum compensation that a depositor may receive on the total principal and accrued interest deposited with such PRC bank will be capped at RMB500,000.

The deposit insurance premiums to be paid by the Bank in accordance with the Deposit Insurance Regulation and other relevant laws and regulations will increase the Bank's operating costs and capital requirements. Furthermore, the deposit insurance scheme may increase competition among PRC banks for deposits as some depositors may consider spreading out their deposits with different PRC banks. This may result in deposits currently held with the Bank being transferred by depositors to other PRC banks as well as the Bank needing to offer higher interest rates to retain existing depositors and attract new depositors, which may have an adverse effect on the Bank's business, financial position and operating results.

The Bank is subject to credit risks with respect to certain off-balance sheet commitments and guarantees

In the normal course of the Bank's business, the Bank makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including providing bank acceptances, guarantees, letters of credit and other credit commitments. As at 30 June 2019, the balance of the Group's credit commitments was RMB2,953,665 million, representing an increase of RMB104,941 million as compared to RMB2,848,724 million as at 31 December 2018. The Bank is subject to credit risks on its commitments and guarantees because certain of its commitments and guarantees may need to be fulfilled as a result of the Bank's customers' default. If the Bank is not able to obtain payment from its customers in respect of these commitments and guarantees or enforce its contracts with them, the Bank's business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank is subject to risks associated with its hedging activities and other derivative transactions

The Bank has entered into derivative transactions for hedging purposes as well as conducted derivative transactions on behalf of its customers. Accordingly, the Bank faces market and operational risks associated with these transactions. At present, the regulation of China's derivative market remains in the development stage and requires further improvement and this increases the risks of the derivative transactions the Bank enters into. Further, the Bank's ability to monitor, analyse and report these transactions is limited by its information technology. Accordingly, the Bank's business, financial position and results of operations may be adversely affected given the volatility of the prices of these derivatives, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's provisioning policies and loan classifications may be different in certain respects from those applicable to banks in certain other countries or regions

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 International Accounting Standards and their interpretations ("**IAS 39**"). 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 IAS 39. 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.

The Bank classifies its loans as "normal", "special mention", "sub-standard", "doubtful" and "loss" by using the five-category classification system according to requirements of the China Banking and Insurance Regulatory Commission ("**CBIRC**"). The Bank's five-category classification system may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, it may reflect a different degree of risk than what would be reported if the Bank was incorporated in those countries or regions.

The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning and loan classification. If the Bank's approach to provisioning policies and/or loan classification 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.

The Bank's risk management and internal control policies and procedures may not be effective in completely managing and avoiding all of its risks

In recent years, the Bank has achieved progress in terms of risk management by improving its policies and procedures. However, as these policies and procedures are relatively new, the Bank will require additional time to fully measure the impact of, and evaluate its compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and it cannot be assured that the Bank's staff will be able to consistently follow or correctly apply these new policies and procedures. In addition, the Bank's risk management capabilities are limited by the information, tools and technologies available to the Bank. Furthermore, the Bank's ability to control market risk and liquidity risk is constrained by the current PRC laws and regulations that restrict the types of financial instruments and investments the Bank may hold. If the Bank is unable to effectively implement the enhanced risk management and internal control policies and procedures, or if the intended results of such policies and procedures are not achieved in a timely manner, its asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's business is highly dependent on the proper functioning and improvement of its information technology systems

The Bank's business is highly dependent on the ability of its information technology systems to accurately process large numbers of transactions across numerous markets and products in a timely manner. The proper functioning of the Bank's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between the Bank's various branch outlets and its main data processing centre, is critical to its business and its ability to compete effectively. The Bank's data centres provide backup data that could be used in the event of a system breakdown or a failure of the Bank's primary systems, and have established alternative communications networks where available. However, the Bank does not operate all of its backup systems on a real-time basis and it cannot be assured that the Bank's business activities would not be substantially disrupted if there was a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software flaws, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, or intentional destruction or loss or corruption of data, software, hardware or other computer equipment, could have an adverse effect on the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Bank through its existing information technology systems may not be timely or sufficient for the Bank to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. As a result, the Bank is making and intends to continue making investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade the Bank's information technology systems effectively or on a timely basis could adversely affect its competitiveness, business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties on a timely basis

The Bank may suffer from economic loss, penalties from regulatory institutions and severe damage to its reputation as a result of fraud or other misconduct committed by the Bank's employees or third parties. Types of misconduct conducted by the Bank's employees in the past include, among other things, theft, embezzlement or misappropriation of customers' funds; mishandling of customer deposits and settlement of payment transactions; improper extensions of credit; improper accounting; fraud; and the giving or acceptance of bribes. Types of misconduct by third parties which may affect the Bank include, among other things, fraud, theft, robbery and certain armed crimes. In addition, the Bank's employees may commit errors that could subject the Bank to financial claims as well as regulatory actions. While the Bank is constantly strengthening its inspection efforts and increasing its precautionary measures to prevent misconduct by employees and third parties, given the Bank's significant number of branch outlets, it cannot be assured that the Bank can identify and prevent all fraudulent behaviours of misconduct or that the preventive measures the Bank has adopted will be effective in every circumstance. As at 30 June 2019, the Bank had a total of 14,941 operating entities. It cannot be assured that any fraud or other misconduct committed by the Bank's employees or third parties, whether involving past acts that have gone undetected or future acts, will not have an adverse effect on the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

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.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of the properties it holds, and it is subject to risks that its leases over certain properties may not be renewed

The Bank leases a significant number of properties in the PRC, primarily as business premises for its branch outlets. It cannot be assured that all lessors of the Bank's leased business premises have the relevant land use right certificates or building ownership certificates. As a result, third parties may be able to challenge the validity of the Bank's leases. In addition, it cannot be assured that the Bank will be able to renew its leases on acceptable terms upon their expiration. If any of the Bank's leases were terminated as a result of challenges by third parties or failure of the lessors to renew them upon expiration, the Bank may be forced to relocate affected branch outlets and, if it fails to find suitable replacement sites on acceptable terms, its business, financial condition and results of operations may be adversely affected. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

In addition, the Bank occupies certain parcels of land and buildings for which it does not have the relevant land use right certificates or building ownership certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that the Bank does not yet hold. However, it cannot be assured that the Bank's ownership rights would not be adversely affected in respect of any parcels of land or buildings for which the Bank was unable to obtain the relevant certificates.

The Bank may face situations where it cannot meet the capital adequacy requirements imposed by the relevant PRC regulators or as a G-SIB pursuant to the Basel Capital Accord

According to the "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" ("**CBRC Capital Regulations**") formulated by the CBRC to implement the Basel Capital Accord in June 2012 and effected on 1 January 2013, the capital adequacy ratio of different tiers of a commercial bank shall not be lower than the following minimum requirements at any point in time: (i) the core tier 1 capital adequacy ratio shall not be lower than 5 per cent.; (ii) the tier 1 capital adequacy ratio shall not be lower than 6 per cent.; and (iii) the capital adequacy ratio shall not be lower than 8 per cent.; (iv) the capital conservation buffer shall not be lower than 2.5 per cent.; and (v) the countercyclical buffer shall not be lower than 0 to 2.5 per cent. In addition, the Bank as a domestic systemically important bank will also be required to maintain a further 1 per cent. capital surcharge above prevailing core tier 1 capital requirements. Since January 2013, the Bank calculated its capital adequacy ratio in accordance with these measures.

Furthermore, the Financial Stability Board identified the Bank as a globally systemically important bank ("**G-SIB**") in November 2017. As a G-SIB, the Bank is required to satisfy heightened capital adequacy ratios pursuant to Basel III. As at 30 June 2019, the Group's common equity Tier 1 ratio was 13.70 per cent., Tier 1 ratio was 14.25 per cent. and the total capital ratio was 17.06 per cent., and therefore, in compliance with the CBRC Capital Regulations and the other applicable regulatory requirements.

Although the Bank has already implemented medium to long term capital management policies to strengthen capital management and its capability to maintain growth, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the decline in asset quality, the decline in value of its investments, the raising of minimum capital adequacy ratios by the CBIRC (the successor of CBRC) and the changes in calculations of capital adequacy ratios by the CBIRC.

In order to support the steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may issue any share securities that can contribute towards core tier 1 capital or additional tier 1 capital or any debt securities that can contribute towards tier 2 capital. On 27 February 2019, the Bank issued U.S.$1,850,000,000 4.25 per cent. Tier 2 Dated Capital Bonds due 2029 ("**Tier 2 Dated Capital Bonds due 2029**"). The Tier 2 Dated Capital Bonds due 2029 have a tenor of 10 years with fixed interest rate and the Bank has a conditional right to redeem the Tier 2 Dated Capital Bonds due 2029 at the end of the fifth year. The proceeds from the Tier 2 Dated Capital Bonds due 2029 will be used to boost the Tier 2 capital of the Bank in accordance with the applicable laws and for the purposes approved by the regulatory authorities. Any share securities issued by the Bank (including any preference shares) may dilute the interest and benefits of its shareholders.

The Bank's capital-raising ability may be restricted by the Bank's future business, financial and operational results, the Bank's credit rating, necessary regulatory approvals, overall market conditions including PRC and global economic, political and other conditions at the time of capital raising.

If the Bank fails to meet the capital adequacy requirements, the CBIRC may require the Bank to take corrective measures, 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, business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities. The Bank is also subject to the supervision and inspection of domestic regulators and overseas regulators in jurisdictions where it operates.

The Bank is subject to regular and irregular supervision and inspection by China's regulatory institutions, including the MOF, the PBOC, the CBIRC, the China Securities Regulatory Commission ("**CSRC**"), the State Administration of Taxation ("**SAT**"), the State Administration for Market Regulation ("**SAMR**"), the State Administration of Foreign Exchange ("**SAFE**") and the National Audit Office ("**NAO**").

The Bank is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities. It cannot be assured that the Bank will be able to meet these operational requirements and guidelines in the future at all times, or that no sanction will be imposed on the Bank in the future if the Bank fails to do so. If sanctions are imposed on the Bank for the breaches of these or other operational requirements and guidelines, its business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Furthermore, the Bank may also be subject to inspection and supervision of overseas regulatory institutions in overseas jurisdictions where it operates. The Bank's overseas branches, subsidiaries and representative offices must follow local laws, regulations and the regulatory requirements of relevant local regulatory institutions of their respective jurisdictions. It cannot be assured that the Bank's overseas branches, subsidiaries and representative offices will be able to meet the applicable laws and regulatory requirements at all times. If the Bank is not able to meet these requirements, there may be an adverse impact on the Bank's business in these jurisdictions. Some of these inspections have led to penalties and other sanctions imposed on the Bank as a result of non-compliance. Although none of the penalties and sanctions imposed on the Bank have had a material adverse impact on the Bank's operations, financial position, and business performance, it cannot be assured that future inspections by regulatory institutions will not result in penalties or sanctions which may adversely affect the Bank's operations, reputation, business, financial position and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may be subject to OFAC penalties if it conducts transactions in violation of OFAC regulations

The United States currently imposes various economic sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**") and which apply only to U.S. persons and, in certain cases, to foreign subsidiaries of U.S. persons or to transactions involving certain items subject to U.S. jurisdiction. Similar sanctions are administered by the United Kingdom, the European Union, United Nations Security Council and other applicable jurisdictions. These sanctions are intended to address a variety of policy concerns, among other things, denying certain countries, and certain individuals and entities, the ability to support international terrorism and to pursue weapons of mass destruction and missile programmes. Countries which are currently subject to sanctions for different reasons include but are not limited to Crimea region of Ukraine, Cuba, Iran, Libya, North Korea, Syria and Sudan. The Bank does not believe that these sanctions are applicable to any of the Group's activities. However, if the Group engages in any prohibited transactions by any means or it was otherwise determined that any of the Group's transactions violated applicable sanctions regulations, the Group could be subject to penalties and its reputation and ability to conduct future business in the U.S. or other relevant jurisdictions or with U.S. persons or other relevant persons could be adversely affected. As the Bank's business, financial condition and results of operations may be adversely affected, the Bank's ability to service the Notes and to satisfy its other obligations under the Notes may also be negatively affected.

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 other domestic commercial banks and financial institutions, as well as foreign-invested financial institutions. These commercial banks and financial institutions compete with the Bank for substantially the same loans, deposits and fees from customers.

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

The increased competitive pressures resulting from the above and other factors may adversely affect the Bank's business and prospects, as well as the Bank's business, 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 portfolio or deposit base 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;
- reducing the Bank's asset quality; and
- increasing the turnover of senior management and qualified professional personnel.

The Bank may not always be able to maintain its competitive advantage or successfully compete in all the business areas in which it currently or will in the future operate. The adverse developments described above may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may also face competition for funds from other forms of investment alternatives as the PRC capital market continues to develop. For example, as the PRC capital market continues to develop and become a more viable and attractive investment alternative, the Bank's deposit customers may elect to transfer their funds into bonds, equities and other capital market instruments, which may reduce the Bank's deposit base and adversely affect the Bank's business, financial condition and results of operations. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's businesses are highly regulated which may be adversely affected by future regulatory changes

The Bank's businesses are highly regulated which may be 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. 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 adversely affect the Bank's business, financial condition and result of operations nor can the Bank assure investors that it will be able to adapt to all such changes on a timely basis. For example, in recent years the PRC government has announced a number of supply-side reforms, including the reforms of small-small-and micro-sized financial institutions to improve their corporate governance and reduce systemic financial risks and credit risk and to proactively support continued healthy economic growth by increasing lending activities to small and medium-sized enterprises while effectively controlling risk.

The Bank has participated in such supply-side reform including the development of Guangdong-Hong Kong-Macau Greater Bay Area and Free Trade Zones, small-and micro-sized enterprise financing and debt-to-equity swap reforms. In addition, the Bank may be entrusted to administer banking business. For example, on 24 May 2019, the Bank announced that it has accepted the entrustment of Baoshang Bank to take its business into custody. Under the custodian period of one year, the Bank will assist Baoshang Bank in the reform of its corporate governance and risk management and in its business operations. There is no assurance that the policies implemented by the PRC regulators and the Bank's participation in them may affect the Bank's business, financial condition and result of operations or that the Bank may be able to make proper adjustment(s) to its business operations according to the changes in the financial regulatory policies, monetary policies and structural-side reforms.

In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Bank's activities and could also have a significant impact on the Bank's business. The adverse developments described above may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The growth rate 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 improvement, demographic changes and the opening of the PRC banking market to foreign participants. However, the prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC and the ongoing reform of the social welfare system is currently not clear. Consequently, it cannot be assured that the growth and development of the PRC banking market will be sustainable.

Fluctuations in interest rates may adversely affect the Bank's lending business and its financial condition

As with most commercial banks, the Bank's results of operations depend to a great extent on the Bank's net interest income. For the six months ended 30 June 2019, net interest income represented 72.72 per cent. of the Group's operating income. Fluctuations in interest rates could affect the Bank's financial condition and profitability in different ways. For example, a decrease in interest rates may reduce the Bank's interest income and yields from interest-earning assets. An increase in interest rates may decrease the value of the Bank's investment debt securities portfolio and raise the Bank's 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.

Interest rate margins may also be affected by the PBOC's reserve requirement ratio for commercial banks. The reserve requirement refers to the amount of funds that banks must hold in reserve against deposits made by their customers. The PBOC may further adjust the reserve requirement ratio or revise its calculation basis in the future. Increases in the bank reserve requirement ratio or expansion of the calculation basis of the reserve requirement may negatively impact the amount of funds available for loans to businesses by the Bank and other commercial banks in China and therefore may adversely affect the Bank's ability to earn interest income, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

In addition, increasing competition in the banking industry and further deregulation of interest rates by the PBOC 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 it receives for its loans, the Bank's net interest margin will narrow, leading to a reduction in its 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 lending operations, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

PRC regulations impose limitations on the types of investments the Bank may make and, as a result, the Bank has limited abilities to seek optimal investment returns, to diversify its investment portfolio and to hedge the risks of its Renminbi-denominated assets

As a result of the PRC regulatory restrictions, substantially all of the Renminbi-denominated investment assets of PRC commercial banks are concentrated in the limited types of investments permitted by the PRC government. These permitted investments include PRC treasury bonds, finance bonds issued by PRC policy banks, notes issued by PBOC, and subordinated bonds. These restrictions on the Bank's ability to diversify its investment portfolio limit its ability to seek an optimal return. The restrictions also expose the Bank to significantly greater risk of investment loss in the event a particular type of investment the Bank holds suffers a decrease in value. For example, a general increase in interest rates may result in a significant decline in the value of the fixed income debt securities held by the Bank. In addition, due to the limited hedging tools available, the Bank's ability to manage market and credit risks relating to Renminbi-denominated assets is limited, and any resulting decline in the value of its Renminbi-denominated assets will adversely affect the Bank's financial condition and results of operations. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's results of operations may be adversely affected if the PBOC further expedites the deregulation 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 RMB-denominated loans and the minimum interest rate for RMB-denominated deposits. In June 2012, PBOC lowered the one-year Renminbi benchmark deposit and loan interest rates each by 0.25 percentage points. At the same time, the PBOC also adjusted the upper limit of the floating range for deposit interest rates and the lower limit of the floating range for loan interest rates.

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 RMB-denominated residential mortgage loans below 70 per cent. of the relevant PBOC benchmark rate (since 27 October 2008), restrictions on the loan interest rates were fully liberalised. According to existing PBOC regulations, RMB-denominated deposits in commercial banks in China remain subject to restrictions and the interest rate for RMB-denominated deposits cannot be set above 110 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 2015, the PBOC made consecutive interest rates cuts and removed the deposit interest rate ceiling, giving rise to greater competitions among banks and general shrinking of returns in the bond and monetary markets. The PBOC may further liberalise the existing interest rate restrictions on RMB-denominated loans and deposits. If the existing regulations are substantially liberalised or eliminated, competition in China's banking industry will likely intensify as China's commercial banks seek to offer more attractive interest rates to customers. Further adjustments by the PBOC to the benchmark interest rates or liberalisation by the PBOC may result in the narrowing of the spread in the average interest rates between RMB-denominated loans and RMB-denominated deposits, thereby adversely affecting the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other 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 in operation since January 2006. However, as the information infrastructure in China is still under development and there remains limitations on the availability of information, 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, and the Bank's ability to effectively manage the Bank's credit risk may be adversely affected. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Certain facts and statistics and information relating to the Bank and the Group are derived from publications not independently verified by the Bank, the Arrangers, the Dealers or any of their respective directors, employees, representatives, affiliates or advisers

Certain facts and statistics in this Offering Circular relating to the PRC, its economy and its banking industry are derived from various official and publicly available sources generally believed to be reliable. While the Bank has taken reasonable care to ensure that the facts and statistics or information relating to the Bank and the Group presented are accurately extracted from such sources, such facts, statistics and information have not been independently verified by the Bank, the Arrangers, the Dealers or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy of such facts and statistics or information, 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 or other reasons, 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.

Risks Relating to the PRC

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

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 economy differs from the economies 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 a planned economy. A substantial portion of productive assets in China are still owned by the PRC government. The PRC government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. These measures are aimed at benefiting the overall economy of the PRC, but some of the measures may have negative effects 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 the interpretation of, and application of, applicable tax regulations.

The PRC government is entitled to implement macroeconomic control measures to regulate the economy of China. China's GDP growth maintained its rapid pace for years before it slowed down due to the recent global financial crisis. In response to the global financial crisis and market volatility, the PRC government implemented a series of macroeconomic measures and relatively loose monetary policies from the second half of 2008, including a RMB4 trillion economic stimulus package and lower benchmark interest rates. Some of the measures may have effects on the Bank's business, financial condition, results of operations and asset quality. The PRC government may take measures to prevent the economy of China from overheating following the success of the above economic stimulus measures, including restraining investment in industries with excess production capacity, adjusting its tax policy on real estate, raising benchmark interest rates, raising deposit reserve rate or issuing administrative guidelines to control bank lending. Furthermore, there is a risk of a "double dip" recession in the global economy, including the PRC's economy, and there are signs that the growth of the PRC economy may slow down, therefore the PRC government may again implement its macroeconomic control measures accordingly. As the PRC government continues to regulate the economy by using monetary and fiscal policies, the Bank's business, financial condition and results of operations may be continuously affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Interpretation of PRC laws and regulations may involve uncertainty

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, these laws and regulations may be subject to different interpretation and inconsistently enforced. In addition, there is a limited volume of published court decisions, and although they may be cited for reference, they are not binding on subsequent cases and have limited precedential value unless the Supreme People's Court otherwise provides. 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 and the Noteholders.

Noteholders may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and its directors and officers

The Bank is a company incorporated under the laws of the PRC, and substantially all of its assets and its subsidiaries are located in the PRC. In addition, most of the Bank's directors and officers reside within the PRC, and the assets of its directors and officers may be located within the PRC. As a result, it may not be possible to effect service of process outside of the PRC upon most of the Bank's directors and officers. The Issuer has irrevocably submitted to the exclusive jurisdiction of the Hong Kong courts in the transaction documents relating to the Notes. Hong Kong and the PRC have entered into certain arrangements on the reciprocal recognition and enforcement of judgments in civil and commercial matters (the "**Reciprocal Arrangements**") which allow for a final court judgment (relating to the payment of money or other civil or commercial proceeding) 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, certain matters may be excluded under the Reciprocal Arrangements and a judgment may be refused to be recognised and enforced by the requested place in certain circumstances such as for public policy reasons or where the judgment was obtained by fraud. As a general matter, judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements.

The PRC has not entered into treaties or arrangements providing for the reciprocal recognition and enforcement of judgments of courts with numerous countries, including Japan, the United States and the United Kingdom. As a result, it may be difficult or impossible for the Noteholders to effect service of process against the Bank's assets or its directors and officers in the PRC in order to seek recognition and enforcement for foreign judgments in the PRC.

The Bank is subject to PRC government controls on currency conversion and future movements in exchange rates

The Bank receives a substantial majority of its revenues in RMB, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's demands for foreign currency.

The value of the RMB against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in Chinese and international political and economic conditions. Since 1994, China had adopted a market-based, managed and unified floating exchange rate regime to determine the exchange rate of RMB with reference to the exchange rate determined by the PBOC based on the interbank exchange rates and the prevailing rate of the international financial market on the previous business day. Thereafter, the official exchange rate of RMB against the U.S. dollar remained stable. On 21 July 2005, the PRC government adopted a more flexible market-based and managed floating exchange rate regime with reference to a basket of currencies when the exchange rate of RMB against the U.S. dollar recorded a one-off increase of 2 per cent.. Under the new system, the exchange rate of RMB was allowed to fluctuate within a regulated band. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate and widen the daily fluctuation band for the U.S.$/RMB exchange rate in April 2012 and in March 2014. Following the gradual appreciation against the U.S. dollar in 2017, the Renminbi experienced a depreciation in value against the U.S. dollar followed by fluctuations in 2018 and early 2019. On 5 August 2019, the PBOC set the Renminbi's daily reference rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may adopt future reforms of its exchange rate system, including making the Renminbi fully convertible in the future.

The Bank is also currently required to obtain the approval of SAFE before converting significant sums of foreign currencies into RMB. All of these factors could adversely affect the Bank's business, financial condition, results of operations and compliance with capital adequacy ratios and operational ratios, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

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

Any future force majeure events, such as occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, ("**H1N1 Flu**"), or avian influenza caused by H7N9 virus ("**H7N9 Flu**") may adversely affect the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes. 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. Moreover, China has experienced natural disasters such as earthquakes, floods and drought in the past few years. For example, in May 2008, April 2010 and April 2013, China experienced earthquakes with reported magnitudes of 8.0, 7.1 and 7.0 on the Richter scale in Sichuan province, Qinghai Province and Sichuan province respectively, resulting in the death of tens of thousands of people. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 Flu, H7N9 Flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 Flu, H7N9 Flu or other epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have an adverse effect on the Bank's business, financial condition and results of operations.

Risks Relating to the 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", are the subject of recent national, international regulatory and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still 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.

More broadly, any of the international, national, or other proposals, for 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. For example, the sustainability of the London interbank offered rate ("**LIBOR**") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Conditions, or result in other consequences, in respect of any Notes linked to such benchmark. 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 Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if an inter-bank offered rate (such as LIBOR or 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 Terms and Conditions of the Notes), with or without the application of an Adjustment Spread (as defined in the Terms and Conditions of the Notes). 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 Terms and Conditions of the Notes) with the Successor Rate by any Relevant Nominating Body (as defined in the Terms and Conditions of the Notes); (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 Terms and Conditions of the Notes) (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 (iii) 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 spread, formula or methodology which 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, 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 Benchmarks Regulation (EU) 2016/1011 or any other international or national reforms, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes

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 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 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 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.

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 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 and unreviewed quarterly financial information, published subsequent to the most recently published 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 Hong Kong Stock Exchange.

The quarterly interim financial information have not been and will not be audited or reviewed by the Bank's independent auditors and were and will be prepared in accordance with IAS 34. The quarterly interim financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The half-year or quarterly interim financial information 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.

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:

(i) 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 to this Offering Circular or any Pricing Supplement;

(ii) 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;

(iii) 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;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) 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.

Certain Series of Notes may be complex financial instruments. Sophisticated investors generally do not purchase complex financial instruments as standalone investments but rather purchase such complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the their overall portfolios. A potential investor should not invest in such Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how such 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.

The Notes are subordinated to all secured debt of each of the Issuer and the Bank

Each tranche of Notes will be unsecured and will rank at least equally with all other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws and rank ahead of the holders of the Notes) that each of the Issuer and the Bank has issued or may issue. Payments under the Notes are effectively subordinated to all secured debt of each of the Issuer and the Bank to the extent of the value of the assets securing such debt.

As a result of such security interests given to the Issuer's and the Bank's secured lenders, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Issuer and the Bank, the affected assets of the Issuer and the Bank may not be used to pay the Noteholders until after:

- all secured claims against the affected entity have been fully paid; and

if the affected entity is a subsidiary of the Bank, all other claims against such subsidiary, including trade payables, have been fully paid.

In the event that the Issuer (where the Issuer is the Hong Kong Branch or other such branch of the Bank) failed to fully perform its obligations under the Notes, performance by the Bank of such obligations may be subject to registration or verification of the PRC government authorities

According to the Law of the People's Republic of China on Commercial Banks (中華人民共和國商業銀行法) and the circular issued by the PBOC named "Reply on the Issues Regarding the Civil Liabilities of the Branches of Commercial Banks" (關於對商業銀行分支機構民事責任問題的覆函), in the event that a branch of a commercial bank fails to fully perform the obligations to the extent of the assets of the branch, such commercial bank shall fulfil such obligations to the extent that the branch has failed to perform them.

Therefore, in the event the Issuer (where the Issuer is the Hong Kong Branch or other such branch of the Bank) is unable to or does not perform its obligations under the Notes, the Bank will assume all obligations of the Issuer with respect to the payments under the Notes. The remittance of funds outside the PRC by the Bank in order to perform these obligations may be subject to registration or verification of the SAFE.

An active trading market for the Notes may not develop

The Dealers are not obliged to make a market in any Tranche of Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Dealers. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. In addition, even if a market develops for the Notes, it may not be liquid and the holders of the Notes may encounter difficulties in selling these Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales regardless of the performance of the Bank. In addition, to the extent that the Bank is not able to obtain or maintain a listing and quotation of any Tranche of Notes that are listed on the Hong Kong Stock Exchange or any other stock exchange, the sustainability and liquidity of such Notes may be adversely affected.

There could be conflicts of interest arising out of the different roles played by the Bank and its subsidiaries, and the Bank's other activities may affect the value of the Notes

The Bank's subsidiary is appointed as an Arranger and Dealer for the Programme. The Bank or its subsidiaries may also issue other competing financial products which may affect the value of the Notes. Investors should also note that potential and actual conflicts of interest may arise from the different roles played by the Bank and its subsidiaries in connection with the Notes and the economic interests in each role may be adverse to the investors' interests in the Notes. Although the Bank has internal control policies and procedures to minimise any potential conflict of interest, the Bank owes no duty to investors to avoid such conflicts.

Investors shall be aware of the effect of change of law

The Terms and Conditions are based on English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or the laws as specified in the Pricing Supplement, or administrative practices after the date of this Offering Circular.

Credit Ratings may not reflect all risks and any credit rating of the Notes may be downgraded or withdrawn

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. As at the date of this Offering Circular, the Bank has been assigned a rating of A1 by Moody's with a stable outlook. 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.

Each Tranche of Notes may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer to perform their respective obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. The Issuer is not obligated to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

Investors shall pay attention to any modifications and waivers

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 Issuer may permit a modification of, or a waiver or authorisation of any breach or proposed breach of or a failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

The Terms and Conditions also provide that the Issuer may permit or agree to (i) any modification of any of the provisions of the Fiscal Agency Agreement that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Fiscal Agency Agreement) and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Fiscal Agency Agreement, that is in the opinion of the parties to the Fiscal Agency Agreement, not materially prejudicial to the interests of the Noteholders.

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

The Conditions 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.

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. In relation to any issue of Notes in registered form, definitive Certificates 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.

There are risks related 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:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes will generally not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor would generally 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

The Issuer may issue Notes 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, the Issuer may issue Notes 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:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to the 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

(vii) 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.

Partly-paid Notes

The Issuer may issue Notes 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.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. 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

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. 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.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than 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 Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

Notes issued at a substantial discount or premium

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.

If the Issuer does not satisfy its obligations under the Notes, Noteholders' remedies will be limited

Payment of principal of the Notes may be accelerated only in the event of certain events involving the Issuer's bankruptcy, winding-up or dissolution or similar events or otherwise if certain conditions have been satisfied. See "*Terms and Conditions of the Notes – Events of Default*".

Investment in the Notes is subject to risks related 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.

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are 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.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest (where applicable) on the Notes in 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 Investor'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/or (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 and/or principal than expected, or no interest or principal.

Interest rate risks

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

Gains on the transfer of the Notes may become subject to income taxes under PRC tax laws

Under the PRC Enterprise Income Tax Law which took effect on 1 January 2008 and was later amended on 24 February 2017 and 29 December 2018, and its implementation rules which took effect on 1 January 2008 and was later amended on 23 April 2019, any gain realised on the transfer of the Notes by non-resident enterprise holders may be subject to enterprise income tax if such gain is regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether the gain realised from the transfer of the Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law and its implementation rules. According to the arrangement between the PRC and Hong Kong for the avoidance of double taxation, residents of Hong Kong, including enterprise holders and individual holders, will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Notes.

Therefore, if non-resident enterprise holders are required to pay PRC income tax on gains on the transfer of the Notes (such enterprise income tax is currently levied at the rate of 10 per cent. of the gross proceeds, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-resident enterprise holders of the Notes reside that reduces or exempts the relevant tax), the value of their investment in the Notes may be materially and adversely affected.

Risks Relating to Renminbi-Denominated Notes

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

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into or out of the PRC which may adversely affect the liquidity of RMB Notes

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction over the years by the PRC government of control over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transaction. These transactions are known as current account items. Currently, participating banks in various countries, including Singapore, Hong Kong and Taiwan have been permitted to engage in the settlement of RMB trade transactions. However, remittance of Renminbi by foreign investors into the PRC for purposes such as capital contributions, known as capital account items, is generally only permitted upon obtaining specific approvals from 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 developing gradually.

On 7 April 2011, SAFE promulgated the "Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi" (the "**SAFE Circular**"), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of the relevant Ministry of Commerce ("**MOFCOM**") to the relevant local branch of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that foreign debts borrowed, and foreign guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign guarantee regime.

On 13 October 2011, the PBOC promulgated the "Administrative Measures on Renminbi Settlement of Foreign Direct Investment" (外商直接投資人民幣結算業務管理辦法) (the "**PBOC RMB FDI Measures**") as part of the implementation of the PBOC's detailed foreign direct investment ("**FDI**") accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for FDI and shareholder loans from the PBOC, which was previously required, is no longer necessary. In some cases however, post-event filing with the PBOC is still necessary. On 14 June 2012, the PBOC further issued the implementing rules for the PBOC RMB FDI Measures, which provides more detailed rules relating to cross-border Renminbi direct investments and settlement. 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) (the "**2013 PBOC Circular**"), which sought to improve the efficiency of the cross-border Renminbi settlement process. For example, where automatic fund remittance occurs, the bank can debit the amount into the relevant account first and subsequently verify the relevant transaction. PBOC further issued the Circular on the Relevant Issues on Renminbi Settlement of Investment in Onshore Financial Institutions by Foreign Investors (關於境外投資者投資境內金融機構人民幣結算有關事項的通知) on 23 September 2013, which provides further details for using Renminbi to invest in a financial institution domiciled in the PRC.

On 3 December 2013, the MOFCOM promulgated the "Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment" (商務部關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

The reforms which are being introduced and will be introduced in the Shanghai Free Trade Zone (the "**Shanghai FTZ**") aim to upgrade cross-border trade, liberalise foreign exchange control, improve convenient cross-border use of Renminbi and promote the internationalisation of Renminbi. However, given the infancy stage of the Shanghai FTZ, how the reforms will be implemented and whether (and if so when) the reforms will be rolled out throughout China remain uncertain.

To support the development of the Shanghai FTZ, the Shanghai Head Office of the PBOC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ (關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知) (the "**PBOC Shanghai FTZ Circular**") on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor's instruction. In respect of FDI in industries that are not on the "negative list" of the Shanghai FTZ, the MOFCOM approval previously required is replaced by a filing. However, the application of the Shanghai FTZ Circular is limited to the Shanghai FTZ.

As the SAFE Circular, the PBOC RMB FDI Measures, the MOFCOM Circular and the PBOC Shanghai FTZ Circular are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

Although starting from 1 October 2016, the Renminbi will be added to the Special Drawing Rights basket created by the International Monetary Fund, there is no assurance that the PRC government will continue to liberalise control over cross-border remittances of RMB in the future 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 outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under RMB Notes.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of RMB Notes and the Issuer's ability to source Renminbi outside the PRC to service such 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. Currently, licensed banks in Singapore and Hong Kong may offer limited Renminbi denominated banking services to Singapore residents, Hong Kong residents and specified business customers. The PBOC has also established Renminbi clearing and settlement mechanism for participating banks in various countries, through settlement agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (each, a "**Renminbi Clearing Bank**") and these Renminbi Clearing Banks have been permitted to engage in the settlement of Renminbi trade transactions.

However, the current size of Renminbi denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The relevant RMB Clearing Bank only has access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross border trade settlement. The relevant RMB Clearing Bank is not obliged to square for participating banks any open positions as a result of other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth 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 agreements 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 Renminbi Notes. To the extent the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

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 and by many other factors. In August 2015, the PBOC implemented changes to the way it calculates the midpoint against the U.S. Dollar to take into account market-maker quotes before announcing the daily midpoint. This change, among others that may be implemented, may increase the volatility in the value of the Renminbi against other currencies. All payments of interest and principal with respect to RMB Notes will be made in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments in U.S. dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of investment in U.S. dollar or other applicable foreign currency terms will decline.

An investment in RMB Notes is subject to interest rate risks

The PRC government has gradually liberalised the regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. The RMB Notes may carry a fixed interest rate. Consequently, the trading price of such RMB Notes will vary with fluctuations in interest rates. If a holder of RMB Notes tries to sell any RMB Notes before their maturity, they may receive an offer that is less than the amount invested.

Payments in respect of RMB Notes will only be made to investors in the manner specified in the terms and conditions of the relevant Notes

Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong. All Renminbi payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary for Euroclear and Clearstream or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing Euroclear and/or Clearstream rules and procedures, or (ii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. Other than described in the Conditions, the Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

CAPITALISATION

The following table sets forth the Bank's capitalisation and indebtedness as at 30 June 2019. For additional information, see the Bank's financial statements and notes thereto incorporated by reference into this Offering Circular.

This table should be read in conjunction with the unaudited but reviewed consolidated interim financial statements as at and for the six months ended 30 June 2019 of the Bank and related notes thereto incorporated by reference into this Offering Circular.

	As at 30 June 2019
	(unaudited but reviewed)
	(RMB in millions)
Debt Borrowings[(1)(2)(3)(4)]	22,311,113
Total debt	22,311,113
Equity	
Share capital	250,011
Other equity instruments – Preference Shares	79,636
Capital reserve	134,537
Other comprehensive income	20,057
Surplus reserve	223,231
General reserve	280,045
Retained earnings	1,068,239
Non-controlling interests	16,282
Total equity	2,072,038
Total capitalisation[(5)]	24,383,151

Notes:

(1) Debt borrowings include borrowings from central banks, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial liabilities at fair value through profit or loss, negative fair value of derivatives, financial assets sold under repurchase agreements, deposits from customers, accrued staff costs, taxes payable, interest payable provisions, debt securities issued, deferred tax liabilities and other liabilities.

(2) On 11 August 2019, the Bank redeemed RMB10,000 million 4.04 per cent. fixed rate subordinated bonds issued in August 2009.

(3) On 20 August 2019, the Bank redeemed US$750 million 4.25 per cent. fixed rate subordinated bonds issued in August 2014.

(4) On 8 October 2019, the Bank exercised its option to redeem RMB2,000 million 4.90 per cent. Tier 2 Dated Capital Bonds due 2024, with the redemption expected to complete on 12 November 2019.

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

Save as disclosed above, there has not been any material adverse change in the Bank's capitalisation and indebtedness since 30 June 2019.

DESCRIPTION OF THE HONG KONG BRANCH

Business Activities

The Hong Kong Branch was established in 1995. It was the first branch of the Bank outside Mainland China. Today the Hong Kong Branch, specialising in wholesale banking business, offers a wide range of products to corporate customers in trade finance, remittance, foreign exchange, money market, derivatives, deposits taking, loans, project and structured finance, loan syndications and financial advisory services. As at 30 June 2019, its amount of gross loans and advances was HK$109,360 million. As at the same date, its amount of total deposits was HK$182,447 million, and its amount of total assets was HK$344,774 million. For the six months ended 30 June 2019, it generated HK$5,494 million of interest income and HK$106 million of fee and commission income.

The Hong Kong Branch offers a wide range of corporate and commercial banking products and services in Hong Kong. The Hong Kong Branch provides services including conventional transactional, foreign exchange, loans, investments and RMB services, while corporate and commercial banking includes a wide variety of products and services in trade financing, working capital and trade lending, foreign exchange and investment banking.

The Hong Kong Branch receives extensive support from the Bank in terms of funding, settlement, information technology (IT) and client resources. The wide-ranging collaboration between the Hong Kong Branch and the Bank enables the Hong Kong Branch to better serve its customers, maximise cross selling efforts, expand its product range and capture the emerging business opportunities in Hong Kong and the PRC.

The Hong Kong Branch does not have any employees. The personnel team of China Construction Bank (Asia) Corporation Limited ("**CCBA**") currently performs functions and provides services and support to both the Hong Kong Branch and CCBA. CCBA receives fees from the Hong Kong Branch in exchange for such services and support, determined on an arm's length basis.

Hong Kong Banking Industry Regulatory Regime

The banking industry in Hong Kong is regulated under the provisions of the Banking Ordinance (Cap. 155) 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 is also subject to The Financial Institutions (Resolution) Ordinance (No. 23 of 2016). Please refer to risk factor "*Risk Factors – Risks Relating to the Notes – The Financial Institutions (Resolution) Ordinance may adversely affect the Notes*" on page 69 for further information.

DESCRIPTION OF THE BANK

Overview

The Bank is a leading commercial bank in China providing a comprehensive range of banking products and financial services. The Bank was incorporated as a joint stock company in the PRC on 17 September 2004 and its business licence number is 100000000039122. The registered address of the Bank is No. 25, Finance Street, Xicheng District, Beijing 100033, China and its telephone number is +86 10 6621 5533. Headquartered in Beijing, the Bank provides convenient and quality banking services to its customers through an extensive network comprised of nationwide branches, self-service facilities and an electronic banking service platform.

The Bank operates principally in mainland China with branches in all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in mainland China. The Bank's principal business activities include corporate banking, personal banking, treasury, investment banking and overseas business. Within the Bank's corporate banking business, the Bank offers a broad range of products and services to corporations, government agencies and financial institutions, including corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

The Bank provides a broad range of personal banking products and services under well recognised brands, including personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.. The Bank's treasury operations enter into inter-bank money market transactions and repurchase and resale transactions. Such treasury operations also invest in debt securities and trade in derivatives and foreign currencies for their own account. The Bank conducts its treasury services mainly through its trading centres in Beijing and Hong Kong. The Bank conducts its investment banking business through the investment banking department at the head office and branch levels as well as through CCB International Capital Limited ("**CCB International**"). The Bank offers a comprehensive and diversified suite of financial services to its customers which includes, among others, financial advisory services, equity capital financing, debt financing, asset securitisation and wealth management services.

Leveraging its vast resources and geographic advantages in the Chinese domestic market, the Bank is committed to providing a world-wide banking and financial services platform to service the overseas banking needs of its domestic corporate and personal banking customers and the domestic banking needs of its overseas corporate and personal banking customers seeking to trade with or invest in China. The Group adheres to a positive and steady international operation and overseas development strategy, leading to a steady expansion of its overseas network. As at 30 June 2019, the Group had 37 tier-one branches and 33 overseas institutions, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, the United Arab Emirates, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia, Poland and Kazakhstan, and maintained wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia and held 60 per cent. of the total share capital of CCB Indonesia.

As at 30 June 2019, the Group's total assets, total liabilities and total equity were RMB24,383,151 million (including gross loans and advances to customers of RMB14,539,839 million), RMB22,311,113 million (including total deposits from customers of RMB18,214,072 million) and RMB2,072,038 million, respectively. For the year ended 31 December 2018, the Group's net interest income was RMB486,278 million, representing an increase of 7.48 per cent. over the same period in 2017 and the profit before tax was RMB308,160 million, representing an increase of 2.79 per cent. over the same period in 2017. For the six months ended 30 June 2019, the Group's net interest income was RMB250,436 million, representing an increase of 4.57 per cent. over the same period in 2018 and the profit before tax was RMB191,180 million, representing an increase of 5.38 per cent. over the same period in 2018. The NPL ratio of the Group as at 30 June 2019 was 1.43 per cent., representing a decrease of 0.03 per cent. as compared to the corresponding ratio as at 31 December 2018. As at 30 June 2019, the NPL ratio for domestic corporate loans and advances was 2.50 per cent., a decrease of 0.10 percentage points from 31 December 2018, and the NPL ratio for personal loans and advances was 0.46 per cent., an increase of 0.05 percentage points over 2018.

As at 30 June 2019, the NPL ratio for overseas operations and subsidiaries was 0.82 per cent., representing an increase by 0.13 percentage points from 31 December 2018. As at 30 June 2019, the Group's total capital ratio was 17.06 per cent. and common equity tier one ratio was 13.70 per cent., representing a decrease of 0.13 per cent. and 0.13 per cent., respectively, as compared to the corresponding ratio as at 31 December 2018.

In the first half of 2019, the Group maintained the balanced development of capital, business, profit and risk, by improving its group-wide capital management system, strengthening the transmission of regulatory capital pressure, and continuously optimising its capital planning management and incentive and restraint mechanism. With differentiated asset business allocation strategies, the Group further improved its asset structure, and maintained steady growth of risk-weighted assets with higher capital use efficiency. It pressed ahead with the development of IT systems and the use of new technologies, and as a result, its capabilities with respect to automation of capital management and application of big data were further enhanced. The Group maintained a stable market position and its core indicators and market capitalisation continued to be in the leading position among peers. The Group formulated its Transformation and Development Plan of China Construction Bank in 2014, which proposed to accelerate its transformation into a comprehensive banking group and a multi-functional service, intensive growth, innovative and intelligent bank. In accordance with the need to enhance the Group's capacity to serve the PRC's national development, to prevent financial risks and to compete internationally, the Group specified seven key points of transformation, including promoting the management assets and liabilities, strengthening and developing its wholesale business, accelerating the development of its retail business, improving the quality of electronic banking business, enhancing its asset management business in a comprehensive way for its customers, strengthening the competitiveness of subsidiaries and accelerating the expansion of international business and overseas operations.

In 2018, the Group received numerous awards from various domestic and international institutions including the "Best Bank in China 2018" from UK magazine The Banker, "Best Bank in China 2018" from Asiamoney, the "Best Large-Scale Retail Bank 2018" and "Achievement in Comprehensive Risk Management Award 2018" from The Asian Banker, the "Most Innovative Bank for Trade Finance of the World" from Global Finance, the "Asian Risk Management Awards for Excellence 2018" from 21st Century Business Herald, the "Best Financial Innovation Award 2018" from The Chinese Banker magazine, the "Best Bank for Inclusive Finance Service of Golden Dragon Award 2018" from Financial Times, and "The Bank of the Highest Investment Value" from Sina Finance. The Group ranked second in terms of the UK magazine The Banker's "Top 1000 World Banks" in 2018 in terms of tier one capital, ranked 31st in the "Fortune Global 500" of the US magazine Fortune in 2018. In addition, the Group won numerous awards from major domestic and foreign media organisations for its achievements in fields including corporate governance, corporate social responsibility, risk management, corporate credit, retail business, investment custodial business, underwriting of debt securities, credit card business, housing finance and information technology.

Overview of China's banking industry

In 2018, the CBIRC took a series of robust measures to redress market irregularities and internet finance risks, and restore proper order in the financial markets. With the implementation of the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions and detailed rules, commercial banks accelerated their pace in setting up wealth management subsidiaries and a new paradigm in the asset management sector began to take shape. The release of policies for promoting capital instrument innovations in the banking sector enabled the banking industry to move forward steadily with more diversified capital replenishment channels. China's banking industry continued to grow in scale, as the overall credit quality remained stable, the overall market liquidity remained solid and the industry's capability to mitigate risks continued to improve.

The Group has stayed committed to prudent operations and innovation-driven development, and its efforts have delivered solid results. It achieved balanced growth in its assets and liabilities and organic growth in capital base during the year, as its asset quality and profitability continued to improve.

The Bank's Competitive Strengths

The Bank believes its strengths, as set out below, provide a stable and effective platform through which it will be able to maintain its competitive advantage in China's banking industry:

Large Customer Base and Established Relationships

The Bank has a quality corporate customer base and large personal banking customer base. The Group continued to expand its customer base. As at 30 June 2019, the number of personal online banking customers and corporate online banking customers increased by 5.67 per cent. and 10.81 per cent. respectively, as compared to 31 December 2018. As at 30 June 2019, the number of private banking customers increased to 139,995, representing an increase of 10.05 per cent. compared to the year ended 31 December 2018, and the amount of such private banking customers' financial assets under management with the Bank amounted to RMB1,496,123 million, representing an increase of 10.95 per cent. as compared to 31 December 2018.

Extensive Distribution Network and a Diversified Service Channel

The Bank has an extensive distribution network. Through branches, customer self-service equipment, specialised service entities across the country and an electronic banking service platform, the Bank provides customers with convenient and high-quality banking services. As at 30 June 2019, the Bank had a total of 14,941 operating entities, including its head office, 37 tier-one branches, 352 tier-two branches, 14,126 sub-branches, 391 outlets under sub-branches and a specialised credit card centre at the head office and 33 overseas institutions. As part of its efforts to create a network of flagship outlets to serve as hubs for driving the development of surrounding areas, the Bank had built a cumulative total of 220 flagship outlets to provide comprehensive services. As at 30 June 2019, the Bank had 320 specialised private banking entities with a total staffing of 1,924, set up 288 small business operating centres, and built over 1,500 personal loan centres. The Bank also continued to streamline its self-service network, which comprised 89,358 ATMs and 27,778 self-service banks, among which 27,574 ATMs were located in county regions; and 49,872 smart teller machines, which expanded services to social insurance, provident housing funds, traffic fines, tax and other governmental services. The Bank's extensive distribution network and diversified service channels provide it with the competitive measures and resources for sustainable development.

Leading Positions in Key Products and Services, Pioneering New Product and Service Development and Implementing Fintech Strategy

To be in line with the Bank's objective of establishing an "innovative bank", the Bank continuously improves its product innovation capability, vigorously supporting transformation and development. In 2018, the Bank organised the "Inaugural Innovation Marathon" and increased efforts in innovation to further deepen the three major strategies, namely house leasing, inclusive finance and fintech, while exploring the options for building a long-term CCB-specific innovation and incubation mechanism.

The Bank carried out innovation of merger and acquisition ("**M&A**") loans, supported the economic transformation and upgrading as well as the resolution of overcapacity, and improved its capability to support enterprise M&A. The Bank integrated its resources to push forward comprehensive financial service schemes for strategic group clients, offering comprehensive financial service solutions tailored for them. The Bank initiated service mode innovation of bank medical cards, establishing a more mature mode that was able to meet customers' needs with existing technical conditions. Based upon big data technology, the Bank launched "Xinyidai" for small and micro enterprises, refining the small and micro enterprises big data credit product system. The Bank offered cross-bank smart money collection and integrated cross-bank money collection channels, smoothing the process as well as presenting various choices of signing and authorising. By introducing the "Suixinyong" application, the Bank realised functions such as over-the-air issuing, off-line card transaction, inquiring, electronic cash recharging and industry application recharging, featuring convenient card activation and secure transaction. The Bank formulated comprehensive service solutions to housing reform finance and initiated new operations for provident housing fund loans, providing one-stop services for individual housing loan of housing provident fund (combined) customers. The Bank launched Long Card Cloud QuickPass to migrate the security management function of mobile payment from mobile hardware to Cloud platform, realising quick and secure mobile payment of simulated IC cards. The Bank launched market member bond lending, carrying forward bond lending transactions with market members. The Bank presented three brands comprising "Jiandantong, Jianpiaotong and Jianxintong", to provide financing services for companies contracted with foreign projects as well as those exporting whole set equipment. The Bank introduced WeChat-based "E Shenche" and "E Jiesuan" to adapt to the fast-growing Internet financial needs, and strengthened the Group's internal cooperation by collaborating with CCB Pension to provide an all-round solution for pension insurance fund business. The Group has launched the house leasing cloud platform to increase the supply of long-term housing units from governments and enterprises. Through the "Benevolence Religious Affairs" comprehensive service platform, the Group provides one-stop comprehensive services in relation to religious affairs. "Jianrongzhihe", an AI-assisted comprehensive service platform for business matchmaking among enterprises, has created a new model for business development. The blockchain trade finance platform has enabled the online end-to-end processing of domestic letters of credit, forfeiting, international factoring and logistics finance. The end-to-end support system for the underwriting and distribution of bonds enables the Group to further strengthen its enterprise-level management and systemic end-to-end management and control of bond underwriting and distribution business. The Group released "CCB – Xinhua Inclusive Finance – Small and Micro Enterprise Index", the first inclusive financial index and evaluation index in the banking industry that has gained national influence. The Group launched the "Cloud Tax Loan" to connect with the tax data systems of the State Taxation Administration and provincial tax authorities, enabling the Group to more accurately match its products and services with the demands of small and micro enterprises and entrepreneurs and more accurately manage their risks. The "Long Fortune" personal wealth management platform created a new retail model by integrating financial and technological resources. Family offices have been created as part of its private banking business to provide comprehensive services for customers with assets of over RMB500 million, including family wealth management and inheritance, family governance, family business management on a going concern basis and social charity. A young customer service system has been put in place to attract young customers. In 2018, the Group completed more than 1,300 product innovations and the deployment of more than 1,800 key products.

In 2018, the Group issued its fintech strategic plan, aiming at promoting the reform of fintech innovation system, implementing fintech to improve the management of operation security, so as to boost business innovation and development. The Group promoted the implementation of fintech strategy, constructed a dual-driven fintech foundation of technology and data, and created a fintech business system that promoted the combination of smart finance and smart ecosystem. The Group also established CCB Fintech Co., Ltd. as the Bank enhanced efforts in making fintech a driving force. The Group strengthened the establishment of platforms and application of business scenarios for new technologies, such as AI, big data and blockchain, built a collaborative integrated R&D platform and an enterprise-level R&D ecosystem, and promoted the transformation of fintech R&D model. Through open banking application programming interfaces (APIs) on CCB Cloud, the Group embedded its financial services and data services into the third parties in a standardised and highly-efficient way, and extended banking business to all aspects of social life scenarios. Prudent Risk Management and Internal Control Practices.

In the first half of 2019, the Bank continued to increase investment in Fintech innovation, with coordinated efforts in research and development, infrastructure construction and system operation and maintenance. It focused on supporting the application, research and development of smart finance related technologies, and enhanced disaster recovery and cloud infrastructure environment construction, to ensure the safe and stable operation of the system. The Bank sped up the establishment of its efficient and collaborative Fintech governance system that supported innovation, and improved the incentive system for Fintech innovation by strengthening patent protection and promoting independent innovation. It built a cloud platform for Fintech innovation service that provided all-round support for innovation with functions such as AI modelling and financial data mining. In addition, the Bank built panoramic customer profiling, optimised data asset management, and enhanced data driven value creation. It also built an integrated collaborative research and development platform to achieve flexible, efficient, digital and automated collaborative research and development management. The demand processing capacity improved significantly. In the first half of 2019, 3,257 items of demand were handled, up 164 per cent. over the same period in 2018. The production speed of demand was accelerated as the approval time was shortened by 53 per cent., and 3,116 versions were put into production, up 48 per cent. over the same period in 2018.

The Bank developed collaborative and evolutionary smart finance internally. It realised centralised control of supply chain services, formed a unified view of supply chain relations and supply chain financial business at group level, and promoted the development of new corporate banking featuring "seamless integration of trading business and emerging business". The Bank promoted groupwide intelligent operation system construction, and built "multi-access and integrated" smart channels. It broke through the information barrier between its corporate banking and personal banking, and established a "comprehensive, intelligent, accurate, timely, proactive and forward-looking" risk control system. The Bank extended the open and shared intelligent ecosystem externally. It promoted the construction of the data centralisation platform for provident housing funds and the rural land use right transfer platform of the Ministry of Housing and Urban-Rural Development, and continued to build its edge in the housing arena. The Bank preliminarily set up a Fintech product system for financial institutions, expanding its offerings from banking sector to non-banking services. The Bank assisted in the sharing of financing information within the banking industry through projects such as joint credit granting led by China Banking Association. The Bank promoted the smart city government service project to be launched in Ankang, Shaanxi province, and pushed forward Digital Tianjin Project as part of its contribution towards the modernisation of state governance. The Bank launched a blockchain service platform, with five application scenarios, nine areas and 61 applications in place, and the effect of cloud ecosystem was delivered initially. It actively explored cutting-edge 5G technology applications, built a dual 5G service network of "internet + production network" for its branch network, and set to deploy Internet of Things technologies.

Advanced Financial Management Capabilities and Financial Controls

The Bank is one of the first domestic banks to establish a resource allocation and performance evaluation assessment system on the basis of an economic value-added approach. The Bank has further centralised its financial management and promoted an overall cost control system, while increasing the Bank's research efforts on strategic cost management. In addition, the Bank followed the successful experience of leading global banks and developed an internal fund transfer pricing ("**FTP**") system, an enterprise resource planning ("**ERP**") system and a management accounting system.

The Bank believes that its advanced financial management capabilities and sound financial controls have allowed the Bank to implement development strategies effectively, optimise resource allocation and improve overall operating efficiency.

Effective Strategic Co-operation

The Bank's strategic investor, Temasek Holdings (Private) Limited, has shared its experience with the Bank in relation to SMEs' business operation, human resource management, money market trading and other areas. The Bank has cooperated with Bank of America Corporation, in a number of areas including personal banking business, risk management, corporate governance, information technology and human resources.

Experienced Management Team

The Bank's Chairman, Mr. Tian Guoli, and the Bank's vice chairman and president, Liu Guiping and other senior management team members, have extensive management experience in the banking and financial sector in China. Under their leadership, the Bank's operations have further strengthened in recent years. For the years ended 31 December 2017 and 2018, the Group's return on average assets were 1.13 per cent. and 1.13 per cent. respectively and for the six months ended 30 June 2018 and 2019, the annualised return on average assets were 1.31 per cent. and 1.31 per cent., respectively. For the years ended 31 December 2017 and 2018, the Group's return on average equity were 14.80 per cent. and 14.04 per cent. respectively and for the six months ended 30 June 2018 and 2019, the annualised return on average equity were 16.66 per cent. and 15.62 per cent. respectively. For these purposes, return on average assets is calculated based on the net profit divided by the average amount of beginning balance and ending balance of assets, while for annualised return on average assets, it is calculated by dividing net profit by the average of total assets at the beginning and end of the period and then annualising the quotient and return on average equity is calculated based on the net profit attributable to equity shareholders of the Bank divided by the weighted average net assets.

The Bank's Principal Business Activities

The Bank's principal businesses activities include corporate banking, personal banking, treasury business, investment banking and overseas operations.

The following tables set forth, for the periods indicated, the profit before tax of each of the Bank's major business segments:

	Year ended 31 December 2017		Year ended 31 December 2018	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate banking	82,724	27.59	74,168	24.07
Personal banking	137,736	45.95	139,734	45.34
Treasury business	54,617	18.22	84,735	27.50
Other businesses	24,710	8.24	9,523	3.09
Profit before tax	299,787	100.00	308,160	100.00

	Six months ended 30 June 2018		Six months ended 30 June 2019	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate banking	49,143	27.09	43,876	22.95
Personal banking	80,725	44.50	85,889	44.93
Treasury business	38,687	21.32	47,738	24.97
Other businesses	12,865	7.09	13,677	7.15
Profit before tax	181,420	100.00	191,180	100.00

Corporate Banking

Overview

For the years ended 31 December 2017 and 2018 and for the six months ended 30 June 2018 and 2019, the Group's corporate banking operations represented 27.59 per cent., 24.07 per cent., 27.09 per cent. and 22.95 per cent., respectively, of its profit before tax. The Bank offers a broad range of corporate banking products and services for corporations, government agencies and financial institutions. As at 30 June 2019, the Group had RMB6,846,169 million of domestic corporate loans and advances, representing 47.09 per cent. of the Group's gross loans and advances to customers, RMB454,457 million of domestic discounted bills outstanding, representing 3.13 per cent. of the Group's gross loans and advances to customers, and RMB9,063,882 million of domestic corporate deposits, representing 49.76 per cent. of the Group's total deposits from customers.

Key Products and Services

Corporate loans products

Corporate loans have historically been the largest component of the Group's loan portfolio. As at 30 June 2019, the balance of domestic corporate loans and advances amounted to RMB6,846,169 million, representing an increase of 5.36 per cent. compared to 31 December 2018. The Group's corporate loan products mainly comprise medium to long-term loans and short-term loans. As at 30 June 2019, the Group's domestic medium to long-term loans and short-term loans amounted to RMB4,756,559 million and RMB2,089,610 million, representing 32.71 per cent. and 14.37 per cent., respectively, of the Group's gross loans and advances to customers.

Infrastructure loans

The Bank provides various infrastructure loan products to meet the funding requirements relating to the construction and expansion of its customers' infrastructure projects. The continuing expansion of the PRC economy has led to an increase in the number of new large-scale infrastructure projects which have resulted in an increased demand for infrastructure loans. As at 30 June 2019, loans to infrastructure sectors amounted to RMB3,608,867 million, representing an increase of RMB149,249 million compared to 31 December 2018.

Working capital loans

The Bank offers working capital loans primarily to provide liquidity for the Bank's customers' regular business production and operational turnover needs and for their temporary funding needs. The Bank's working capital loans are mainly granted to its high-quality customers to supplement their infrastructure loans. The Bank also provides working capital loans to SMEs.

Syndicated loans

The Bank has provided to customers various syndicated loan products including, among others, direct external syndicated loans, internal syndicated loans and transferable syndicated loan products. The Bank has maintained strong growth in its syndicated loan businesses.

Other corporate loan products

The Bank offers various other corporate loan products, including trade finance facilities, supply-chain financing and merger and acquisition financing. In March 2009, the Bank became one of the first commercial banks in China approved to undertake merger and acquisition financing business pursuant to the Guidelines to M&A Loan Risk Management of Commercial Banks issued by the CBRC and the Bank was one of the first to launch corporate merger and acquisition financing products aimed to facilitate the financing needs of the Bank's customers' merger and acquisition transactions by providing a comprehensive set of financial resources.

The expansion of loans to SMEs is an important measure of the Bank to realise its strategic transformation of corporate banking business. As at 31 December 2018, the Group had 288 small business operating centres. As at 30 June 2019, the inclusive finance loans amounted to RMB831,122 million, an increase of RMB221,047 million as compared to 31 December 2018; the number of inclusive finance loan borrowers reached 1,225,900, an increase of 207,900 as compared to 31 December 2018.

Discounted bills

Discounted bills are bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months purchased by the Bank from its customers at a discount. The Bank provides discounted bills as part of its comprehensive financing solution for its corporate customers. As at 30 June 2019, the Group had outstanding domestic discounted bills of RMB454,457 million, an increase of 47.37 per cent. compared to 31 December 2018, mainly to meet the short-term funding demands of corporate customers.

Corporate deposit products

In accordance with interest rate policies issued by the PBOC, the Bank offers a variety of time and demand deposit products to its corporate and institutional customers. In addition, the Bank also accepts negotiated deposits from customers including insurance companies, the National Social Security Fund and the Postal Savings Bank of China, whereby interest rates and other conditions are separately negotiated between them and the Bank. As at 30 June 2019, the Group's domestic corporate deposits amounted to RMB9,063,882 million, an increase of 4.58 per cent. compared to 31 December 2018.

Commission/fee based products and services

The Bank provides its corporate customers with a broad range of commission/fee-based products and services. The Group's net fee and commission income for the six months ended 30 June 2019 was RMB76,695 million, which is an increase of 11.15 per cent. compared to the same period last year.

Agency services

The Bank acts as an agent at the request of its clients in providing payment disbursement, collection, settlement, clearance and other agency services to corporations and government agencies. The key products and services the Bank provides include agency treasury settlement, agency premium collection and payment and entrusted loans. The Bank also acts as payroll agent as well as the agent to collect utilities, telecommunication and taxes payment and surcharges. In addition, in terms of the number of budget units it served, the volume of agency disbursement and related fee income, the Bank continued to be the market leader. The Bank is a major correspondent bank for China Development Bank. The Bank also distributes products and services on behalf of insurance companies and securities firms and provides payment and fee collection services to public utility and telecommunications companies. In addition, the Bank provides entrusted lending services to its corporate customers. The Bank charges a fee for providing entrusted lending services and does not take the credit risk with respect to these loans. In addition to generating fee income, the Bank's agency services also help the Bank develop and enhance its relationships with its customers.

Institutional business

The Bank has promoted its updated "Minben Tongda" comprehensive financial services brand, which focuses on providing service to customers in the education, health, culture and environmental protection sectors. The Bank and Jilin University jointly sponsored the first edition of "CCB Cup" of "Internet Plus" Innovation and Entrepreneurship Competition for Chinese University Students, signed strategic cooperation agreements with Huazhong University of Science and Technology, explored "Internet Plus" applications and innovations in financial services for schools and hospitals, which culminated in the Bank-Hospital and Bank-School Mobile Internet Financial Cooperation Plan. It also became the first bank among its peers to study and launch the Comprehensive Financial Service Plan Regarding Pension System Reform of Public Institutions. It ranked first among peer banks in terms of the number of customers of the central finance authorised payment and non-tax revenue collection agency service. The issuance of civil service bank cards in central fiscal budget units continued to be first in the market.

In the first half of 2019, the Bank promoted a digital platform operating model for its institutional business. It built an "All in a Mobile Phone" application with the government of Yunnan Province, which covered all five levels of governments from province to village, making its banking outlets and smart teller machines into convenient government service centres for the public. A public payment system developed for the national service platform for government affairs was also launched. The Bank signed a cooperation agreement with the Ministry of Human Resources and Social Security on jointly establishing an innovative big data laboratory that integrates data from both social security and banking institutions, to create a "Human Resources and Social Security Big Data Application Platform". The Bank also signed a strategic cooperation agreement with the Xinhua News Agency to jointly establish a "Xinhua Finance National Financial Information Platform". The coverage and the number of users at its religion, pension and other service platforms continued to increase. The Bank signed agreements with 1,213 collecting entities for "Huijiaofei" payment and collection services. It issued a total of 132 million financial social security cards, and opened 12,000 social security financial accounts in county areas.

International business

The Bank offers international settlement products and services including import letters of credit, export letters of credit, import collection, export collection, outward remittance, inward remittance and guarantees. The Bank has been approved by the PBOC as the Hong Kong dollar settlement bank and approved by the China Foreign Exchange Trade System as the U.S. dollar agency settlement bank in the interbank foreign currency markets. The Bank was one of the first PRC banks to provide cross-border trade RMB settlement services and this pioneer status has allowed it to be one of the market leaders of this service.

In 2016, the Bank further expanded its RMB clearing network, as the Bank became the RMB clearing bank in Switzerland and Chile after becoming the RMB clearing bank in London. RMB Qualified Foreign Institutional Investors ("**RQFII**"), RMB Qualified Domestic Institutional Investors and Mainland-Hong Kong mutual recognition of funds operations continued to grow. The Bank successfully issued RMB1 billion two-year offshore RMB bonds in London, which was the first RMB bond product listed on the London Stock Exchange. It also launched "comprehensive financial services for cross-border e-commerce", built a "cross-border e-remittance" platform, and provided end-to-end online auto receipt and payment, settlement and sales of foreign exchange and income/expense declaration services for cross-border e-commerce customers through the direct contact with the local "single window" of international trade. It also innovated "cross-border e-payment", an online payment tool and met e-commerce customers' needs for cross-border payment through virtual bank cards. The Bank took the lead in providing services to special economic areas, with its Shanghai Free Trade Zone Branch proactively offering businesses relating to free trade accounts and holding the largest deposit and loan portfolios among competitors. The Xinjiang Khorgos Border Cooperation Centre Sub-branch became the first to launch innovative offshore RMB business, delivering the best performance in all major indicators.

In the first half of 2019, the Bank took the lead in establishing a blockchain trade finance platform in the industry and signed cooperation agreements with 34 domestic and overseas financial institutions. As at 30 June 2019, the cumulative transaction amount of the platform had exceeded RMB300 billion. The Bank actively promoted the connection between its "cross-border e+" system and the customs' "single international trade window" to provide end-to-end online financial services for import and export enterprises. Based on the "Cross-border e+" platform, the Bank launched the "Cross-Border Rapid Loans" service to provide fully online financing services for small and micro import and export enterprises. The AI-assisted documents review project became the first successful application of its kind in the industry, and the phase-one functions had been successfully launched. In the first half of 2019, the Bank's international settlement volume amounted to U.S.$545,528 million, and the volume of cross-border RMB settlement was RMB838,221 million.

Custody service

The Bank's offering of asset custodial services is among the most comprehensive in China, including securities investment funds, Qualified Domestic Institutional Investors, Qualified Foreign Institutional Investors, RQFII, social security funds, corporate annuity funds, trust properties, insurance assets, entrusted investment assets of securities companies, basic pension insurance personal account funds, industrial investment funds and banking wealth management products. In 2013, the Bank obtained the qualification to provide custodial service to the first bond index exchange-traded funds ("**ETF**") and cross-border ETF for U.S. stocks in the PRC. The Bank also became one of the first Chinese-funded custodial banks of RQFII from Singapore. The Bank became one of the first batch of banks to conduct agency business for Mainland-Hong Kong mutual recognition of funds operations and was the first to offer "bond transaction plus custodian" services to overseas institutions for direct entry into the interbank bond market.

The Bank adopted an innovation-driven approach in its custody service, and recorded good operating results. The Bank ranked first in the number of the first and second batch of funds on the STAR Market under the Bank's custody, and won multiple bids for ETF custody for state-owned enterprise reform. The Bank successfully obtained the depository bank qualification, and became the custodian bank of the first batch of China-Japan ETF Connect and the only custodian bank for the first cross-border conversion institutions of Shanghai-London Stock Connect in the market, in its efforts to building an innovative global custody service system. The Bank was also custodian bank for the first asset management plan in the market by the securities industry to support private enterprises, helping private businesses to overcome financial difficulty.

As at 30 June 2019, the Bank's assets under custody amounted to RMB12.36 trillion, increased by RMB145,586 million from 31 December 2018. In the first half of 2019, the Bank's fee income from custody service was RMB2,573 million, increased by RMB128 million compared to the same period last year.

Settlement and cash management business

The Bank was one of the first domestic commercial banks to provide cash management services for its corporate clients. In recent years, the Bank's cash management services expanded rapidly as the Bank introduced various new cash management products, such as "Yudao (禹道) – Smart Win Cash Management", which covers major service lines including account settlement services, fees receipt and payment services, liquidity management services, investment and financing management services, information and reporting services, industry-focused solutions and on-line banking services. The Bank has a range of cash management products and tailor-made industry specific cash management solutions for multinational corporations, large and medium sized enterprises, government agencies and financial institutions. In addition, through its internet and other electronic channels, as well as its customer-oriented branch network, the Bank has been able to provide comprehensive cash management services to its customers.

In the first half of 2019, the Bank's settlement and cash management business continued to grow steadily. As the PBC's approval is no longer required for the opening of corporate bank accounts, the Bank created "Zhangyixing" brand to improve the convenience and efficiency of account opening service, and the number of corporate RMB accounts grew rapidly. The Bank also enhanced its management over corporate settlement accounts as well as payment and settlement, and carefully prevented new types of cybercrimes. The Bank launched its innovative "*Huishibao – comprehensive service platform for high-end corporate settlement*" markets, and expanded its application to scenarios such as tourism, wholesale service and chain stores. It accelerated the mobile deployment in services such as "Yudaotongda", collection and payment of bills, and iteratively upgraded its global cash management product system, continuously improving the contribution of cash management to the Bank. As at 30 June 2019, the Bank had 10.22 million corporate RMB settlement accounts, an increase of 0.77 million compared to 31 December 2018, while its active cash management customers increased by 0.58 million to 1.95 million compared to the same period last year.

Customer Base

As a leading provider of capital for some of the key industries in China such as infrastructure, energy, transportation and telecommunication, the Bank has maintained close relationships with leading corporations in industries that are strategically important to China's economy and with major government agencies and financial institutions.

The Bank has focused and will continue to focus on customers in industries strategically important to China's economy. Most of these large companies in China's strategic industries are state-owned enterprises or state-controlled joint stock companies. Private enterprises have become important customers to the Bank, as in recent years, they have experienced significant growth in China and have become a major sector in China's economy. The Bank also focuses on expanding its range of high-quality SME customers.

Marketing

Based on its customer-focused philosophy, the Bank employs both industry-wide and localised marketing strategies tailored to specific regions, customers and products. The Bank's head office formulates its overall corporate business development based on industry, geographical region, customer and product considerations. The Bank's tier-one branches then develop detailed marketing plans according to these guidelines tailored to local market needs.

The Bank's corporate banking marketing channel primarily involves corporate and institutional customer managers, branch outlets and electronic banking channels which include on-line banking and phone-banking. The Bank's corporate and institutional customer managers are its key marketing channel for its corporate banking business. They are responsible for exploring new market opportunities, promoting the Bank's banking products, coordinating and accessing the Bank's bank-wide resources to provide a package of personalised and comprehensive financial services to the Bank's corporate and institutional customers. The Bank's branch outlets offer the physical venue for the Bank to provide services to corporate and institutional customers. Through the Bank's branch outlets, the Bank promotes and sells its products, mainly providing payment and settlement services and SME corporate customer services, and developing the Bank's corporate liabilities business and commission/fee based business.

With the aim to improve customer experience, the Bank also provides its customers with e-banking channels such as the Bank's cash management service system, corporate online banking, customer hotline service centre and mobile phone banking platform, thereby providing greater access for the Bank's customers. The Bank's e-commerce finance platform – "e.ccb.com" which provides corporate clients with financing products such as order financing, guaranteed joint loans and collateralised loans, continued to deepen its involvement in causes relating to "agriculture, farmers and rural areas", promoted the use of credit card bonus points for direct shopping and air ticket booking for business travel, partnered with Microsoft to set up a flagship store, and carried out joint marketing, thus realising a rapid development.

As at 30 June 2019, the number of personal online banking users increased to 332 million, representing an increase of 5.67 per cent. from 31 December 2018, and the Group's corporate online banking customers reached 8.38 million, representing an increase of 10.81 per cent. over 2018.

The Bank further strengthened innovation for its mobile banking, developed online sales, diversified online functions and delivered smarter and smoother experience. It launched the "ETC Intelligent Mobility" service to facilitate ETC user's application, sign up, activation and query online. Account information could be automatically recognised once the user scanned the bank card, simplifying the transfer processes for customers. The Bank introduced government services, such as social security and provident housing fund services, to provide more convenience. At the end of June 2019, the number of personal mobile banking users rose to 329 million, an increase of 19.90 million or 6.43 per cent. over the end of 2018. WeChat banking became a key platform for the Bank's business processing, consulting and marketing. At the end of June 2019, the number of WeChat banking users who followed the Bank's WeChat account increased by 5.08 million or 5.71 per cent. to 94.09 million over the end of 2018. The number of users who linked their bank cards with their WeChat accounts was 70.29 million, an increase of 5.86 million or 9.10 per cent. over the end of 2018. The number of SMS financial service users reached 446 million, an increase of 21 million or 4.94 per cent. over the end of 2018.

The Bank seeks to provide differentiated products and services to the Bank's important customers to meet their specific banking needs. The Bank's head office generally coordinates client coverage and marketing efforts for the Bank's largest corporate customers to ensure consistency and quality of service. The Bank's senior management at the headquarters and branch level are often directly involved in and lead in these marketing efforts. The Bank's branches in key cities provide differentiated, high quality, professional and integrated products and services to meet the Bank's customers' specific banking needs. By providing integrated financial solutions to the Bank's customers and improving the Bank's cross-selling synergies among the Bank's products and services, the Bank aims to further increase overall customer satisfaction and optimise value for the Bank's customers.

For SMEs, the Bank has established a specialised and standard marketing system that allows the Bank to further integrate the Bank's resources of products, distribution channels and brands to provide more efficient services with controlled risks.

Personal Banking

Overview

As at 30 June 2019, the Group's domestic personal deposits rose to RMB8,494,856 million, an increase of 9.31 per cent. compared to 31 December 2018. The Group's profit before tax derived from personal banking for the years ended 31 December 2017 and 2018 and six months ended 30 June 2018 and 2019 amounted to RMB137,736 million, RMB139,734 million, RMB80,725 million and RMB85,889 million, respectively, representing 45.95 per cent., 45.34 per cent., 44.50 per cent. and 44.93 per cent. of the Group's total profit before tax for the same periods.

Key Products and Services

The Bank provides a broad range of products and services including personal deposits, personal loans and other related financial services for its personal banking customers based on their needs. The Bank also provides bank card services and private banking for its personal banking customers. The Bank is committed to providing comprehensive banking services to its personal banking customers and is focused on creating and improving its personal banking product chain and value chain. The Bank sets out below its key personal banking products and services.

Personal deposits

The Bank provides its personal banking customers with a broad range of demand and time deposit services denominated in Renminbi and other foreign currencies. Personal demand deposit products include demand savings deposits and demand pledged deposits.

Personal time deposit products include time savings deposits, education savings deposits and personal notification deposits. Personal deposits provide the Bank with a stable funding source. The Bank enhanced its capability to attract deposits through highly effective products and services, maintaining the steady growth of personal deposits. As at 30 June 2019, domestic personal deposits of the Bank was RMB8,494,856 million, an increase of 9.31 per cent. from 31 December 2018.

Personal loans

The Bank's personal loans are designed to meet the credit requirements of its personal customers. The Bank's personal loan products include residential mortgage loans, personal consumer loans, personal business loans and personal agriculture-related loans. As at 30 June 2019, the total domestic personal loans of the Bank amounted to RMB6,132,851 million, representing an increase of 5.02 per cent. from 31 December 2018. As at 30 June 2019, the NPL ratio for domestic personal loans and advances was 0.46 per cent., an increase of 0.05 percentage points from 31 December 2018.

Residential mortgage loans

The Bank provides residential mortgage loans to individuals to finance the purchase and construction of their residential properties. Residential mortgage loans include new home residential mortgage loans, residential refinancing mortgages, home equity loans to refinance residential property and fixed-rate residential mortgage loans. As at 30 June 2019, the Group's personal residential mortgage loans rose by 6.35 per cent. from 31 December 2018 to RMB5,055,429 million.

The Bank appraises the value of the residential property regularly and clearly stipulates that the loan cannot be used for securities trading purpose.

Home savings services

In February 2004, the Bank formed Sino-German Bausparkasse Corporation Limited ("**Sino-German Bausparkasse**") with Bausparkasse Schwaebisch Hall, a German home savings bank. As at 30 June 2019, the Bank held a 75.10 per cent. equity interest in Sino-German Bausparkasse. The Bank's home savings bank products allow the Bank's customers to make scheduled deposits for the purpose of obtaining residential mortgage loans in the future. Sino-German Bausparkasse has improved the Bank's ability to develop more personal housing financing products. Sino-German Bausparkasse achieved steady business development, and the sales of housing savings products reached to RMB16,729 million for the six months ended 30 June 2019. As at 30 June 2019, total assets of Sino-German Bausparkasse were RMB22,301 million, and shareholders' equity was RMB2,929 million. Net profit in the first half of 2019 was RMB26 million.

Personal consumer loans

The Bank's personal consumer loans primarily consist of personal credit lines and automobile loans which usually have a maturity of up to five years. Personal credit lines are granted for general purposes based on the borrowers' credit history and the value of collateral provided. The Bank's automobile loans are primarily secured by the purchased automobile and residential properties. As at 30 June 2019, the Bank had domestic personal consumer loans of RMB168,270 million, representing 1.16 per cent. of the Group's gross loans and advances to customers.

Other personal loans

The Bank's other personal loan products primarily consist of personal business loans, personal agriculture-related loans and other personal loans. As at 30 June 2019, the balance of personal business loans and agriculture-related personal loans was RMB40,112 million and RMB3,498 million, respectively. In 2009, the Bank introduced personal business loans for private business owners involved in various specialised markets. The Bank also introduced personal agriculture-related loans to farmers on a trial basis in line with the PRC government's policy of supporting economic development of rural areas. The Bank also introduced a series of personal loan products, including the "Easy Education Loan" for personal education, the "Fortune Loan" for personal banking customers, the "Refurbishment Loan" for home renovations and the "ShanRong e-loans" personal micro-credit revolving loans for consumption financing needs.

Bank card business

The Bank offers a variety of bank card products comprising credit card and debit card to its customers under the registered "Long Card" ("龍卡") brand. As at 30 June 2019, the Bank had issued approximately 128 million credit cards and 1,085 million debit cards (which remain active). For the six months ended 30 June 2019, the Group's fee and commission income from bank card fees increased to RMB26,184 million from RMB22,743 million for the same period in 2018, representing an increase of 15.13 per cent.

Since the Bank is a member of China Unionpay, its customers can complete transactions through ATMs and point-of-sale terminals connected to the China Unionpay network. China Unionpay is responsible for establishing and operating a nationwide, interbank bank card information exchange and transaction network for its members. The Bank is one of the founding members of China Unionpay. The Bank joined the MasterCard network in 1990 and the Visa network in 1991. The Bank's dual-currency debit cards and dual-currency credit cards are also accepted outside of China through its association with the MasterCard and Visa networks. In August 2009, the Bank further joined the JCB international credit card network.

Credit cards

Through the credit card centre in Shanghai established in December 2002, which centrally manages the Bank's credit card business, the Bank seeks to enhance its operational efficiency, improve its risk management and maintain a consistent level of customer service quality. The Bank has also established credit card departments in most of its tier-one branches to manage its operations locally. As approved by the CBRC and accepted by the Shanghai Banking Regulatory Bureau in 2008, the Bank's credit card centre was upgraded to a branch-level sales institution and obtained its business license in 2009. As at 30 June 2019, the Bank had issued approximately 128 million credit cards. The volume at credit card transactions totalled RMB1.50 trillion for the six months ended 30 June 2019. As at 30 June 2019, the Bank's credit card loan balance reached RMB672,148 million.

The Bank's credit cards are accepted through its own network and through the China Unionpay network which are located in the PRC and various other countries and are also accepted overseas through the Bank's association with the Visa and MasterCard networks. The Bank has established five product lines including standard cards (標準卡), co-branded cards (三名卡) (being cards co-branded with primary cities (名城), well-known enterprises (名企) and top-tier universities (名校), specialty cards (特色卡), public welfare cards (公益卡) and corporate cards (商務卡), which primarily target mid-to high-end customers and cover various marketing channels. The Bank also issues diamond cards, which target high-end customers and issued specialised car-owner credit cards to car owners. The Bank has also launched consumer products including e-Pay Long Card, Tencent e-Pay Long Card, and Family Love Card, credit products such as "Fenqitong", and mobile payment services based on the Internet including Apple Pay, HCE Cloud Pay, and Samsung Pay. The Bank has increased its use of new electronic channels such as mobile phone, WeChat and QR codes to promote the use of its credit card products. The Bank has introduced the Long Card electronic payment wallet and "one-click payment" for cross-border internet purchases. The Bank has also introduced the "Mobile Long Card" mobile app allowing payments to be made with authorised merchants.

In the first half of 2019, the Bank reinforced customer segmentation and key customer base expansion of credit card business by creating a system of credit card products with various types and featured benefits for all customer bases, such as the innovative QQ Music Card, Transformers Card of Bumblebee Version and ETC Card. The Bank vigorously developed consumer credit business, promoted precision marketing and innovative payment, and enhanced the influence of the promotional brands, i.e. "Long Card Saturday" and "Traveling Around the World, Shopping Around the Globe". Moreover, the Bank made great efforts to build the "Huidouquan" comprehensive operation and service platform. It also consolidated the leading edge of auto finance and promoted finance for easy dwelling through platforms and instalment programs based on data and scenarios.

Debit cards

In the first half of 2019, the Bank increased its efforts in building mobile payment portfolio and scenario offerings, created new advantages in payment and settlement, and further consolidated its debit card customer base. As at 30 June 2019, the Bank issued 1,085 million debit cards (which remain active) in aggregate, including 591 million financial IC debit cards. Total spending through the Bank's debit cards amounted to RMB21.00 trillion in the year ended 31 December 2018, representing an increase of 36.37 per cent. over the same period in 2017. The transaction volume of debit cards for the six months ended 30 June 2019 was RMB11.20 trillion, representing an increase of 15.55 per cent. over the same period in 2018. As at 30 June 2019, the Bank issued 591 million financial IC debit cards in total, representing an increase of 32 million over 31 December 2018.

Private Banking

The Bank provides a broad range private banking products and services and integrated solutions and to its high value customers, including family trust financial advisory services, asset allocation consultancy services, investment immigration, marital property preservation and family wealth inheritance. The Bank has developed its "trump product" – family trust business by coordinating efforts between the parent company and subsidiaries, and continuously improved the "Golden Housekeeper" business. The Bank has diversified its value-added services in three major areas, namely exclusive private banking services, professional consultation and cross-border services. Drawing on fintech, the Bank led the market in creating its mobile private bank and launching a mobile version of its private banking services. Also, the Bank built a product system designed to "help customers structure their assets", and vigorously promoted its wealth advisory services. The money under custody of new family trust customers was RMB26.1 billion and the assets under administration were RMB24.8 billion as at 31 December 2018. Additionally, the Bank launched the innovative service of Family Office. As at 30 June 2019, the number of private banking customers increased to 139,995, up by 10.05 per cent. as compared to 31 December 2018 and the total assets under management (AUM) of such private banking customers amounted to RMB1,496,123 million, representing an increase of 10.95 per cent. as compared to 31 December 2018. As at 31 December 2018, the Bank had 320 private banking centres. The Bank has successfully established dedicated telephone banking services for its high-end customers, creating a high-end customer service network with a focus on wealth management and private banking services.

Entrusted housing financing services

The Bank acts as an agent to national housing fund management departments to collect housing provident funds and housing maintenance funds and provide individual housing provident funds mortgages. The Bank is one of the earliest banks and the largest in China approved to engage in the housing provident fund management business. The Bank maintains sound business co-operation with local administrative centres of housing provident funds across China from which it takes deposits as a steady funding source. By implementing national policies on supporting the construction of homes and providing financing to mid-and low-income households, the Bank is able to capture such specialised market opportunities. The Bank has proactively improved its IT system and strengthened electronic channel expansion and product innovation in provident housing funds, in order to provide comprehensive and high-quality housing reform financial services. As at 30 June 2019, the Bank's personal provident housing fund loans amounted to RMB2,299,364 million, and its housing fund deposits amounted to RMB850,938 million. Through innovative financial services, the Bank has launched new products and services including small amount cross-bank payments for housing provident funds, housing provident fund e-channel, housing provident fund co-named card and entrusted housing provident fund withdrawal for repayment of loans.

Marketing

The Bank's head office generally formulates marketing initiatives and sets marketing guidelines for the Bank's bank-wide personal banking products. The Bank's tier-one branches develop detailed marketing plans to implement these initiatives based on the economic and market conditions of their respective geographical regions. The Bank conducts its marketing activities mainly through its branch network, which the Bank supplements with specialised sales centres for specific products such as personal wealth management centres and residential mortgage loan centres. As at 30 June 2019, the Bank had 320 private banking centres. It also conducts personal banking product marketing through e-banking channels, such as online banking, telephone banking and mobile phone banking.

The Bank offers different products and services and adopts different marketing strategies to cater for different customer groups' needs. For high value customers, the Bank focuses on building a one-to-one customer manager marketing relationship to develop a more focused marketing strategy for promoting its products. For mass market customers, the Bank adopts a mass marketing strategy focusing on its outlets, taking initiatives in product and service marketing through introduction by its lobby managers, on-site promotion of its products and media advertising campaigns. The Bank also adopts an interactive marketing strategy for its personal banking business, whereby its personal loan department and corporate banking department cooperate to take a proactive approach in exploring business opportunities in residential mortgage loans while granting real estate development loans. In addition, the Bank focuses on cross-selling its personal banking products such as promoting its credit cards and wealth management cards to its residential mortgage loan customers. The Bank also sells various loan products to the holders of its wealth management cards and credit cards.

Electronic Channels

In 2018, the Bank strengthened its fintech innovation and application, shifted from channel-based services to customer-focused operations, and built a brand new "online banking". In this regard, the channels' value contribution was comprehensively improved and the capability of customer services was greatly enhanced. As at 31 December 2018, the Bank's personal online banking service had 305 million individual customers, representing an increase of 12.66 per cent. compared to 31 December 2017. For the six months ended 30 June 2019, the electronic banking service fees earned by the Bank was RMB12,263 million compared to RMB10,364 million for the same period in 2018, representing an increase of 18.32 per cent. This was mainly due to the Bank's enhancement of its promotion of electronic financial services and applications to meet the customers' needs in financial consumption.

Treasury Business

The Bank's treasury operations primarily consist of its money market activities, the management of its investment portfolio, treasury transactions on behalf of its customers, bond underwriting and development of treasury products. The Group's treasury business recorded a profit before tax of RMB47,738 million for the six months ended 30 June 2019, accounting for 24.97 per cent. of its total profit before tax.

Key products and services

Money market activities

The Bank's money market activities primarily consist of (i) repurchase and reverse repurchase with the PBOC; (ii) borrowings from and loans to other domestic and foreign banks and non-bank financial institutions, often referred to as the interbank money market activities; (iii) purchase of securities under resale agreements, often referred to as repurchase and reverse repurchase transactions via the interbank market, bond repurchase pledge or buy-out, sell-out of RMB-denominated treasury bonds, policy bank bonds and central bank bonds; and (iv) money market transactions with major international banks such as foreign currency fund lending, foreign currency denominated bond repurchase and foreign exchange swap on the international financial markets.

The Bank is an active participant in the interbank money market, one of the first market-makers in the interbank market and one of the sixteen Shanghai Interbank Offered Rate quotation banks approved by the PBOC. The Bank has actively responded to market fluctuations, taken initiatives to broaden the financing and investment channels, and managed its RMB and foreign currency positions in a centralised manner to safeguard the Bank's liquidity.

As at 30 June 2019, the Group's deposits and placements with banks and non-bank financial institutions amounted to RMB813,500 million, representing 3.34 per cent. of the Group's total assets. As at the same date, the deposits and placements from banks and non-bank financial institutions with the Group amounted to RMB1,894,358 million, representing 8.49 per cent. of the Group's total liabilities.

Investment portfolio management

The Bank's investment portfolio mainly targets bond investment. The Bank classifies its portfolio as: (i) trading financial assets; (ii) debt securities classified as receivables; (iii) available-for-sale financial assets; and (iv) held-to-maturity investments. Trading financial assets are primarily used in proprietary trading, while debt securities are classified as receivables, available-for-sale financial assets and held-to-maturity investments are used in proprietary investment.

As at 30 June 2019, financial assets measured at fair value through profit or loss, financial assets measured at fair value measured at amortised cost and financial assets measured at fair value through other comprehensive income represented 11.21 per cent., 59.09 per cent. and 29.70 per cent. of the Group's financial investment portfolio, respectively.

Proprietary trading

The Bank conducts short-term proprietary trading in order to gain short-term spread income and avoid market risk. Proprietary trading mainly includes treasury bonds, central bank notes, policy bank bonds, short-term debentures issued by large-scale prime enterprises, mid-term notes, foreign exchange trading and precious metal trading. Additionally, the Bank hedges its investment risk through financial derivative trading, which mainly includes interest rate swap contracts and foreign exchange spot, forward, swap and option contracts. Apart from hedging of its risks, the Bank generally does not hold financial derivatives for short-term gain.

Proprietary investment

The Bank manages its investment portfolio to maximise its investment return. The Bank determines the average investment term of its investment portfolio, duration and investment return objective based on its judgment on risk factors such as interest rates, exchange rates and credit risks. The Bank's RMB-denominated securities investments primarily include government bonds, central bank notes, policy financial bonds, commercial bank bonds, short-term debentures, corporate bonds and asset-backed securities. The Bank's foreign currency denominated securities investments are primarily in sovereign bonds, financial institution bonds, corporate bonds and investment grade asset-backed securities.

Treasury transactions on behalf of customers

The Bank's treasury transactions on behalf of its customers mainly include agency foreign exchange derivatives trading, agency precious metal business, bond settlement agency business, agency sale and purchase of foreign exchange and foreign exchange trading. Foreign exchange purchases and sales and foreign exchange trading grew steadily. The Bank improved its service capability of foreign exchange settlement and sales through electronic banking channel, and launched its foreign exchange purchasing project. The Bank also optimised its corporate online banking foreign exchange settlement module for the convenience of its corporate customers.

Innovation and development of treasury products

The Bank focused on the innovation of precious metal products with diversified product lines and introduced new products including gold accumulation plans and silver leasing. The Bank also launched the first platinum lease products in the industry. As at 30 June 2019, the number of personal precious metal trading and commodity trading customers was 45.21 million, and the total trading volume of precious metals amounted to 26,661 tonnes.

In compliance with the state policy to provide financial support for targeted poverty alleviation, the Bank issued poverty alleviation bonds, launched innovative projects such as e.ccb.com rural-urban connection and targeted poverty alleviation platform, and delivered all-round online and offline financial services to people in poverty stricken areas. In order to effectively address financing difficulties for customers engaged in international trade, the Bank launched a series of products, including conversion of overseas loans to debt securities, cross-border e+, cross-border financing and securities connection, and global financing for financial leasing, incorporating a host of innovation in business processes and risk mitigations. The Bank also introduced new services, such as "Bond Connect", direct top-up for IC cards and Subways Go Easy, and simplified the financial service processes and enhanced customer experience by means of technology development and interconnectivity.

Investment Banking Business

The Bank conducts investment banking business through the investment banking department at its head office and branch levels as well as its subsidiary, CCB International, providing customers with financial service packages such as short-term debentures, international bonds, trust benefit vouchers, asset securitisation, project financing, outbound initial public offerings ("**IPOs**") and refinancing, equity investment, financial advisory and wealth management services. The Bank's substantial customer base, extensive marketing network, strong funding capability and research and development strength lay a foundation for the development of its investment banking business.

Key products and services

Financial advisory service

The Bank's financial advisory business refers to its provision of consultation, analysis and solution design services to customers in respect of investment and financing, capital operation, asset management, debt management and corporate diagnosis based on the customers' requirements with an aim to assist them in reducing financing cost, increasing funding utilisation efficiency and optimising financial management. Furthermore, the Bank focused on providing its customers with product portfolios consisting of both investment banking and commercial banking products. In 2009, the Bank took the industry lead in launching FITS (Financial Total Solutions), a comprehensive financial solution also known as "Feichi". Depending on different situations and financial needs, FITS combines products and vehicles such as traditional commercial banking, new investment banking, various funds and bank wealth management programmes in order to provide comprehensive and diversified financial services plans.

Equity financing service

Through CCB International and the Bank's overseas branches and subsidiaries, the Bank provides enterprises with equity financing services such as listing sponsorship and underwriting services for their overseas capital markets IPOs and refinancing services and strategic investor introduction services in Hong Kong and Singapore. Separately the Bank also cooperates with the Bank's business partners, including domestic and overseas securities companies to provide equity financing related services, such as domestic and overseas listing guidance, sponsorship, underwriting and financial advisory services.

Bond financing service

The Bank provides composite bond financing services for clients including short-term debentures, and mid-term notes. The Bank is an active underwriter in the domestic bond market and it is also a Class A underwriter in the MOF treasury bond underwriting syndicate. For the six months ended 30 June 2019, the Bank accumulatively underwrote 346 issuance of debt financing instruments for non-financial enterprises with a total amount of RMB241,039 million. As part of its continuous efforts in promoting green economy, the Bank also developed green asset-backed notes and green asset securitisation, becoming the first underwriter in the green finance reform zone. The Bank also promoted the issuance of the first green building panda bond, doubling as green "Bond Connect" bond, in the inter-bank market, and it registered RMB5,800 million for green bond projects for enterprises to deepen the cross-border cooperation in green finance in the first half of 2019.

Asset securitisation

The Bank was among the first commercial banks approved to undertake asset securitisation business. In 2005, the Bank issued the first residential mortgage-backed securities in China with a size of RMB3.0 billion. The Bank has developed a specialised information system for its securitisation products and the Bank has extensive experience in the development of securitisation products and the execution of such transactions. In 2018, the Bank actively cooperated with the National Development and Reform Commission to jointly promote and establish the National Development Fund for Strategic Industries. The Bank attracted RMB18.9 million social funds into the house leasing market by means of debt securities and asset securitisation.

Wealth management business

The Bank has designed and launched various wealth management products according to customer needs to provide wealth management services to customers. The Bank has widened its wealth management product distribution channels and increased its distribution of high yield debt and equity wealth management products. These wealth management products play an important role in securing the Bank's customers, particularly high-end customers. NAMeS, the Bank's new asset management system, went live to form an integrated end-to-end automated framework. The Bank also launched its innovative "Qianyuan" poverty alleviation wealth management product, and launched its robo-advisor services. For the years ended 31 December 2017 and 2018 and for the six months ended 30 June 2018 and 2019, the Bank issued various wealth management products with a total amount of RMB7,947,669 million, RMB7,519,123 million, RMB3,722,393 million and RMB3,972,989 million, respectively. As at 30 June 2019, the Bank's outstanding balance from wealth management products was RMB2,037,294 million compared to RMB2,188,303 million as at 31 December 2018.

Customer base

The Bank's prime corporate and personal customers from its commercial banking business have formed a solid customer base for developing its investment banking business through the years. Most domestic PRC conglomerates and top-quality corporates have established extensive and close business relationships with the Bank. The Bank believes that there remains potential for its investment banking business in the areas of bond financing, equity financing, asset securitisation, financial advisory, wealth management and trust services. The Bank also proactively strives to provide equity financing and equity investment services to SMEs that present promising growth. The Bank's personal banking customers, especially its high net worth and high-end clients, will also help the Bank expand its wealth management business and ensure the successful offering of its wealth management products.

Marketing

The Bank's major marketing model for the investment banking business involves cooperation between the head office, domestic and overseas offices and different business lines. A key strategy of the Bank's bank-wide marketing efforts is to combine the marketing efforts of the investment banking business and commercial banking business.

Overseas Business

As at 30 June 2019, the Group had 37 tier-one branches and 33 overseas institutions, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, the United Arab Emirates, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia, Poland and Kazakhstan and maintained wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia and held 60 per cent. of the total share capital of CCB Indonesia.

As at 30 June 2019, the total assets of the Group's overseas entities were RMB1,651,735 million, representing approximately 4.83 per cent. of the Group's total assets. For the six months ended 30 June 2019, the profit before tax of the Group's overseas entities was RMB5,918 million, representing a decrease of 17.84 per cent. as compared to the same period of 2018. In May 2015, Chile Branch became the first RMB clearing bank in South America, and the branch officially opened in 2016. In June 2015, Paris Branch, Amsterdam Branch, Barcelona Branch and Milan Branch under CCB Europe were successively opened. Cape Town Branch (under Johannesburg Branch) commenced business in September 2015. London Branch commenced business in October 2015. Zurich Branch was established and designated as the RMB clearing bank in November 2015, and it officially opened in 2016 and Dubai International Financial Centre Branch received its official banking licence and commenced business in November 2015 and Warsaw Branch received its official banking licence in December 2016. CCB Malaysia obtained a commercial banking licence in October 2016. The Bank completed its acquisition of PT Bank Windu Kentjana International Tbk in September 2016, and renamed the entity to PT Bank China Construction Bank Indonesia Tbk. PT Bank China Construction Bank Indonesia Tbk was officially inaugurated in February 2017 and the Warsaw Branch of CCB Europe, CCB Malaysia and CCB Australia Perth Branch officially commenced operations in 2017. In February 2018, the Bank's New Zealand Branch officially opened for business.

Major Subsidiaries

In 2009, the Bank established the equity investment and strategy cooperation department to coordinate and manage its subsidiaries. According to the 2018 Annual Report, major subsidiaries of the Bank as at 31 December 2018 are set out below:

Name of subsidiary	Principal activities
CCB Financial Asset Investment Corporation Limited	Investment
CCB Brasil Financial Holding – Investimentos e Participações Ltda	Investment
CCB Financial Leasing Corporation Limited	Financial leasing
CCB Life Insurance Company Limited	Insurance
CCB Trust Corporation Limited	Trust business

Name of subsidiary	Principal activities
CCB Pension Management Corporation Limited	Pension Management
China Construction Bank (London) Limited	Commercial banking
China Construction Bank (Europe) S.A	Commercial banking
Sino-German Bausparkasse Corporation Limited	House savings bank
PT Bank China Construction Bank Indonesia, Tbk	Commercial Banking
China Construction Bank (Malaysia) Berhad	Commercial Banking
China Construction Bank (New Zealand) Limited	Commercial banking
China Construction Bank (Russia) Limited Liability Company	Commercial banking
Golden Fountain Finance Limited	Investment
CCB Principal Asset Management Corporation Limited	Fund management services
CCB International Group Holdings Limited	Investment
CCB International (Holdings) Limited	Investment
China Construction Bank (Asia) Corporation Limited	Commercial banking
China Construction Bank (Brasil) Banco Múltiplo S/A	Commercial Banking

Integrated Operation Subsidiaries

The Group's integrated operation strategy is to accelerate the development of insurance, trust, investment banking, mutual funds, leasing, securities and other non-banking businesses, while developing banking as its core business. The Group endeavours to build an operating framework that covers interconnected markets and complementary businesses, with diversified income and decentralised and controllable risk, and realise customer-oriented functions selection, to provide customers with integrated and diversified financial services.

As at 30 June 2019, the Group owned several domestic subsidiaries in the non-banking financial sector, including CCB Principal Asset Management Corporation Limited ("**CCB Principal Asset Management**"), CCB Financial Leasing Corporation Limited ("**CCB Financial Leasing**"), CCB Trust Co., Ltd. ("**CCB Trust**"), CCB Life Insurance Company Limited ("**CCB Life**"), Sino-German Bausparkasse, CCB Futures Co., Ltd. ("**CCB Futures**"), CCB Pension Management Co., Ltd. ("**CCB Pension**") CCB Property & Casualty Insurance Co., Ltd ("**CCB Property & Casualty**"), CCB Financial Asset Investment Co., Ltd. ("**CCB Investment**") and CCB International.

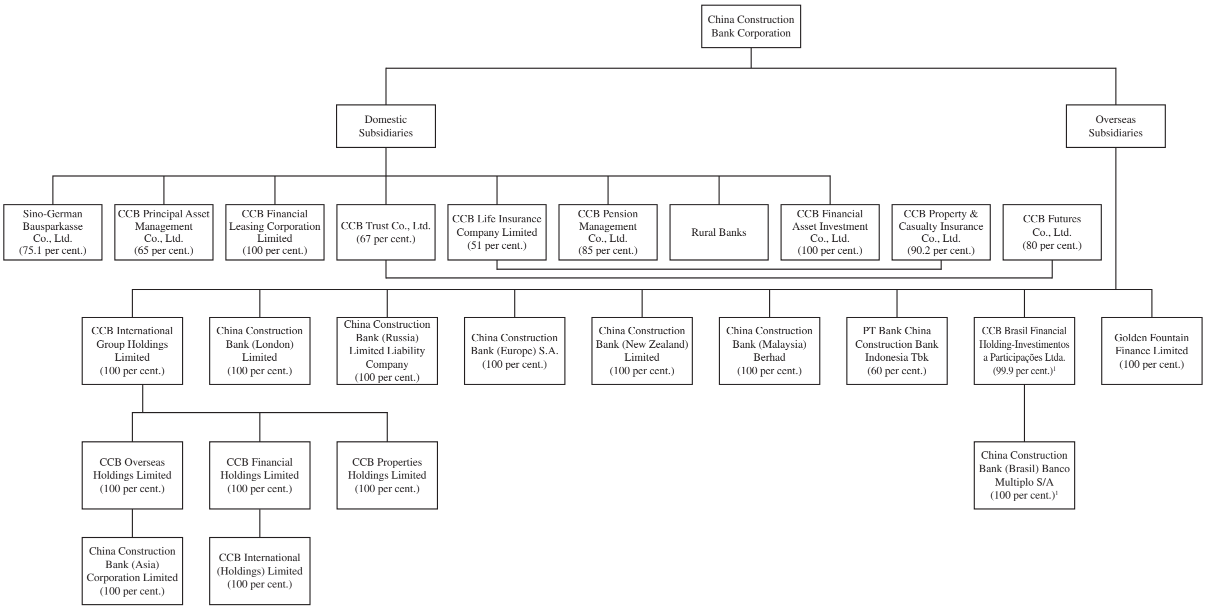
The Group set up several banking entities providing professional and differentiated services in specific industries and regions, including Sino-German Bausparkasse and 27 rural banks. In 2013, Sino-German Bausparkasse developed its housing credit business and achieved significant results in selling housing savings products. As at 30 June 2019, total assets of Sino-German Bausparkasse were RMB22,301 million. With the approval of the Ministry of Finance, the Bank sought to transfer all its equity interests in 27 rural banks by listing them on Beijing Financial Assets Exchange in June 2018. In August 2018, the Bank entered into equity transfer agreements with the transferees, Bank of China Limited and Fullerton Financial Holdings Pte Ltd. With the approval of the CBIRC and local regulators of the 27 rural banks, the equity transfer as a whole was completed in December 2018. The transfer of these equity interests enabled the Group to more efficiently manage and allocate its resources, refocus its strengths, and leverage fintech and product and service innovation, to be better positioned to promote economic development in "agriculture, farmers and rural areas".

CCB Pension has a registered capital of RMB2.3 billion, of which the Bank and National Council for Social Security Fund hold 85 per cent. and 15 per cent. of its shares respectively. CCB Pension is mainly engaged in businesses including investment management of national social security fund, businesses related to management of enterprise annuity fund, trusted management of capital for old age security, pension advisory for above businesses and other businesses as approved by banking regulators under the State Council. As at 30 June 2019, total assets and the net profit in the first half of 2019 of CCB Pension were RMB2,962 million and RMB86 million respectively.

As at 30 June 2019, the total assets of the integrated operation subsidiaries were RMB516,712 million, up 8.90 per cent. from 31 December 2018. For these purposes, integrated operation subsidiaries include the following subsidiaries as set out in the Group 2019 Interim Report: CCB Principal Asset Management, CCB Financial Leasing, CCB Trust, CCB Life, Sino-German Bausparkasse, CCB Futures, CCB Pension, CCB Property & Casualty, CCB Investment, CCB Wealth Management and CCB International. Net profit of the integrated operation subsidiaries for the six months ended 30 June 2019 was RMB3,180 million.

Organisational Structure

The following chart shows the Bank's group structure as at 30 June 2019:



Note:

(1) As at 30 June 2019, the Bank held 100% of the total share capital of China Construction Bank (Brasil) Banco Múltiplo S/A, and held 100% of its total issued voting share.

Recent Developments

Entrustment of Baoshang Bank Co., Ltd.

On 24 May 2019, the Bank announced that CBIRC decided to take over Baoshang Bank Co., Ltd. ("**Baoshang Bank**") with effect from 24 May 2019 and to establish the takeover team of Baoshang Bank. The Bank accepted the entrustment of the takeover team to take the business of Baoshang Bank into custody.

Baoshang Bank, formerly the Baotou Commercial Bank Co., Ltd., was established under the approval of the PBOC in December 1998, and was renamed Baoshang Bank Co., Ltd. under the approval of the CBRC in September 2007. It is headquartered in Baotou City, Inner Mongolia Autonomous Region.

The custodian period is one year from 24 May 2019. During the custodian period, the Bank will carry out the entrusted work strictly in accordance with laws and regulatory requirements and under the guidance of the takeover team as entrusted.

The Bank views that the entrustment of Baoshang Bank does not affect daily business operation and the ordinary business of the Bank and will not have material influence on the Bank's operational management and profitability.

Establishment of a wholly-owned subsidiary CCB Wealth Management Co., Ltd.

On 27 May 2019, the Bank announced the establishment of CCB Wealth Management Co., Ltd. (the "**CCB Wealth Management**"). The Bank announced that CBIRC has approved the commencement of business of CCB Wealth Management and that CCB Wealth Management has received the Financial Service Certificate, completed the industrial and commercial registration and obtained the business license.

CCB Wealth Management, a wholly-owned subsidiary of the Bank, is registered in Shenzhen, Guangdong Province with a registered capital of RMB15 billion, and will engage in the following businesses: (i) public offering of wealth management products to the general public and investment and management of properties entrusted by investors; (ii) private placement of wealth management products to eligible investors and investment and management of properties entrusted by investors; (iii) wealth management advisory and consulting services; and (iv) other businesses approved by CBIRC.

The establishment of CCB Wealth Management is a significant measure for the Bank to implement the latest requirements of regulators, boost the sound development of wealth management business, and remain true to its original aspirations in terms of wealth management and asset management business. With this subsidiary, the Bank is able to better realize the group-wide coordinated development of the asset management business, improve the proactive management capacity and professionalism of the wealth management and asset management business, and further isolate business risks. Furthermore, CCB Wealth Management can facilitate the Bank's support and serve the development of the real economy and implementation of the inclusive finance strategy, increase the Bank's supply of financial products, and hence better satisfy the increasing and diversified financial demands of society.

RISK MANAGEMENT AND INTERNAL CONTROL

Overview

In the first half of 2019, the Bank continued to improve its comprehensive risk management quality and strengthened risk management and control at the Group level. By taking the opportunity of advancing the implementation of the advanced measurement approach of capital management, the Bank improved its overall business development, product innovation and risk management capability.

Risk Management Framework

The Bank's board of directors carries out their responsibilities according to the articles of association and other related regulatory requirements. The Bank's board of directors established the risk management committee to be responsible for formulating risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. As the core component of the risk management structure, the Board deliberates and approves the statements of risk appetite regularly, and delivers and communicates its risk appetite through corresponding capital management policies, risk management policies and business policies, to ensure that the business operation of the Bank adheres to its risk appetite. The board of supervisors oversees the establishment of the overall risk management system and the carrying out of risk management responsibilities by the board of directors and senior management. Senior management is responsible for carrying out the risk management strategies established by the board of directors and the implementation of the overall risk management of the Group.

Senior management appoints the chief risk officer who assists the president with the corresponding risk management work. The Risk Management Department is responsible for the overall business risk management, and its subordinate department, the Market Risk Management Department, is responsible for the management of market risk. The Credit Management Department is responsible for the overall credit risk management and country risk management. Credit Approval Department is the comprehensive management department responsible for the credit granting and approval of the overall credit business. The Asset and Liability Management Department is responsible for the management of liquidity risk and interest rate risk of banking book. The Internal Control and Compliance Department is responsible for operational risk and information technology risk management. Other specialised departments are responsible for other respective risks.

The Bank places high priority on the risk management of subsidiaries, monitors their adherence to the risk appetite and conducts overall risk assessment of subsidiaries on a regular basis. The subsidiaries comply with the risk management requirements of the parent bank through their corporate governance mechanisms, establishing and improving the comprehensive risk management system.

Subsidiaries implement the risk management requirements of the Group through corporate governance mechanism, establish and improve internal risk appetite, risk management system and risk policies.

Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

In 2017, the Group focused on credit risk prevention and mitigation, improved on its fundamental credit management capability and optimised its risk management accountability system, due to the complex and ever-changing operating environment and challenging risks.

Promoting structural adjustment of the credit portfolio

The Bank improved its economic transformation by aligning its efforts with key national strategies. It focused on supporting the development of the housing rental businesses, consumer financial services, inclusive financial services, advanced manufacturing industries and modern service industries, and continued to consolidate its traditional advantages in the infrastructure sector. The Group also reinforced its green credit strategy and raised lending criteria for high risk customer groups in addition to its efforts in strengthening risk control by industries.

Reinforcing risk management and control in key areas

The Bank also focused on improving its risk identification and enhanced its pre-lending due diligence, thereby improving loan approval efficiency and quality. At the same time, the Bank also improved on its post-lending decision making mechanisms, reinforced post-lending inspection and supervision, promoted the intensive management of collaterals, strengthened IT systems and big data applications, and integrated the credit risk monitoring of the Group's on-and off-balance sheet businesses, domestic and overseas operations, businesses of the parent company and subsidiaries, as well as loans and similar businesses.

Strengthening risk control over credit granting

The Bank endeavoured to improve its risk management and control capability and level, and made certain adjustments to the authorisation mechanism for credit approval, such as through refining the rules and processes for evaluation, rating and comprehensive credit line and approval. The Bank established a differentiated and specialised credit facility approval and authorisation system depending on the type of key business lines and emerging sectors, so as to further optimise the credit structure. With optimisation of performance assessment and supervision system as well as intensified supervision and inspections, the Group reinforced the consolidated credit management, and enhanced control of credit approval risk in key areas.

Enhancing risk measurement capabilities

The Bank fully integrated its existing early-warning systems to build a group-level platform for comprehensive risk monitoring and early-warning. It optimised and rolled out rating and risk limit models for large and medium-sized enterprises, and launched new scorecard model for individual customers, further enhancing its ability of risk prioritisation and customer selection. The Bank also rolled out the risk rating and limit models as well as the default identification function for overseas customers, which laid a foundation for data accumulation, rating monitoring and model optimisation of overseas customers. The Bank also conducted stress testing on the macroeconomic risks and the real estate sector, among other areas, to enhance the capability of systemic risk prevention and control.

Strengthening the operation and value management of non-performing assets

The Group adjusted the structure and clarified the strategies for non-performing assets operation, and carried forward innovation in NPLs disposal channels. It set the ultimate goal of maximising the recovery value with classified and categorised operational targets. The Group improved the closing rates and recovery rate of batch transfers in the process of pushing forward refined management, leading to a remarkable rise in the cash recovery from written-off assets.

Concentration of Credit Risks

In line with regulatory requirements, the Group proactively adopted a series of measures to prevent large exposure concentration risk, including further tightening lending criteria, adjusting business structure, controlling the credit granting pace, revitalising existing credit assets and innovating products, etc. As at 30 June 2019, the Group's gross loans to the largest single borrower accounted for 2.84 per cent. of the total capital after regulatory adjustment, while those to the top ten customers accounted for 10.93 per cent. of the total capital after regulatory adjustment.

Concentration of loans

	As at 30 June	As at 31 December	
	2019	**2018**	**2017**
Proportion of loans to the single largest customer (per cent.)	2.84	2.95	4.27
Proportion of loans to the ten largest customers (per cent.)	10.93	13.05	13.90

Concentration of Borrowers

As at 30 June 2019, the Bank's ten largest single borrowers as at the date indicated are as follows:

		As at 30 June 2019	
		Amount	Per cent. of total loans
	Industry	(In millions of RMB, except percentages)	
Customer A	Transportation, storage and postal services	69,641	0.48
Customer B	Transportation, storage and postal services	34,600	0.24
Customer C	Transportation, storage and postal services	28,020	0.19
Customer D	Transportation, storage and postal services	24,453	0.17
Customer E	Transportation, storage and postal services	21,620	0.15
Customer F	Transportation, storage and postal services	19,809	0.14
Customer G	Transportation, storage and postal services	19,208	0.13
Customer H	Production and supply of electric power, heat, gas and water	17,840	0.12
Customer I	Mining	17,500	0.12
Customer J	Transportation, storage and postal services	14,892	0.10
Total		267,583	1.84

Liquidity Risk Management

Liquidity risk is the risk that a commercial bank is unable to promptly obtain sufficient funds at a reasonable cost to pay off debts when due, perform other payment obligations and otherwise finance its normal business.

The Bank's goal with respect to liquidity risk management is to ensure timely payment and settlement. In 2017, the Bank adhered to the stable and prudent principle in its liquidity risk management, and put in place various measures to effectively manage the source and use of funds and ensure security in payment and settlement across the Bank, including intensive market monitoring, effective position management through its new generation core banking system, improved methods of liquidity stress testing, centralised use of RMB and foreign currency funds and increased guidance over liquidity risk management of subsidiaries.

The Group conducts quarterly liquidity risk stress tests, and ad hoc special stress tests when necessary, taking into account the change of external operation environment and regulatory requirements, in order to test the risk bearing capacity of the Bank in low-probability extreme events. The results of such stress tests showed that in stressed conditions, though the liquidity risk would be at an elevated level, it would still be controllable.

The table below shows the liquidity ratio in RMB and foreign currencies and the loan-to-deposit ratio as at the indicated dates:

	Regulatory standard	As at 30 June 2019	As at 31 December 2018	As at 31 December 2017
		(per cent.)		
Liquidity ratio(1) RMB	≥25	46.36	47.69	43.53
Liquidity ratio(1) Foreign currency	≥25	56.70	84.88	74.52
Loan-to-deposit ratio(2) RMB		74.11	73.71	70.73

Notes:

(1) Calculated by dividing current assets by current liabilities in accordance with the requirements of the CBIRC.

(2) In accordance with the CBIRC's requirements, loan to-deposit ratio should be calculated on the basis of domestic legal person.

The table below shows the liquidity coverage ratio of the Group as at 30 June 2019:

No.		Value before translation	Value after translation
		(RMB million yuan, except for percentage)	
	Qualified and high-quality liquid assets		
1	Qualified and high-quality liquid assets		
	Cash outflow		
2	Deposits from retail and deposits from small enterprise customers, including:	8,418,476	715,233
3	Stable deposits	2,532,007	126,586
4	Deposits with a low degree of stability	5,886,469	588,647
5	Unsecured (unpledged) wholesale financing, including:	9,154,330	3,040,095
6	Business relations deposits (excluding agent bank business)	6,221,660	1,545,039
7	Non-business relations deposits (all counterparties)	2,846,388	1,408,774
8	Unsecured (unpledged) debts	86,282	86,282
9	Secured (pledged) financing	–	128
10 . . .	Other items, including	1,666,244	191,486
11 . . .	Cash outflows related to the requirement of derivatives and other collaterals (pledges)	40,251	40,251
12 . . .	Cash outflows related to financing loss of mortgage (pledged) debt instruments	9,392	9,392
13 . . .	Credit facilities and liquidity facilities	1,616,601	141,843
14 . . .	Other contractual financing obligations	18	–
15 . . .	Contingent financing obligations	3,163,982	372,558
16 . . .	**Total amount of expected cash outflows**		4,319,500
	Cash inflow		
17 . . .	Mortgage (pledged) lending (including reverse repurchase and borrowed securities)	323,130	314,563
18 . . .	Cash inflow from normal full settlement	1,463,788	966,344
19 . . .	Other cash inflows	44,442	41,844
20 . . .	**Total amount of expected cash inflows**	1,831,360	1,322,751
	Adjusted value		
21 . . .	Qualified and high-quality liquid assets		4,309,848
22 . . .	**Net cash outflows**		2,996,749
23 . . .	**Liquidity coverage ratio (%)**[(1)]		143.88

Note:

(1) The above figures represent simple arithmetic means of the values for 91 calendar days in the latest quarter, calculated in accordance with the current applicable regulatory requirements, definitions and accounting standards.

The Group regularly monitors the maturity gap of various asset and liability items, and assesses the liquidity risk in different periods. As at 30 June 2019, the aggregate maturity gaps of the Group was RMB2,072,038 million, an increase of RMB80,444 million over the end of 2018. The negative gap for repayment on demand was RMB11,085,216 million, mainly due to the Group's large demand deposits from its expansive customer base; considering the low turnover rate of the Group's demand deposits and steady growth of deposits, the Group expects to have stable sources of funding and maintain a stable liquidity position in the future.

Market Risk Management

Market risk is the risk of loss in respect of the Bank's on-and off-balance sheet activities, arising from adverse movement in market rates, including interest rates, foreign exchange rates, commodity prices, and stock prices.

In 2018, the Group took initiative to refine the long-term market risk management mechanism, strengthened the risk management fundamentals of investment and trading business, responded actively to fluctuations in foreign exchange, bond and stock markets, and effectively prevented cross risk contagion. The Group established a global risk information sharing system, and conducted monitoring and reporting over global financial market risks, enabling quick response to emergencies and major market fluctuations. To actively identify, alert and mitigate risks, the Group set up supervision mechanisms for market risk management and in key areas of asset management business, and built a monitoring indicator system of key risks for investment and trading business. By incorporating bonds underwriting and custody businesses into comprehensive risk management, the Group consolidated its risk management for new products, new businesses and agency businesses, and achieved consistent risk appetite across business segments and aligned risk management in domestic and overseas operations. The Group strictly implemented the new regulations on asset management and established a full-process risk management and control mechanism through the implementation of unified credit line and reinforcement of penetrative management. Eventually, market risk management ability was greatly improved.

In the first half of 2019, the Group continued to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "**ALM**") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department and Financial Market Trading Center manage the Bank's Renminbi and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

Value at Risk Analysis

The Bank has separated on and off-balance sheet activities into two major categories, trading book and banking book. The Bank performs Value-at-Risk ("**VaR**") analysis on its trading portfolio to measure and monitor the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices. The Bank calculates the VaR of RMB and foreign currency trading portfolio on a daily basis (at a confidence level of 99 per cent. and with a holding period of one-day).

The VaR analysis on the Bank's trading portfolio as at 30 June 2019 and 2018 is as follows:

	Six months ended 30 June 2019				**Six months ended 30 June 2018**			
	As at 30 June	**Average**	**Maximum**	**Minimum**	**As at 30 June**	**Average**	**Maximum**	**Minimum**
				(In millions of RMB)				
Risk valuation of trading portfolio.	321	320	341	288	158	120	158	92
– Interest rate risk	103	99	117	75	44	43	58	32
– Foreign exchange risk . . .	306	298	335	251	151	113	151	77
– Commodity risk	14	14	31	–	–	11	39	–

The VaR analysis on the Bank's trading portfolio as at 31 December 2018 and 2017 is as follows:

	2018				2017			
	As at 31 December	Average	Maximum	Minimum	As at 31 December	Average	Maximum	Minimum
	(In millions of RMB)							
Risk valuation of trading portfolio	327	179	336	92	112	167	252	105
– Interest rate risk	85	59	104	32	59	84	148	50
– Foreign exchange risk	323	176	332	77	90	117	226	70
– Commodity risk	–	6	39	–	1	8	21	–

Interest Rate Risk Management

Interest rate risk is the risk of loss in the overall income and economic value of the banking book as a result of adverse movements in interest rates, term structure and other interest-related factors. Re-pricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities are the primary sources of interest rate risk for the Bank while yield curve risk and option risk have relatively less impact on interest rate risk. The overall objective of the Bank's interest rate risk management is to minimise the decrease of net interest income caused by interest rate changes while keeping interest rate risk within a tolerable level in accordance with the Bank's risk appetite and risk management capabilities.

In the first half of 2019, the Group paid close attention to changes in the external interest rate environment, and reinforced dynamic risk monitoring and prediction. It improved the efficiency of assets allocation, enhanced the capacity to operate on borrowings and optimised the product portfolio and term structure of assets and liabilities to increase the net interest income and keep the net interest margin at a stable level. Meanwhile, the Group continued to optimise the system of its interest rate risk management and strengthened the interest rate risk management requirements of its overseas branches and subsidiaries. In accordance with the latest regulatory requirements of the Basel Committee and the CBIRC on interest rate risk, the Bank further improved its interest rate risk management system, revised and developed relevant management policies and improved the refinement management from the aspects of interest rate risk measurement, monitoring, control and system building. During the six months ended 30 June 2019, the interest rate risk in the banking book of the Group remained stable on the whole, and various limits indicators were kept within their respective target ranges.

Net interest income sensitivity analysis

Net interest income sensitivity analysis is based on two scenarios. The first is to assume that the interest rate for deposits with the PBOC stays constant, and all yield curves rise or fall by 100 basis points in a parallel way; the second is to assume that the interest rates for deposits with the PBOC and demand deposits stay constant, while the other yield curves rise or fall by 100 basis points in a parallel way.

The interest rate sensitivity of the Group's net interest income as at 30 June 2019, 31 December 2018 and 2017 is set out below:

	Change in net interest income			
	Rise by 100 basis points	Fall by 100 basis points	Rise by 100 basis points (demand deposit rates being constant)	Fall by 100 basis points (demand deposit rates being constant)
	(In millions of RMB)			
As at 30 June 2019	(59,460)	59,460	48,059	(48,059)
As at 31 December 2018	(32,453)	32,453	69,138	(69,138)
As at 31 December 2017	(46,727)	46,727	50,694	(50,694)

Foreign Exchange Risk Management

Foreign exchange rate risk is the risk of impact of adverse movements in foreign exchange rates on a bank's financial position. The Bank is exposed to foreign exchange rate risk primarily because of the currency mismatch of assets and liabilities held by the Bank that are denominated in currencies other than RMB and the position held by the Bank as a market maker in the financial markets. The Bank mitigates its exchange rate risk by matching its assets and liabilities, controls its exchange rate risk by setting limits, hedges its exchange rate risk by using derivative financial instruments and transfers its exchange rate risk by reasonable product pricing.

The Group adhered to prudent foreign exchange rate risk management strategy, paid close attention to international economic and financial market changes, domestic macroeconomic indicators, Sino-US trade friction and other factors affecting foreign exchange rate risk, continuously promoted the construction of foreign exchange rate risk management system, and effectively improved the accuracy and automation level of exposure measurement. In the first half of 2019, Renminbi appreciated gradually and then depreciated rapidly. The foreign exchange rate at the end of June remained unchanged from the prior year-end, and the foreign exchange rate risk had little impact on the Group as a whole; the Group's overall foreign exchange risk exposure was stable, and the foreign exchange rate risk stress testing results showed that the overall risk was under control, which continued to meet the regulatory requirement of the CBIRC.

Currency concentrations

The Group's currency concentrations as at 30 June 2019 and 31 December 2018 are set out below:

	As at 30 June 2019				As at 31 December 2018			
	U.S.$ (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total	U.S.$ (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
	(In millions of RMB)							
Spot assets	1,045,934	328,517	457,203	1,831,654	1,053,925	336,580	402,370	1,792,875
Spot liabilities	(1,108,266)	(383,652)	(347,757)	(1,839,675)	(1,029,400)	(371,917)	(291,300)	(1,692,617)
Forward purchases	2,551,091	263,543	303,594	3,118,228	2,765,210	181,417	205,064	3,151,691
Forward sales	(2,453,057)	(166,540)	(388,566)	(3,008,163)	(2,760,568)	(106,381)	(296,062)	(3,163,011)
Net options position	(18,045)	–	–	(18,045)	(13,216)	16	–	(13,200)
Net long position	17,657	41,868	24,474	83,999	15,951	39,715	20,072	75,738

As at 30 June 2019, the net exposure of foreign exchange rate risk of the Group was RMB83,999 million, an increase of RMB8,261 million as compared to 31 December 2018, mainly due to the increase of profits from foreign currencies.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or flawed internal processes, people and systems, or from external events.

In the first half of 2019, the Group continuously promoted application of operational risk management tools and focused on strengthening statistics, analysis, monitoring and reporting of regulatory penalties. It re-examined incompatible positions and revised related policies; made catalogue of important positions for job rotation and mandatory vacation; enhanced staff conduct management, and encouraged its staff members to perform duties faithfully and diligently in order to strengthen its operational risk prevention capabilities. It also revised business continuity management policies and successfully launched the business continuity system.

The Group strengthened the statistical analysis of non-compliance losses such as regulatory penalties and credit violations, developed relevant system functions and reduced operational risk losses caused by non-compliances. It re-examined and adjusted the manual on incompatible positions to enhance the counterbalance of different positions. It made arrangements for job rotation and mandatory vacation of important positions to strengthen internal control capabilities. It also selected key areas to carry out self-assessment of operational risk to improve operational risk prevention and control. Moreover, the Group continued to promote its emergency planning and drills for key businesses in the "New Generation" core banking system to improve its capability in response to business disruption emergencies.

Anti-Money Laundering

The Group strengthened the in-advance management and control of high-risk businesses and customers and continually improved the money laundering risk assessment and control system. It adopted the big data analytic tool to effectively identify money laundering clues. By improving its automated management capabilities of sanctions compliance risk, the Group enhanced its sanctions compliance management and control over customers from high-risk countries or regions. It exerted sustained efforts in training programmes on anti-money laundering ("**AML**") to enhance AML publicity among the general public. By pushing forward the building of a specialised AML team, the Group steadily enhanced its expertise in this area.

In the first half of 2019, the Group continued to improve its rules and mechanisms for AML, counter-terrorist financing and anti-tax evasion, and developed group-level AML management policies. On the basis of ensuring the completeness of customer identity information, it further improved the accuracy and effectiveness of the information. It successfully completed the supporting transformation of the switch to the PBOC's AML data reporting platform, so as to ensure the continuous and accurate reporting of related data. It made solid efforts in financial sanctions compliance and safeguarded the bottom line of sanctions compliance requirements.

Reputational Risk Management

Reputation risk is the potential or existing risk of a negative impact on, or damage to, the banks' overall image, reputation and brand value, which arises when commercial banks' operational, managerial and other behaviours or contingencies are noticed or reported by the media.

The Group continued to improve its reputational risk management system and mechanisms, strengthened its reputational risk management and enhanced its competence in managing reputational risks. Multiple measures were implemented to strengthen the risk awareness of its entities at various levels and define reputational risk management responsibilities. It focused on identifying and issuing early warning for potential reputational risk factors, strengthened daily public opinions monitoring and improved capability in implementing mitigation measures. It proactively accepted media's supervision, improved its products, enhanced internal management and continuously improved its services. It also proactively leveraged the new medias, and used its official account "China Construction Bank" on Weibo, "CCB Today "on WeChat and "China Construction Bank" on Douyin to timely release its official information and promote its corporate image. In the first half of 2019, the Group steadily improved its reputational risk management practices and effectively safeguarded its good corporate image and reputation.

Country Risk Management

Country risk is the risk of insolvency of or repudiation by borrowers or debtors in a country or a region to meet their repayment obligations to the Bank, or the risk of losses to the commercial presence of the Bank or other losses to the Bank in a country or a region, due to economic, political, social changes or events in this country or region. Country risk mainly includes seven categories, i.e. transfer risk, sovereign risk, contagion risk, currency risk, macroeconomic risk, political risk and indirect country risk.

In strict compliance with regulatory requirements, the Bank incorporated the country risk management into the comprehensive risk management system and used a range of tools to manage the country risk, including rating evaluation, risk limit verification, stress testing, monitoring and early warning, and emergency responses. In the first half of 2019, the Bank began to develop the statistics system for country risk exposures to monitor, analyse and report related exposures on a regular basis and continuously improve the level of country risk management.

Consolidated Management

Consolidated management is the comprehensive management and control over the Group's and its subsidiaries' corporate governance, capital and finance, in order to identify, measure, monitor and assess the overall risks of the Group as a whole.

The Bank continuously enhanced consolidated management and reinforced various aspects of the Group's consolidated management, including business collaboration, corporate governance, risk management and capital management. It stressed the major role of the Bank's subsidiaries' boards of directors in strategic decision-making, optimised the corporate governance mechanism of its subsidiaries and strengthened the capital management awareness of its subsidiaries. It established annual market risk policy limit and enhanced front-office management and control of comprehensive consolidated credit approval. It carried out self-assessment of the subsidiaries' comprehensive risk management on a quarterly and annual basis to effectively monitor their risk profile and risk management.

Improving corporate governance and consolidated management system. The Bank established a mechanism for consolidated management assessment so as to evaluate the competence of consolidated management at the Group level as well as the effectiveness of consolidated management in a downward manner at the subsidiary level. It established a mechanism for the preparation of a three-year rolling business plan to reinforce the strategic management of subsidiaries. It defined management rules over sub-subsidiaries that are significant to the Group to strengthen management of subsidiaries. Besides, it organised the subsidiaries to develop annual work plans for their board of directors, and made it clear that their board of directors should be accountable for major decisions.

Strengthening the Group's comprehensive risk management. The Bank established a multi-dimensional risk assessment index system to monitor and analyse the risk positions of its subsidiaries on a regular basis. It also formulated the Group's market risk policies limit scheme and industry-specific limit schemes, to further enhance limits monitoring and control across the Group. Furthermore, it improved the consolidated credit rules to strengthen the unified credit line management of the Group.

Accelerating IT system *building for consolidated management.* The Bank continued to improve the general ledger system of the Group, which was expanded to cover more accounting information of consolidated entities. In addition, it optimised the IT systems for internal transactions to improve the automated collection and summarisation of data regarding internal transactions of subsidiaries.

Internal Audit

The Bank maintains a relatively independent internal audit system subject to vertical management. The internal audit is designed to facilitate the construction of a robust risk management system, internal control system and corporate governance procedure, to assess the effectiveness of the internal control system, risk management system and corporate governance procedure, the profitability of operating activities, and the economic accountability of relevant personnel, and to provide relevant improvement proposals. The internal audit department reports to the board of directors and the audit committee, as well as to the board of supervisors and senior management.

In the first half of 2019, considering the current economic and financial situations and regulatory requirements, the Bank focused on risk prevention and mitigation in key areas, and conducted various systematic audit projects, including dynamic audit and inspection on credit business, audit and inspection on comprehensive financing risks of large and medium-sized credit customers, dynamic audit and inspection on cross-financial business audit on the operation and management of major businesses at ten overseas institutions, audit on capital management regulation, audit on financial advisory business, and audit on trade finance business. Meanwhile, the Bank performed in-depth analysis on the underlying causes of identified issues, so as to drive the improvement in management mechanisms, business processes and internal management, and to effectively promote the stable and healthy development of the Bank's operation and management.

Internal Control

According to the requirements regarding the standard system of enterprises internal control, the Board is responsible for establishing, improving and effectively implementing internal control, evaluating the effectiveness of internal control and supervising the effectiveness of the internal control system. The board of supervisors supervises the establishment and implementation of internal control of the Board. The senior management is responsible for organising and leading the daily operation of internal control.

The objectives of the internal control of the Bank are to reasonably ensure its operation and management in compliance with laws and regulations, assets safety, the accuracy and integrity of financial reports and relevant information, to improve operation efficiency and effects, and to facilitate the Bank to achieve its development strategies. Due to its inherent limitations, internal control only provides reasonable assurance regarding the achievement of above objectives. In addition, as the changes of situation may lead to improper internal control or lower compliance with the internal control policy and procedure, there exists certain risk in the estimation of the effectiveness of future internal control based on the evaluation results of internal control.

In 2018, the Bank further refined its relevant internal control system. First, the Bank revised the General Regulations on Internal Control, implemented the latest internal control regulatory rules, organically integrated the latest theories of internal control from home and abroad with the internal control management practice of the Bank, and focused on enhancing the refinement level of internal control management and effectiveness of internal control. Second, the Bank revised the Measures for Internal Control Assessment, through promoting regular assessment, the Bank detected and modified deficiencies, filled in the loopholes in the mechanisms, procedures and systems in a timely manner, and continuously improved the effectiveness of its internal control. Third, the Bank enhanced the internal control deficiency management, established a closed management loop consisting of problematic information collection, deficiency identification, modification, verifications, etc., refined the deficiency grading criteria, built deficiency quantitative management mechanism, and made the deficiency measurable, comparable, analysable and aggregable.

The Board and the audit committee assess the effectiveness of the internal control and examine the report of internal control annually. As at 30 June 2019, there was no material deficiency in the internal control of financial reporting of the Bank, and no material deficiency was detected in the internal control of non-financial report. The Board held that the Bank conducted effective internal control of financial reporting covering all the major aspects, in compliance with the requirements regarding the standard system of enterprise internal control and other relevant regulations.

PricewaterhouseCoopers Zhong Tian LLP audited the internal control of the Bank for the years ended 31 December 2016, 2017 and 2018, and the audit opinion of internal control issued by it was in line with the Bank's assessment of conclusion on the effectiveness of internal control of the financial report. The disclosure of material deficiencies of internal control of the non-financial report in the audit report of internal control also was in line with the disclosure of the assessment report of internal control of the Bank.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

General

As of the date of this Offering Circular, the Bank's board of directors is comprised of 13 members. There are four independent non-executive directors, six non-executive directors and three executive directors. The Bank's directors are elected at shareholder general meetings for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the board of directors are elected by simple majority of the board of directors. Mr. Tian Guoli is the Bank's chairman, and responsible for the business strategy and overall development. Mr. Lin Guiping is the Bank's president, and is responsible for overseeing the day-to-day management of the Bank's business and operations. The president is appointed by the board of directors, is responsible for the board of directors, and performs duties pursuant to the Bank's articles of association and the board of directors' authorisation.

Each of the Bank's directors, supervisors and senior management has disclosed to the Bank at the time of appointment, and in a timely manner for any change in, the number and nature of offices held in public companies or organisations and other significant commitments, the identity of the public companies or organisations and an indication of the time involved. As at 30 June 2019, Mr. Zhang Gengsheng held 19,304 H-shares, Mr. Wu Jianhang held 20,966 H-shares, Fang Qiuyue held 21,927 H-shares, Mr. Lu Kegui held 18,989 H-shares, Mr. Cheng Yuanguo held 15,863 H-shares, Mr. Wang Yi held 13,023 H-shares of the Bank respectively by participating in the employee stock incentive plan of the Bank before he was appointed to his current position. Save as disclosed above, as at 30 June 2019, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange.

The following tables set forth information regarding the Bank's directors, supervisors and senior management. The Bank's directors, supervisors and members of senior management all meet the qualification requirements for their respective positions. Their qualifications have been reviewed and approved by the PRC banking regulatory authorities. Non-executive directors holding positions in the corporate shareholders do not receive compensation directly from the Bank.

Directors

Name	Position
Tian Guoli	Chairman, executive director
Liu Guiping	Vice chairman, executive director, president
Zhang Gengsheng	Executive director, executive vice president
Feng Bing	Non-executive director
Zhu Hailin	Non-executive director
Wu Min	Non-executive director
Zhang Qi	Non-executive director
Tian Bo	Non-executive director
Xia Yang	Non-executive director
Anita Fung Yuen Mei	Independent non-executive director
Sir Malcolm Christopher McCarthy	Independent non-executive director
Carl Walter	Independent non-executive director
Kenneth Patrick Chung	Independent non-executive director

Notwithstanding the disclosures mentioned in "*Directors, Supervisors and Senior Management – General*" section, no potential conflicts of interest exist between the obligations of the directors named above towards the Bank and their own interests or other obligations. The business address of each of the directors named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Tian Guoli
Chairman, executive director

Mr. Tian has served as the chairman and executive director since October 2017, concurrently as chairman of Sino-German Bausparkasse since March 2018. Mr. Tian currently also serves as chairman of China Banking Association, a member of the Expert Committee for the 13th Five-Year Plan for Economic and Social Development of China, a member of the Monetary Policy Committee of the People's Bank of China and chairman of Asian Financial Cooperation Association and a member of International Advisory Panel of Monetary Authority of Singapore. Mr. Tian joined Bank of China in April 2013 and served as chairman of Bank of China from May 2013 to August 2017. During this period, he also served as chairman and non-executive director of Bank of China Hong Kong (Holdings) Limited. From December 2010 to April 2013, Mr. Tian served as vice chairman and general manager of China CITIC Group. During this period, he also served as chairman and non-executive director of China CITIC Bank. From April 1999 to December 2010, Mr. Tian served consecutively as vice president and president of China Cinda Asset Management Company, and chairman of China Cinda Asset Management Co., Ltd. From July 1983 to April 1999, Mr. Tian held various positions in CCB, including sub-branch general manager, branch deputy manager, department general manager of the CCB Head Office, and assistant president of CCB. Mr. Tian is a senior economist. He received a bachelor's degree in economics from Hubei Institute of Finance and Economics in 1983.

Liu Guiping
Vice chairman, executive director, president

Mr. Liu has served as vice chairman and executive director of the Bank since July 2019 and served as the president of the Bank since May 2019. Mr. Liu has served as Vice Mayor in Chongqing from June 2016 to March 2019; from May 2014 to June 2016, he served as the deputy general manager of China Investment Corporation; from January 2005 to May 2014, he successively served as the deputy general manager and the general manager of Fujian Branch, the general manager of Shanghai Branch, the head of the Retail Banking Department (Retail Product Department) of Agricultural Bank of China; from May 1994 to January 2005, he successively served as the deputy director of the Executive Office of the Guangdong Branch of Agricultural Bank of China, the deputy general manager of Zhaoqing Branch, Dongguan Branch and Shenzhen Branch of Agricultural Bank of China in Guangdong. Mr. Liu is a senior economist. He obtained a PhD degree from the Finance Department of Zhongnan University of Economics and Law in 2002.

Zhang Gengsheng
Executive director, executive vice president

Mr. Zhang has served as an executive director since August 2015 and executive vice president of the Bank since April 2013. He served concurrently as chairman of CCB Life from May 2013 to July 2018. Mr. Zhang served as a member of senior management of the Bank from December 2010 to April 2013. Mr. Zhang was general manager of the group clients department (banking business department) and deputy general manager of Beijing Branch of the Bank from October 2006 to December 2010, general manager of the banking business department at the head office and the group clients department (banking business department) of the Bank from March 2004 to October 2006, deputy general manager of the banking business department at the head office of the Bank from June 2000 to March 2004 (in charge of overall management from March 2003), general manager of the Three Gorges Branch of the Bank from September 1998 to June 2000, and deputy general manager of the Three Gorges Branch of the Bank from December 1996 to September 1998. Mr. Zhang is a senior economist. He obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1984 and an EMBA degree from Peking University in 2010.

Feng Bing
Non-executive director

Ms. Feng has served as a non-executive director since July 2017. Ms. Feng has served as the deputy director of the Payment Center of the National Treasury of the Ministry of Finance (deputy director-general level) from September 2015 to August 2017. From August 1988 to September 2015, Ms. Feng had served as deputy division-chief and division-chief of the Tax Department of the Ministry of Finance. Ms. Feng graduated from Renmin University of China with a bachelor's degree in finance in 1988, and obtained her master's degree in finance from Renmin University of China in 2001. Ms. Feng is currently an employee of Huijin, the Bank's substantial shareholder.

Zhu Hailin
Non-executive director

Mr. Zhu has served as a non-executive director since July 2017. Mr. Zhu has served as the deputy director of the National Accountant Assessment & Certification Centre of the Ministry of Finance (deputy director-general level) from July 2012 to August 2017. From August 1992 to June 2012, Mr. Zhu had served as deputy division-chief, division-chief of the Accounting Department of the Ministry of Finance. Mr. Zhu is an expert of a special grant by PRC government, a certified public accountant (a non-practicing member), an associate researcher, and is a part-time post-graduate tutor. Mr. Zhu graduated from Jiangxi Finance and Economics College with a master's degree in accounting in 1992. He graduated from the accounting major of the Research Institute for Fiscal Science of Ministry of Finance with a Ph.D. degree in management in 2000 specialised in accounting. Mr. Zhu is currently an employee of Huijin, the Bank's substantial shareholder.

Wu Min
Non-executive director

Mr. Wu has served as a non-executive director since July 2017. Mr. Wu served as the vice president of Chongqing Daily Press Group from December 2011 to August 2017, the president of the Contemporary Financial Research Journal from March 2017 to August 2017 and the chairman of Chongqing CQDaily Printing Co., Ltd from July 2015 to February 2017. Mr. Wu served as the chairman of Chongqing Press New Fashion Media Co., Ltd from March 2015 to December 2016. From October 2006 to November 2011, Mr. Wu was the deputy head of Qianjiang District of Chongqing City (deputy director-general level) and a director of Administration Committee of Zhengyang Industrial Park of Chongqing City. From July 1991 to September 2006, Mr. Wu served successively as cadre, deputy division-chief, division-chief and general manager of the Compliance Department of the Anhui Branch of Bank of China Limited. From 2008 to 2011, Mr. Wu was a government lawyer of Chongqing City. From 1999 to 2002, Mr. Wu was a lawyer of Anhui Quanzhen Law Office. Mr. Wu is a researcher, a senior economist, a Doctor of Law and a doctoral tutor. Mr. Wu graduated from Anhui University with a bachelor's degree and a master's degree in law in 1991 and 2002 respectively. Mr. Wu also obtained his Ph.D. degree in civil and commercial law from Southwest University of Political Science & Law in 2006 and conducted sociology study at sociology post-doctoral mobile station of Chinese Academy of Social Science from 2009 to 2012. Mr. Wu is currently an employee of Huijin, the Bank's substantial shareholder.

Zhang Qi
Non-executive director

Mr. Zhang has served as a non-executive director since July 2017. Mr. Zhang has served as a non-executive director of Bank of China Limited from July 2011 to June 2017. Mr. Zhang served successively in the Central Expenditure Division One and Comprehensive Division of the Budget Department and Ministers' Office of the General Administration Department of the Ministry of Finance as well as the Operation Department of China Investment Corporation, serving as deputy division-chief, division-chief and senior manager from 2001 to 2011. Mr. Zhang studied in the Investment Department and Finance Department of Dongbei University of Finance & Economics from 1991 to 2001 and obtained his bachelor's degree, master's degree and Ph.D. degree in economics in 1995, 1998 and 2001 respectively. Mr. Zhang is currently a doctoral supervisor at China Northeast University of Finance and Economics. Mr. Zhang is currently an employee of Huijin, the Bank's substantial shareholder.

Tian Bo
Non-executive director

Mr. Tian has served as a non-executive director since August 2019. Mr. Tian has been Deputy General Manager of Global Transaction Banking Department of Bank of China since January 2019. From March 2006 to January 2019, Mr. Tian was Division Head of Banking Business Department, Division Head and Assistant General Manager of Corporate Banking Department and Deputy General Manager of Global Trade Services Department of Bank of China. Concurrently, Mr. Tian also served as Member of the Standing Committee of the CPC Municipal Party Committee and Vice Mayor of Fangchenggang City of Guangxi Zhuang Autonomous Region from February 2016 to February 2018. From October 2003 to March 2006. Mr. Tian was Senior Accountant of Accounting and Settlement Department of China Minsheng Bank. From July 1994 to October 2003, Mr. Tian consecutively served as cadre, Deputy Section Chief and

Section Chief of Accounting Section of Beijing Branch, Deputy Head of Daxing Sub-branch, Deputy General Manager of Accounting and Settlement Department and concurrently Deputy Director of State Treasury Business Department of Industrial and Commercial Bank of China. Mr. Tian obtained a bachelor's degree in Economics from the Major of Finance of Beijing College of Finance and Trade in July 1994 and a master's degree in Management from the Major of Accounting from Capital University of Economics and Business in November 2004.

Xia Yang
Non-executive director

Mr. Xia has served as a non-executive director since August 2019. Mr. Xia has served as general manager of the asset custody services department of Hua Xia Bank since January 2018. Since August 1997, Mr. Xia has been working in Hua Xia Bank, consecutively serving various positions including president of Jinan Branch, president of Hefei Branch, chief disciplinary officer and vice president of Hangzhou Branch, chief disciplinary officer and vice president of Wenzhou Branch, cadre, section-chief, deputy division-chief, sub-branch vice president and sub-branch president of Hangzhou Branch. From February 1997 to August 1997, Mr. Xia served as cadre of Hangzhou Branch of China Merchants Bank. From December 1988 to February 1997, Mr. Xia consecutively served as cadre of Zhejiang Branch and Hangzhou Branch of Industrial and Commercial Bank of China. Mr. Xia Yang is a senior economist and a senior accountant. Mr. Xia received a bachelor's degree in science from biology department of Nanjing University in 1988, specialized in human and animal physiology; he graduated from Nanjing University with a doctoral degree in management sciences and engineering in 2018.

Anita Fung Yuen Mei
Independent non-executive director

Ms. Fung has served as a director since October 2016. Ms. Fung served as the group general manager of HSBC Holdings plc from May 2008 to February 2015. Ms. Fung served consecutively as the head of Hong Kong currency bond market, head of Asian fixed income trading, head of Asian Pacific trading, treasurer and joint head of global capital markets for Asia-Pacific, treasurer and head of global capital markets for Asia-Pacific, head of global banking and capital markets for Asia-Pacific as well as the chief executive officer of the Hong Kong region of The Hongkong and Shanghai Banking Corporation Limited from September 1996 to February 2015. Ms. Fung also served as a non-executive director of Bank of Communications Co., Ltd. from November 2010 to January 2015. Ms. Fung concurrently served in various positions including chairwoman and director of HSBC Global Asset Management (Hong Kong) Limited, non-executive director of HSBC Bank (China) Company Limited and director of HSBC Markets (Asia) Limited from September 2011 to February 2015. Ms. Fung served as a non-executive director of Hang Seng Bank Limited from November 2011 to January 2014. Ms. Fung currently serves as an independent non-executive director of Hong Kong Exchanges and Clearing Limited as well as Hang Lung Properties Limited, and serves in several positions in institutions including the Airport Authority Hong Kong, The West Kowloon Cultural District Authority and the Court of the Hong Kong University of Science and Technology. Ms. Fung obtained a master's degree in applied financing from Macquarie University of Australia in 1995. Ms. Fung was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region, and was awarded Bronze Bauhinia Star.

Sir Malcolm Christopher McCarthy
Independent non-executive director

Sir McCarthy has served as a director of the Bank since August 2017. Sir McCarthy served as independent non-executive director of Industrial and Commercial Bank of China Limited from December 2009 to October 2016. Sir McCarthy worked first as an economist for ICI before joining the UK Department of Trade and Industry where he held various posts from economic adviser to undersecretary. Sir McCarthy subsequently worked as a senior executive of Barclays Bank in London, Japan and then North America. Sir McCarthy served as chairman and chief executive of the Office of Gas and Electricity Markets (ofgem), chairman of the Financial Services Authority, non-executive director of Her Majesty's Treasury, Chairman of the board of directors of J.C. Flowers & Co. UK Ltd, a non-executive director of NIBC Holding N.V., NIBC Bank N.V., OneSavings Bank plc, Castle Trust Capital plc and Intercontinental Exchange ("**ICE**"), and Trustee of the Said Business School of Oxford University. Currently Sir McCarthy serves as a director of the three ICE wholly owned subsidiaries of ICE Futures Europe, ICE Trade Vault and ICE Clear Netherlands, a Trustee of the IFRS Foundation, and the Chairman in the United Kingdom of Promontory Financial Group. Sir McCarthy is an Honorary Fellow of Merton College, an Honorary Doctorate of the University of Stirling and the Cass Business School, and a Freeman of the City of London. Sir McCarthy has a Master of Arts in History at Merton College of Oxford University, PhD in Economics of Stirling University, and Master at the Graduate School of Business of Stanford University.

Carl Walter
Independent non-executive director

Mr. Carl Walter has served as a director since October 2016. Mr. Carl Walter is currently an independent consultant, providing strategic consulting advice to various countries and financial institutions. Mr. Carl Walter served as the managing director and the chief operating officer in China of JPMorgan Chase & Co and chief executive officer of JP Morgan Chase Bank (China) Company Limited from September 2001 to April 2011. He was seconded from Morgan Stanley to serve as the managing director and chief administrative officer of China International Capital Corporation (Beijing) from January 1999 to July 2001. He served concurrently as a vice president and the head of Asian Credit Management and Research (Singapore) of Credit Suisse First Boston as well as the director and head of China Investment Bank Corporation (Beijing) from September 1990 to December 1998. Mr. Carl Walter served consecutively in various positions including as vice president and general manager of Taipei Branch of Chemical Bank from January 1981 to August 1990. Mr. Carl Walter was a visiting scholar and an adjunct professor of Freeman Spogli Institute of Stanford University in 2012. He obtained a bachelor degree in politics and Russian language from Princeton University in 1970, an advanced studies certificate in economics from Peking University in 1980, and a doctoral degree in politics from Stanford University in 1981.

Kenneth Patrick Chung
Independent non-executive director

Mr. Kenneth Patrick Chung has served as a director since November 2018. He served as independent non-executive director of Industrial and Commercial Bank of China Limited from December 2009 to March 2017. He joined Deloitte Haskins and Sells London Office in 1980, became a partner of PricewaterhouseCoopers in 1992, and was a financial service specialist of PricewaterhouseCoopers (Hong Kong and China) since 1996. Previously, he was the human resources partner of PricewaterhouseCoopers (Hong Kong), the responsible partner of the audit department of PricewaterhouseCoopers (Hong Kong and China), the global lead partner of the audit engagement team for Bank of China Limited, the honorary treasurer of the Community Chest of Hong Kong and was a member of the Ethics Committee, Limitation of Professional Liability Committee, Communications Committee, and the Investigation Panel of the Hong Kong Society of Accountants. Mr. Chung has also served as the audit head for the restructurings and initial public offerings of Bank of China Limited, Bank of China (Hong Kong) Limited and Bank of Communications and chairman of the audit committee of the Harvest Real Estate Investments (Cayman) Limited. Currently, Mr. Chung serves as independent director of Prudential Corporation Asia and independent non-executive director of Sands China Ltd., and is a trustee of Fu Tak Iam Foundation Limited. He is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Macau Society of Certified Practising Accountants Mr. Chung received a bachelor's degree in economics from the University of Durham.

Supervisors

Name	Position
Wu Jianhang	Shareholder representative supervisor
Fang Qiuyue	Shareholder representative supervisor
Lu Kegui	Employee representative supervisor
Cheng Yuanguo	Employee representative supervisor
Wang Yi	Employee representative supervisor
Zhao Xijun	External supervisor

Notwithstanding the disclosures mentioned in "*Directors, Supervisors and Senior Management – General*" section, no potential conflicts of interest exist between the obligations of the supervisors named above towards the Bank and their own interests or other obligations. The business address of each of the supervisors named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Wu Jianhang
Shareholder representative supervisor

Mr. Wu has served as a supervisor since June 2018. Mr. Wu has served as dean of training centre for staff's development of China Construction Bank University since December 2018, concurrently as vice dean of China Construction Bank Research Academy since August 2018. Mr. Wu served as general manager of strategic planning department of the Bank from March 2014 to January 2019. Mr. Wu served as general manager of research department of the Bank from October 2013 to March 2014. From December 2007 to October 2013, Mr. Wu served as president of CCB Financial Leasing. Mr. Wu served as general manager of Guangdong Branch of the Bank from October 2004 to December 2007, general manager of Shenzhen Branch of the Bank from July 2003 to October 2004, and deputy general manager of Zhejiang Branch of the Bank from May 1997 to July 2003. Mr. Wu is a senior accountant and is a recipient of a special grant by the PRC government. He graduated from Nankai University with a master's degree in international finance in 1991 and obtained a PhD degree in technology economics and management from Tongji University in 2003.

Fang Qiuyue
Shareholder representative supervisor

Mr. Fang has served as a supervisor since June 2018. Mr. Fang has served as general manager of finance & accounting department of the Bank since January 2015, concurrently as non-executive director of the CCB Brasil since April 2017. Mr. Fang served as head of finance & accounting department of the Bank from August 2014 to January 2015, deputy general manager of Beijing Branch of the Bank (general manager level) from August 2011 to August 2014, deputy general manager of Beijing Branch of the Bank from August 2000 to August 2011, and deputy general manager of accounting department of the Bank from January 1998 to August 2000. From December 1997 to January 1998, Mr. Fang served as deputy general manager of Beijing Branch of the Bank. Mr. Fang is a senior accountant and is a recipient of a special grant by the PRC government. He obtained an EMBA degree from Tsinghua University in 2010.

Lu Kegui
Employee representative supervisor

Mr. Lu has served as a supervisor since May 2018. Mr. Lu has served as the general manager of the asset preservation and operation centre of the Bank from April 2017. From September 2013 to April 2017, Mr. Lu served as the director of the Tianjin audit department of the Bank. From April 2011 to September 2013, Mr. Lu served as president of Heilongjiang Branch of the Bank. From February 2011 to April 2011, Mr. Lu served as the head of Heilongjiang Branch of the Bank. From July 2008 to February 2011, Mr. Lu served as general manager of the fund settlement department of the Bank. From August 2000 to July 2008, Mr. Lu served as general manager of the accounting department of the Bank. From January 1998 to August 2000, Mr. Lu served as deputy general manager of the planning and finance department of the Bank and of the finance and accounting department of the Bank from September 1995 to January 1998. From July 1988 to September 1995, Mr. Lu successively served as deputy division-chief and division-chief of the finance and accounting department as well as other positions of the Bank. Mr. Lu is a senior accountant and is a recipient of a special grant awarded by the PRC Government. Mr. Lu graduated from Hubei Institute of Finance and Economics and obtained his bachelor's degree in infrastructure finance and credit in 1982.

Cheng Yuanguo
Employee representative supervisor

Mr. Cheng has served as a supervisor since May 2018, the general manager of corporate business department of the Bank since February 2017, and chairman of CCB Trust since August 2017. From August 2014 to February 2017, Mr. Cheng served as the president of Heibei Branch of the Bank; from March 2011 to July 2014, Mr. Cheng served as the general manager of the group clients department (banking business department) of the Bank and concurrently served as director of CCB International (Holdings) Limited from September 2010 to October 2015. From May 2005 to March 2011, Mr. Cheng served as the deputy general manager of the group clients department (banking business department) of the Bank; from September 2001 to May 2005, Mr. Cheng served as the deputy general manager of the banking business department of the Bank. Between February 1995 to September 2001, Mr. Cheng successively served as deputy manager of the banking business and finance and accounting department of the Bank; deputy manager of the treasury department of the Bank; manager of the finance and accounting department of the Bank, manager of the planning and finance department as well as other positions of the Bank. Mr. Cheng is a senior accountant and obtained his bachelor's degree in infrastructure finance and credit from China Northeast University of Finance and Economics in 1986.

Wang Yi
Employee representative supervisor

Mr. Wang has served as a supervisor since May 2018. Mr. Wang has served as the general manager of the housing finance and personal credit department of the Bank since November 2013. From November 2009 to November 2013, Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank (equivalent to the department general manager of the head office of the Bank); from December 2008 to November 2009, Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank; from June 2005 to December 2008, Mr. Wang served as the deputy general manager of the personal finance department of the Bank. From July 2001 to June 2005, Mr. Wang served as the assistant general manager of the personal banking department of the Bank. From January 1992 to July 2001, Mr. Wang worked in the Qingdao Branch of the Bank, serving successively as deputy division-chief of the computer management division, deputy division-chief of the retail business division and division-chief of the electronic banking department as well as other positions. Mr. Wang is a senior engineer, and graduated from Shandong University with a bachelor's degree in computer mathematics in 1984. Mr. Wang also obtained a master's degree of business administration for senior management in 2010.

Zhao Xijun
External supervisor

Mr. Zhao has served as an external supervisor of the Bank since July 2019. He has been Deputy Dean of the School of Finance of Renmin University of China since 2005. Mr. Zhao was Director of International Office of Renmin University of China from 2001 to 2005, Department Head of the Finance Department of the School of Finance of Renmin University of China from 1995 to 2001 and a researcher fellow of the International Department of China Securities Regulatory Commission from 1994 to 1995. Mr. Zhao serves as an independent director of each of China National Foreign Trade Financial & Leasing Co., Ltd. and FAW Capital Holdings Co., Ltd. Mr. Zhao served as an independent non-executive director of China Construction Bank Corporation from August 2010 to March 2014. Mr. Zhao was a visiting scholar in each of University of Sherbrooke and McGill University, Canada from 1989 to 1990 and Nijenrode University, Netherlands from 1995 to 1996. Mr. Zhao graduated from Wuhan University with a bachelor's degree in Scientific French in 1985, a master's degree in finance from the Finance Department of Renmin University of China in 1987 and a PhD in finance from the School of Finance of Renmin University of China in 1999.

Senior Management

Name	Position
Liu Guiping	President
Zhang Gengsheng	Executive vice president
Huang Yi	Executive vice president
Liao Lin	Executive vice president
Ji Zhihong	Executive vice president
Xu Yiming	Chief financial officer
Jin Yanmin	Chief risk officer
Hu Changmiao	Secretary to the board

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Liu Guiping
Vice chairman, executive director, president

See "***Directors***".

Zhang Gengsheng
Executive director, executive vice president

See "***Directors***".

Huang Yi
Executive vice president

Mr. Huang has served as an executive vice president of the Bank since April 2014. Mr. Huang served as a member of senior management of the Bank from December 2013 to April 2014. Mr. Huang served as a director of the legal department of the CBRC from January 2010 to December 2013, and deputy director and director (head of the Research Bureau) of the Supervisory Rules & Regulations Department of the CBRC from July 2003 to January 2010. From April 1999 to July 2003, Mr. Huang served consecutively as a director level cadre and director of the Financial Claim Management Office, an assistant inspector of Legal Affairs Department (also working as deputy director of Department of Finance of Sichuan Province during this period) and an assistant inspector of Banking Management Department of the PBOC. He was the general manager of the Development and Research Department of Hua Xia Bank from August 1997 to April 1999. Mr. Huang is a recipient of a special grant by PRC government. He graduated from Peking University in 1997 and obtained his Ph.D. degree in law.

Liao Lin
Executive vice president

Mr. Liao has served as an executive vice president of the Bank since September 2018. Mr. Liao has served as chief risk officer of the Bank since March 2017. Mr. Liao served as general manager of Beijing Branch of the Bank from May 2015 to February 2017. From September 2013 to May 2015, he was head and general manager of Hubei Branch of the Bank. From March 2011 to September 2013, he was head and general manager of Ningxia Branch of the Bank. He was deputy general manager of Guangxi Zhuang Autonomous Region Branch of the Bank from November 2003 to March 2011 and served as general manager of Chaoyang Sub-branch of Guangxi Zhuang Autonomous Region Branch of the Bank from December 1998 to November 2003. Mr. Liao is a senior economist. He obtained a PhD degree in management science and engineering from Southwest Jiaotong University in 2009.

Ji Zhihong
Executive vice president

Mr. Ji has served as an executive vice president of the Bank since August 2019. Mr. Ji was Director-general of the Financial Market Department of the PBOC from August 2013 to May 2019, during which Mr. Ji was concurrently Director of the Financial Market Management Department of the PBOC Shanghai Head Office from August 2013 to May 2016. From September 2012 to August 2013, Mr. Ji was Director-general of the Research Bureau of the PBOC. From April 2010 to September 2012, Mr. Ji was Deputy Director-general of the Monetary Policy Department of the PBOC. From February 2008 to April 2010, Mr. Ji was Deputy Director (Deputy Director-general Level) of the Open Market Operations Department of the PBOC Shanghai Head Office. Mr. Ji Zhihong is a Researcher. He graduated from the PBOC School of Finance, Tsinghua University (formerly known as the Graduate School of the PBOC Head Office) with a master's degree in International Finance in 1995 and obtained a PhD degree in Economics from the Major of National Economics of Chinese Academy of Social Science in 2005.

Xu Yiming
Chief financial officer

Mr. Xu has served as the chief financial officer of the Bank since June 2014. Mr. Xu served as the general manager of the asset and liability management department of the Bank from August 2005 to July 2014, deputy general manager of the asset and liability management department of the Bank from March 2003 to August 2005, and deputy general manager of the office of Asset and Liability Management Committee of the Bank from March 2001 to March 2003. Mr. Xu is a senior accountant. He graduated from the Research Institute for Fiscal Science of the MOF with a Ph.D. degree in finance in 1994.

Jin Yanmin
Chief risk officer

Mr. Jin has served as the chief risk officer of the Bank since May 2019. He was served as general manager of Credit Approval Department of the Bank since November 2014. From February 2011 to November 2014, Mr. Jin Yanmin served as head and general manager of Guangdong Branch of the Bank; from March 2009 to February 2011, Mr. Jin Yanmin served as general manager of the Corporate Banking Department and concurrently as general manager of the Small Enterprises Finance Service Department of the Bank; from August 2007 to March 2009, he served as general manager of the Corporate Banking Department of the Bank; from June 2006 to August 2007, he served as risk control director of Guangdong Branch of the Bank; from March 2001 to June 2006, he served as deputy general manager of Corporate Banking Department of the Bank. Mr. Jin is an economist and obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1983 and obtained his EMBA degree from Tsinghua University in 2010.

Hu Changmiao
Secretary to the board

Mr. Hu has served as the secretary to the board since May 2019. Mr. Hu Changmiao has served as general manager of the Board Office of the Bank since December 2018. He served as the chairman of CCB Financial Leasing Corporation Ltd. from August 2016 to December 2018, general manager of Guangxi Branch of the Bank from February 2012 to August 2016, general manager of Public Relations & Corporate Culture Department of the Bank from March 2006 to February 2012, and deputy general manager in charge of the overall management of the Board Office of the Bank from June 2005 to March 2006. He served as deputy general manager of the Executive Office of the Bank from December 2004 to June 2005, deputy general manager of Credit Card Centre of the Bank from March 2003 to December 2004, and deputy general manager of Retail Banking Department of the Bank from July 2001 to March 2003. Mr. Hu is a senior economist. He graduated from the economic geography major of Peking University with a master's degree in science in 1986.

Company Secretary and Qualified Accountant

Ma Chan-Chi
Company secretary

Mr. Ma is a Hong Kong resident and was appointed as the company secretary of the Bank on 29 August 2014. He obtained his Master Degree in Business Administration from the University of Strathclyde in 1995 and the qualifications of the Hong Kong Institute of Certified Public Accountants. He joined CCB Asia in 2010 and currently serves as its Deputy Chief Executive & Chief Financial Officer. He has more than 30 years of corporate financial and legal affairs experience. Prior to joining CCB Asia, he was the Chief Financial Officer & Secretary to the Board of Hang Seng Bank (China) Limited and the Chief Financial Officer of Nanyang Commercial Bank (China) Limited.

Yuen Yiu Leung
Qualified accountant

Mr. Yuen has served as a qualified accountant of the Bank since August 2005. Mr. Yuen has been the head of finance division of China Construction Bank (Asia) Corporation Limited since July 2013. He was the head of finance division of Hong Kong Branch of the Bank from September 2004 to June 2013, and served concurrently as the head of finance division of CCB International from January 2006 to May 2011. Prior to that, Mr. Yuen held the same position in Hong Kong Branch of the Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and received a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998.

Board Committees

The board of directors delegates certain responsibilities to various committees. The board of directors has established a strategic development committee, audit committee, risk management committee, nomination and compensation committee, and social responsibilities and related party transactions committee. These committees are constituted by certain directors and report to the board of directors. Each committee meets at least four times a year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the Bank had a total of 352,083 ordinary shareholders, of which 42,834 were holders of H-shares and 309,249 were holders of A-shares.

Huijin

Huijin is the controlling shareholder of the Bank. Huijin is a wholly state-owned investment company established in accordance with the "Company Law of the PRC" on 16 December 2003 with the approval of the State Council. Its Chairman is Mr. Peng Chun. Huijin makes equity investments in key state-owned financial institutions as authorised by the State Council, and exercises the contributor's rights and obligations in the Bank up to its contribution on behalf of the state to achieve preservation and appreciation of state-owned financial assets.

Huijin does not engage in any other commercial activities, nor does it interfere with the daily operations of the key state-owned financial institutions in which it holds controlling shares. Systems and controls are in place to manage any conflict of interest that might arise between the interests of Huijin and the interests of the Bank and to ensure that its control is not abused.

As at 30 June 2019, Huijin held approximately 57.11 per cent. of the shares of the Bank, and indirectly held 0.20 per cent. of the shares of the Bank through its subsidiary, Central Huijin Asset Management Co., Ltd.

As at 30 June 2019, there were no other corporate shareholders holding 10 per cent. or more of the shares of the Bank (excluding HKSCC Nominees Limited, which acts as the common nominee for the shares held through the Central Clearing and Settlement System). All transactions and relationships between the Bank and its substantial shareholders are conducted on an arm's length basis and on normal contractual terms. The Bank can operate its business independently of its substantial shareholders.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or 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, the Hong Kong Branch and the Bank believes to be reliable, but none of the Issuer, the Hong Kong Branch, the Bank or any Dealer 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. None the Issuer, the Hong Kong Branch, the Bank or any other party to the Fiscal 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.

Book-entry Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU

The CMU Service 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 capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service. The CMU Service 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 services is open to all members of the Hong Kong Capital Markets Association, authorised institutions under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA. Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU Service.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear, Clearstream and the CMU Service will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. Euroclear, Clearstream and the CMU Service have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear, Clearstream and the CMU Service. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Hong Kong Branch, the Bank, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Euroclear, Clearstream or the CMU Service or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with CBIRC and PBOC acting as the principal regulatory authorities. CBIRC is primarily responsible for supervising and regulating banking and insurance institutions, and PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC's banking industry consist principally of the PRC PBOC Law, the PRC Commercial Banking Law, the Law of PRC on Supervision and Administration of Banking Sector, and the rules and regulations promulgated thereunder.

Principal Regulators

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, CBRC was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions. In April 2018, CBRC and China Insurance Regulatory Commission were merged as China Banking and Insurance Regulatory Commission, covering the regulation of banking and insurance sectors in the PRC. In this Offering Circular, we still use the term of "**CBRC**" in the context of regulations, rules and actions issued or taken by CBRC before April 2018.

CBIRC

Functions and Powers

CBIRC is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law of PRC on Supervision and Administration of Banking Sector, the main responsibilities of CBIRC in relation to banking regulation include:

(1) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(2) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(3) regulating the business activities of banking institutions, including the products and services they offer;

(4) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(5) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(6) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(7) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(8) imposing corrective and punitive measures for violations of applicable banking regulations;

(9) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(10) working with authorities (including the PBOC and the MOF);

(11) to establish emergency disposal mechanisms and to deal with any emergencies in the banking sector;

(12) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(13) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Examination and Supervision

CBIRC, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of 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 a regulation, CBIRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBOC Law, PBOC is empowered to do the following:

(1) drafting and enforcing relevant laws, rules and regulations that are related to fulfilling its functions;

(2) formulating and implementing monetary policy in accordance with law;

(3) issuing the Renminbi and administering its circulation;

(4) regulating the inter-bank lending market and the inter-bank bond market;

(5) implementing foreign exchange management, supervising inter-bank foreign exchange market;

(6) supervising and regulating gold market;

(7) holding and managing the state foreign exchange and gold reserves;

(8) managing the State treasury as fiscal agent;

(9) making payment and settlement rules in collaboration with relevant departments and ensuring normal operation of the payment and settlement systems;

(10) providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(11) developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast; and

(12) participating in international financial activities at the capacity of the central bank.

Other Regulatory Authorities

In addition to CBIRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE and CSRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; and in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of CSRC.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

In March 2004, CBRC implemented capital adequacy guidelines applicable to all commercial banks in the PRC. The guidelines, Measures for the Management of Capital Adequacy Ratios of Commercial Bank (the "**Capital Adequacy Measures**"), provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, CBRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007.

In June 2012, the CBRC issued the Administrative Measures on the Capital of Commercial Banks (Trial) (the "**2012 Administrative Measures**") regulating capital adequacy ratios ("**CAR**") of PRC commercial banks. The 2012 Administrative Measures, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of "capital" and "risk-weighted assets". The overall CAR requirements are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the 2012 Administrative Measures as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital – deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital – deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 Capital – deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

In 29 November 2012, the CBRC further released the Guiding Opinion on Commercial Banks' Innovation on Capital Instruments (the "**2012 Guiding Opinions**"), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of 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 the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

PRC

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**" or "**non-resident Noteholders**" in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors 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.

Pursuant to the Enterprise Income Tax Law effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and the PRC Individual Income Tax Law, as amended on 30 June 2011 and 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-resident Noteholders, including non-resident enterprises and non-resident individuals.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation ("**SAT**") issued the Circular of Full Implementation of Business Tax to VAT Reform (《關於全面推開營業稅改徵增值稅試點的通知》) (Caishui [2016] No. 36, "**Circular 36**") which confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China, but where the services are sold by offshore entities or individuals to onshore entities or individuals and such services purely take place outside the PRC, they should not be deemed as services sold within the territory of China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the Issuer.

(I) In the event that the Issuer is the Bank's head office (the "CCB Head Office")

In the event that the Issuer is CCB Head Office, CCB Head Office will be subject to withholding PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to such arrangement. Further, given that the CCB Head Office is located in the PRC, the holders of the Notes would be regarded as providing the financial services within China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. Given that the Issuer pays interest income to Noteholders who are located outside of the PRC, the Issuer, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC. 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*".

Under the Enterprise Income Tax Law and its implementation rules, any gains realised on the transfer of the Notes by holders who are deemed as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Notes would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between the mainland China and Hong Kong for avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

(II) In the event that the Issuer is the Hong Kong Branch or other overseas branch of the Bank

In the event that the Issuer is the Hong Kong Branch or other offshore branch of the Bank, the Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer will 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*".

In the case of issuance of Notes by the Hong Kong Branch or other offshore branch of the Bank, Circular 36 does not apply if the provision of loans by individuals or entities located outside the PRC takes place outside the PRC. Neither the Hong Kong Branch or other offshore branch of the Bank nor the holders of the Notes are located in the PRC and if the provision of loans takes place outside the PRC, then no VAT is payable on interest payments under the Notes. This is, however, subject to the interpretation of Circular 36 by the relevant authority.

If CCB Head Office shall perform the obligation of paying interest of the Notes in the event and only when the Issuer fails to perform its obligations of paying the interest of the Notes, CCB Head Office will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax and local levies at the rate of 6.72 per cent. of the interest component of the amount payable by CCB Head Office to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in China, accordingly such capital gains would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable. According to an arrangement between the mainland China and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes. There is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Circular 36 has been issued quite recently, the above statements on VAT may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law and the VAT reform detailed above, the Issuer shall withhold EIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC Noteholder and the Issuer shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that the Issuer is required to make such a deduction or withholding (whether by way of EIT or VAT otherwise), the Issuer has agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "*Terms and Conditions of the Notes – Condition 8 (Taxation)*".

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; or

(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; or

(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).

Where the Hong Kong Branch is the Issuer, 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 authorized 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 the Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of the Notes by the Issuer 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 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 Issuer, provided that either:

(i) 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

(ii) 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 Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer 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).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 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 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.

United States FATCA Tax Provisions

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, 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. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the People's Republic of China) 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. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs 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 Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as 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 filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*Terms and*

Conditions of the Notes – Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

PRC CURRENCY CONTROLS

Remittance of Renminbi into and outside the PRC

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 items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods 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. In June 2010, 27 July 2011 and February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades, the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods, Circulars with regard to the expansion of designated cities and offshore jurisdictions implementing the pilot Renminbi settlement scheme for cross-border trades. Pursuant to these circulars (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts was expanded to cover 20 provinces and cities, (iii) the restriction on designated offshore districts has been uplifted, and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the "**Six Authorities**") a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the "**Supervision List**"). On 12 June 2012, the PBOC issued a notice stating that the Six Authorities had jointly verified and announced a Supervision List and as a result any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports.

The circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the circulars and impose conditions for settlement of current account items. 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 use of Renminbi for payment of transactions categorised as current account items, then such settlement will need to be made subject to the specific requirements or restrictions set out in such rules.

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.

Settlements for 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 item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or a 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 a registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 7 April 2011, SAFE promulgated the SAFE Circular, which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of the relevant MOFCOM to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the foreign guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign guarantee regime.

On 12 October 2011, MOFCOM promulgated the Notice on Issues concerning Cross-border Direct Investment in RMB (the "**2011 MOFCOM Notice**"). In accordance with the 2011 MOFCOM Notice, MOFCOM and its local counterparts are authorised to approve RMB FDI in accordance with existing PRC laws and regulations regarding foreign investment, with the following exceptions which require the preliminary approval by the provincial counterpart of MOFCOM and the consent of MOFCOM: (i) RMB FDI with the capital contribution in Renminbi of RMB300 million or more; (ii) RMB FDI in financing guarantee, financing lease, micro financing or auction industries; (iii) RMB FDI in foreign invested investment companies, venture capital or equity investment enterprises; or (iv) RMB FDI in cement, iron & steel, electrolytic aluminium, shipbuilding or other policy sensitive sectors. In addition, RMB FDI in real estate sector is allowed following the existing rules and regulations of foreign investment in real estate, although Renminbi foreign debt remains unavailable to foreign invested real estate enterprises. The proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placements or share transfers by agreement under the PRC strategic investment regime.

On 13 October 2011, the PBOC promulgated the PBOC FDI Measures as amended in May 2015, pursuant to which, PBOC special approval for RMB FDI and shareholder loans which was required by an earlier circular of PBOC is no longer necessary. The PBOC RMB FDI Measures provide that, among others, foreign invested enterprises are required to conduct registrations with the local branch of PBOC within ten working days after obtaining the business licenses for the purpose of Renminbi settlement, and a foreign investor is allowed to open Renminbi special accounts for designated usage in relation to making equity investment in a PRC enterprise or receiving Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries. The PBOC RMB FDI Measures also state that the foreign debt quota of a foreign invested enterprise constitutes its Renminbi debt and foreign currency debt from its offshore shareholders, offshore affiliates and offshore financial institutions, and a foreign invested enterprise may open a Renminbi account to receive its Renminbi proceeds borrowed offshore by submitting the Renminbi loan contract to the commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the commercial bank.

On 19 November 2012, SAFE promulgated the SAFE Circular on DI, which became effective on 17 December 2012 and was later amended on 4 May 2015. According to the SAFE Circular on DI, SAFE removes or adjusts certain administrative licensing items with regard to foreign exchange administration over direct investments to promote investment, including, but not limited to, the abrogation of SAFE approval for opening of and payment into foreign exchange accounts under direct investment accounts, the abrogation of SAFE approval for reinvestment with legal income generated within the PRC of foreign investors, the simplification of the administration of foreign exchange reinvestments by foreign investment companies, and the abrogation of SAFE approval for purchase and external payment of foreign exchange under direct investment accounts.

On 3 December 2013, the MOFCOM promulgated the MOFCOM Circular, which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the 2011 MOFCOM Notice. Pursuant to the MOFCOM Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Compared with the 2011 MOFCOM Notice, the MOFCOM Circular no longer contains the requirements for central level MOFCOM approvals for investments of RMB300 million or above, or in certain industries, such as financial guarantee, financial leasing, microcredit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries under the state macroregulation. Unlike the 2011 MOFCOM

Notice, the MOFCOM Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

These circulars will be subject to interpretation and application by the relevant PRC authorities. There is no assurance that approval of such remittances, borrowing or provision of external guarantee in Renminbi will continue to be granted or will not be revoked in the future. Further, since the remittance of Renminbi by way of investment or loans are now categorised as capital account items, such remittances will need to be made subject to the specific requirements or restrictions set out in the relevant SAFE rules. 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.

SUBSCRIPTION AND SALE

Dealer Agreement

Subject to the terms and on the conditions contained in the dealer agreement dated 14 October 2019 (such Dealer Agreement as modified and/or supplemented and/or restated from time to time, the "**Dealer Agreement**") made between the Bank, the Hong Kong Branch, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. 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 Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer will reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant subscription agreement.

The Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the 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 Issuer.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) 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 price of the Notes of the Series at a level higher than that which might otherwise prevail for a limited period after the Issue Date of the relevant Tranche of Notes, but in so doing, the Stabilising Manager(s) or any person acting on behalf of the Stabilising Manager(s) shall act as principal and not as agent of the Issuer. However, there is no obligation of such Stabilising Manager(s) to do this. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the relevant Dealers.

The Arrangers, the Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Arrangers, the Dealers or any of their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with or for the Issuer and/or its affiliates for which they have received, or will receive, fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer's or their business.

In the ordinary course of their various business activities, the Arrangers, the Dealers and their respective affiliates make or hold 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. Such investment and securities activities may involve securities and instruments of the Issuer, the Bank or the Hong Kong Branch, including the Notes and could adversely affect the trading price and liquidity of the relevant Notes. The Arrangers, the Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuer, the Bank or the Hong Kong Branch and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer, the Bank or the Hong Kong Branch.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates or affiliates of the Issuer may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers and/or their respective affiliates or affiliates of the Issuer may act as investors and place orders, receive allocations and purchase and trade Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations and/or trades 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 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 Issuer, the Bank, the Hong Kong Branch, the Arrangers, the Dealers and/or their respective affiliates, or affiliates of the Issuer as investors 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. If such transactions occur, the trading price and liquidity of such Notes may be impacted.

Furthermore, it is possible that a significant proportion of a Series of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in such Notes may be constrained. The Issuer, the Bank, the Hong Kong Branch and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

United States

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(a) 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, in certain circumstances, to, or for the account or benefit of, U.S. persons) except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

(b) Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Bearer Notes will be issued in accordance with the provisions of U.S. Treasury Regulation or section 1.163 – 5(c)(2)(i)(D), unless the relevant Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation or section 1.163 – 5(c)(2)(i)(C). The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

(c) In connection with any Notes which are offered or sold outside the United States in reliance on exemption from the registration requirements of the Securities Act provided under Category 1 of Regulation S ("**Category 1 of Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and 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, and that 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. In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(d) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 2 of Regulation S ("**Category 2 of Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will offer, sell or deliver such Category 2 of Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Category 2 of Regulation S Notes are a part, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Category 2 of Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Category 2 of Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

(e) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the relevant subscription agreement:

(a) in relation to any Notes which have a maturity of less than one year, (i) 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 (ii) 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 as 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 Financial Services and Markets Acts 2000 (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Public Offer Selling Restriction under the Prospectus Directive

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", 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 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 European Economic Area. 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 Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (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 the Prospectus Regulation (as defined below); 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.

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 European Economic Area, 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) *Approved prospectus:* if the Pricing Supplement in relation to the Notes specifies 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 Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) *Fewer than 150 offerees:* 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 Issuer for any such offer; or

(d) *Other exempt offers:* 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 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 Member 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 for the Notes, and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129.

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 (Chapter 289 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.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) 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

(b) 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 interests (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:

(1) 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)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

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 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).*

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 "**FIEA**"). 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, directly or indirectly, offered or sold and will not offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, 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 FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (i) to "professional investors" as defined in the SFO and any rules made under that Ordinance, or (ii) 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 or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) 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, 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 in Hong Kong (except if permitted to do so under the securities laws in 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" within the meaning of the SFO and any rules made under that Ordinance.

People's Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong Special Administrative Region and Macau Special Administrative Region of the People's Republic of China or Taiwan), except as permitted by the securities laws of the People's Republic of China.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

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 and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the Dubai Financial Services Authority rulebook.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 10 and/or Article 11 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**") through a person authorised by the Capital Market Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Notes shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Notes are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each 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 Notes except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "accredited investor" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar

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 delivered, and will not offer, sell or deliver, directly or indirectly, any Notes in the State of Qatar, including the Qatar Financial Centre, except (a) in compliance with all applicable laws and regulations of the State of Qatar, including the Qatar Financial Centre, and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

General

Each Dealer has agreed and each further Dealers appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer and any other Dealer shall have any responsibility therefor.

None of the Issuer and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction that would permit a public offering of any of the Notes, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

1. Pursuant to the Notice Concerning the Further Strengthening the Foreign Debt Business Management (Jian Zong Han (2014) No. 574)《關於進一步加強海外負債業務管理的通知》(建總函(2014)574號), the power of attorney (中國建設銀行股份有限公司授權委託書) issued by the Bank dated 10 April 2018 and the Approval of the MTN Programme Update of the Hong Kong Branch (Jian Zi Zhai (2017) No. 74) 《關於更新香港分行中期票據計劃方案的批覆》(建資債(2017)74號), the establishment and update of, and the issue of Notes under, the Programme have been duly authorised.

Listing

2. Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12 month period from the date of this Offering Circular. The issue price of listed Notes on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the date of listing of the relevant Notes.

3. Approval in-principle has been received from the SGX-ST for the establishment of the Programme and application will be made to the SGX-ST for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST.

   The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, the admission of any Notes to the Official List of, and the quotation of any Notes on the SGX-ST, are not to be taken as indications of the merits of the Issuer, the Hong Kong Branch or the Bank, its subsidiaries, its associated companies (if any), the Programme or such Notes.

   For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies).

   For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Bank shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

NDRC Approval

4. The Notes will be issued in accordance with either (i) the pre-issuance filing and registration with the NDRC to obtain the Enterprise Overseas Debt Issuance Filing and Registration Certificate (企業發行外債備案登記證明) prior to the issuance of the Notes under the Programme pursuant to the NDRC Circular, or (ii) the then applicable annual foreign debt quota granted by the NDRC to the Bank for any issuance of the Notes pursuant to the NDRC Circular.

5. In the case of (i), the Bank will make a pre-issuance registration with the NDRC, followed by a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes. In the case of (ii), the Bank is able to rely on such annual foreign debt quota granted by the NDRC and is not required to make any pre-issuance registration for issuance of the Notes within the annual foreign debt quota with the NDRC. However, the Bank will be required to make a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes.

Clearing Systems

6. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Notes accepted for clearance through the CMU Service. The relevant CMU instrument number 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 specified in the applicable Pricing Supplement.

7. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of the CMU Service is 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

Legal Entity Identifier

8. The legal entity identifier of the Bank is 5493001KQW6DM7KEDR62.

No Significant Change

9. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank or of the Group since 30 June 2019 and there has been no material adverse change in the financial position or prospects of the Bank or of the Group since 30 June 2019.

Litigation

10. Save as disclosed in this Offering Circular, neither the Issuer nor any member of the Group is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Group.

Independent Auditors

11. The independent auditor of the Bank for the years ended 31 December 2016, 2017 and 2018 was PricewaterhouseCoopers, and the independent auditor of the Bank from 1 January 2019 is Ernst & Young, in accordance with the requirement of the Ministry of Finance with respect to the maximum number of years of service of an auditor for a financial enterprise. Each of PricewaterhouseCoopers and Ernst & Young is a Certified Public Accountant under The Hong Kong Institute of Certified Public Accountants.

12. The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2017 and 2018, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, independent auditor, as stated in their reports included in this Offering Circular.

13. The unaudited but reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2019, which are included elsewhere in this Offering Circular, have been reviewed by Ernst & Young, independent auditor, as stated in their report included in this Offering Circular.

14. As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 4 of the Group 2018 Annual Financial Statements. The adoption of IFRS 9 reduced the Bank's net assets by approximately 1 per cent. as at 1 January 2018. According to the IFRS 9 transitional arrangement, upon initial application of IFRS 9, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 is adjusted to the beginning balance of retained earnings and other comprehensive income.

15. The Group has adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in note 2(4) of the Group 2019 Interim Financial Statements. The Group has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc. Total assets and total liabilities at the consolidated level as at 1 January 2019 both increased by RMB19,944 million as compared to the end of 2018. In addition to land use rights, the Group recognised other right-of-use assets and lease liabilities of RMB21,752 million and RMB19,914 million at the date of initial application, respectively. The reconciliation between the operating lease commitments disclosed in the Group 2018 Annual Financial Statements, and the lease liabilities recognised in the statement of financial position at the date of initial application is further set out in note 2(4) of the Group 2019 Interim Financial Statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

Documents

16. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong:

    (a) the constitutional documents of the Bank;

    (b) the audited consolidated financial statements of the Bank in respect of the financial year ended 31 December 2017 and 2018 (in each case together with the audit report in connection therewith). The Bank currently prepares audited consolidated accounts on an annual basis;

    (c) the unaudited but reviewed consolidated financial statements of the Bank in respect of the six months ended 30 June 2019 (together with the review report in connection therewith);

    (d) the most recent annual audited consolidated financial statements of the Bank and the most recently published unaudited consolidated interim financial statements of the Bank (if any);

    (e) the Fiscal Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

    (f) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein; and

    (g) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a 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 Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Notes:

(1) The independent auditor's reports on the Group's consolidated financial statements for the year ended 31 December 2017 and 2018 set out herein are reproduced from the Group's annual reports for the year ended 31 December 2017 and 2018, respectively. Page references referred to in the abovenamed reports refer to pages set out in such annual reports. These independent auditor's reports and the consolidated financial statements have not been specifically prepared for inclusion in this Offering Circular.

(2) The report on review of interim financial statements for the six months ended 30 June 2019 set out herein is reproduced from the Group's half-year report for the six months ended 30 June 2019. Page references referred to in the abovenamed report refer to pages set out in such half-year report. This independent auditor's report and the consolidated financial statements have not been specifically prepared for inclusion in this Offering Circular.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") set out on pages 138 to 259, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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 Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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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 identified in our audit are summarised as follows:

- Allowances for impairment losses on loans and advances to customers
- Disclosure of estimated impact upon initial application of IFRS 9 – expected credit loss model
- Consolidation assessment of, and disclosures about, structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Allowances for impairment losses on loans and advances to customers *Refer to notes 4(3)(f), 4(24)(a), 13, 25, 65(1) to the consolidated financial statements.* As at 31 December 2017, the gross balance of loans and advances to customers and allowances for impairment losses amounted to RMB12,903.4 billion and RMB329 billion, respectively. Allowances for impairment losses are estimated using individual and collective assessments. Individually significant loans and advances to customers are initially assessed for impairment. Homogeneous groups of loans and advances to customers not considered individually significant, and those which were individually assessed but were found not to have objective evidence of impairment, are assessed for impairment on a collective basis. Identification of impairment indicators and estimation of future cash flows for individual assessment, parameters and assumptions applied to the calculation methodology for collective assessment require significant management's judgements. In addition, because of the large size of the allowances for impairment losses on loans and advances to customers, we focused on this in our audit.	Our procedures include the following: We evaluated and tested the design and operating effectiveness of internal controls related to allowances for impairment losses on loans and advances to customers, including the identification of impairment indicators and the impairment assessment process. **Individual assessment** Based on criteria that may indicate evidence of impairment (including whether the borrowers were experiencing financial difficulties or breached loan covenants), we performed independent credit reviews on a sample of individually significant loans and advances to customers to assess whether these balances were impaired and whether the impairment was identified by management on a timely basis. For the impaired loans and advances from our sample, we tested the estimated future cash flows (including realisable value of mortgages and pledges, and support from guarantors) and discount rates against underlying supporting information including external evidence where available. We also independently tested the calculations through re-performance. **Collective assessment** We tested the underlying loan information used in the impairment models by agreeing the relevant data to the Group's loan systems and the general ledger. We evaluated the parameters and assumptions (including historical trends of probability of default and historical loss experience) used by reference to market practices and challenged the assumptions as to whether they reflect the current economic environment and are in line with recent loss experience and representative of current credit risks. We also independently tested the calculation through re-performance. We found management's judgement exercised in identifying the impaired loans for individual assessment and in estimating the individual and collective allowances for impairment losses on loans and advances to customers to be reasonable.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Disclosure of estimated impact upon initial application of IFRS 9 – expected credit loss model *Refer to note 70 to the consolidated financial statements.* IFRS 9, "Financial Instruments" took effect on 1 January 2018 and the Group estimated the adoption of IFRS 9 would reduce its net assets by approximately 1% as at 1 January 2018. The impact is mainly due to the application of the expected credit loss measurement models in estimating the loan loss reserve on loans and advances to customers measured at amortised cost, certain loan commitments and financial guarantee contracts. IFRS 9 is a complex accounting standard which requires considerable judgement and interpretation in its implementation, including the use of new parameters and involvement of experts. The Group's estimation of the impact of the initial implementation of IFRS 9 on net assets is a highly complex process and accordingly, we include this as a key audit matter.	The procedures performed to assess the reasonableness of the Group's disclosure on the possible impact of the initial adoption of IFRS 9 included: 1. Obtained an understanding of how the Group has implemented IFRS 9. 2. Understood and evaluated the expected credit loss model methodology and development processes through reviewing documentation and discussion with management, and the Group's experts. 3. On a sample basis, evaluated the selection of major parameters by comparing to external information, and judgements and interpretations made by management. 4. Understood the Group's key processes over the preparation of information disclosure and inspected the approval documentation. Based on the above procedures performed, we found management's judgements and key assumptions applied on the expected credit loss models to be reasonable.
Consolidation assessment of, and disclosures about, structured entities *Refer to notes 4(1), 4(24)(g), 21(2)(c), 31 to the consolidated financial statements.* As at 31 December 2017, structured entities mainly included wealth management products, asset management plans and trust plans. The amounts of structured entities which are either consolidated or not consolidated are disclosed in notes 21(2)(c) and 31 respectively. The amount of structured entities was significant and the assessment of consolidation or not involved management's judgement. We focused on the following key aspects: 1. The reasonableness of the consolidation assessment made by management based on the three elements of control and the appropriateness of disclosures in the consolidated financial statements. 2. Whether the structured entities that were not consolidated were appropriately disclosed in the consolidated financial statements.	Our procedures included: 1. Evaluated and tested the related internal controls that management adopted on the consolidation assessment and disclosure of structured entities. 2. Tested structured entities on a sample basis to assess management's judgement to consolidate or not by checking against supporting documents including contracts and evaluated them against the following elements of control: • The Group's power over the structured entities; • The Group's exposure, or rights, to variable returns from involvement with the structured entities; and • The Group's ability to use power over the structured entities to affect the amount of the Group's returns. 3. Evaluated and checked the appropriateness of disclosures in the consolidated financial statements relating to structured entities. Based on the available evidence we found that, in all material respects, management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.

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 HKSAs 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 HKSAs, we exercise professional judgment and maintain professional skepticism 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.
- 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.

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

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, related safeguards.

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 Yip Siu Foon, Linda.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

AS AT 31 DECEMBER 2017
(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2017	2016
Interest income		**750,154**	696,637
Interest expense		**(297,698)**	(278,838)
Net interest income	6	**452,456**	417,799
Fee and commission income		**131,322**	127,863
Fee and commission expense		**(13,524)**	(9,354)
Net fee and commission income	7	**117,798**	118,509
Net trading gain	8	**4,858**	3,975
Dividend income	9	**2,195**	2,558
Net (loss)/gain arising from investment securities	10	**(835)**	11,098
Other operating income, net:			
– Other operating income		**49,009**	55,340
– Other operating expense		**(31,450)**	(49,419)
Other operating income, net	11	**17,559**	5,921
Operating income		**594,031**	559,860
Operating expenses	12	**(167,043)**	(171,515)
		426,988	388,345
Impairment losses on:			
– Loans and advances to customers		**(123,389)**	(89,588)
– Others		**(3,973)**	(3,616)
Impairment losses	13	**(127,362)**	(93,204)
Share of profit of associates and joint ventures		**161**	69
Profit before tax		**299,787**	295,210
Income tax expense	16	**(56,172)**	(62,821)
Net profit		**243,615**	232,389

The notes on pages 144 to 259 form part of these financial statements.

	Note	2017	2016
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**593**	(839)
Others		**208**	68
Subtotal		**801**	(771)
Items that may be reclassified subsequently to profit or loss			
Losses of available-for-sale financial assets arising during the period		**(38,151)**	(27,841)
Income tax impact relating to available-for-sale financial assets		**9,230**	7,055
Reclassification adjustments included in profit or loss		**3,403**	(3,930)
Net gain/(loss) on cash flow hedges		**470**	(150)
Exchange difference on translating foreign operations		**(4,748)**	5,885
Subtotal		**(29,796)**	(18,981)
Other comprehensive income for the year, net of tax		**(28,995)**	(19,752)
Total comprehensive income for the year		**214,620**	212,637
Net profit attributable to:			
Equity shareholders of the Bank		**242,264**	231,460
Non-controlling interests		**1,351**	929
		243,615	232,389
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**213,837**	212,418
Non-controlling interests		**783**	219
		214,620	212,637
Basic and diluted earnings per share (in RMB Yuan)	17	**0.96**	0.92

The notes on pages 144 to 259 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017
(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2017	2016
Assets:			
Cash and deposits with central banks	18	**2,988,256**	2,849,261
Deposits with banks and non-bank financial institutions	19	**175,005**	494,618
Precious metals		**157,036**	202,851
Placements with banks and non-bank financial institutions	20	**325,233**	260,670
Financial assets at fair value through profit or loss	21	**578,436**	488,370
Positive fair value of derivatives	22	**82,980**	89,786
Financial assets held under resale agreements	23	**208,360**	103,174
Interest receivable	24	**116,993**	101,645
Loans and advances to customers	25	**12,574,473**	11,488,355
Available-for-sale financial assets	26	**1,550,680**	1,633,834
Held-to-maturity investments	27	**2,586,722**	2,438,417
Investment classified as receivables	28	**465,810**	507,963
Interests in associates and joint ventures	30	**7,067**	7,318
Fixed assets	32	**169,679**	170,095
Land use rights	33	**14,545**	14,742
Intangible assets	34	**2,752**	2,599
Goodwill	35	**2,751**	2,947
Deferred tax assets	36	**46,189**	31,062
Other assets	37	**71,416**	75,998
Total assets		**22,124,383**	20,963,705
Liabilities:			
Borrowings from central banks	39	**547,287**	439,339
Deposits from banks and non-bank financial institutions	40	**1,336,995**	1,612,995
Placements from banks and non-bank financial institutions	41	**383,639**	322,546
Financial liabilities at fair value through profit or loss	42	**414,148**	396,591
Negative fair value of derivatives	22	**79,867**	90,333
Financial assets sold under repurchase agreements	43	**74,279**	190,580
Deposits from customers	44	**16,363,754**	15,402,915
Accrued staff costs	45	**32,632**	33,870
Taxes payable	46	**54,106**	44,900
Interest payable	47	**199,588**	211,330
Provisions	48	**10,581**	9,276
Debt securities issued	49	**596,526**	451,554
Deferred tax liabilities	36	**389**	570
Other liabilities	50	**234,765**	167,252
Total liabilities		**20,328,556**	19,374,051
Equity:			
Share capital	51	**250,011**	250,011
Other equity instruments			
Preference Shares	52	**79,636**	19,659
Capital reserve	53	**135,225**	133,960
Investment revaluation reserve	54	**(26,004)**	(976)
Surplus reserve	55	**198,613**	175,445
General reserve	56	**259,680**	211,193
Retained earnings	57	**886,921**	786,860
Exchange reserve		**(4,322)**	348
Total equity attributable to equity shareholders of the Bank		**1,779,760**	1,576,500
Non-controlling interests		**16,067**	13,154
Total equity		**1,795,827**	1,589,654
Total liabilities and equity		**22,124,383**	20,963,705

Approved and authorised for issue by the Board of Directors on 27 March 2018.

Wang Zuji	**Chung Shui Ming Timpson**	**Carl Walter**
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 144 to 259 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016
(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Attributable to equity shareholders of the Bank									
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2016	**250,011**	**19,659**	**133,960**	**(976)**	**175,445**	**211,193**	**786,860**	**348**	**13,154**	**1,589,654**
Movements during the year	**–**	**59,977**	**1,265**	**(25,028)**	**23,168**	**48,487**	**100,061**	**(4,670)**	**2,913**	**206,173**
(1) Total comprehensive income for the year	**–**	**–**	**1,271**	**(25,028)**	**–**	**–**	**242,264**	**(4,670)**	**783**	**214,620**
(2) Changes in share capital										
i Establishment of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**147**	**147**
ii Change in shareholdings in subsidiaries	**–**	**–**	**(6)**	**–**	**–**	**–**	**–**	**–**	**(1,322)**	**(1,328)**
iii Capital injection by other equity holders	**–**	**59,977**	**–**	**–**	**–**	**–**	**–**	**–**	**3,422**	**63,399**
(3) Profit distribution										
i Appropriation to surplus reserve	**–**	**–**	**–**	**–**	**23,168**	**–**	**(23,168)**	**–**	**–**	**–**
ii Appropriation to general reserve	**–**	**–**	**–**	**–**	**–**	**48,487**	**(48,487)**	**–**	**–**	**–**
iii Appropriation to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(69,503)**	**–**	**–**	**(69,503)**
iv Dividends paid to preference shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(1,045)**	**–**	**–**	**(1,045)**
v Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(117)**	**(117)**
As at 31 December 2017	**250,011**	**79,636**	**135,225**	**(26,004)**	**198,613**	**259,680**	**886,921**	**(4,322)**	**16,067**	**1,795,827**

	Attributable to equity shareholders of the Bank									
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2015	250,011	19,659	135,249	23,058	153,032	186,422	672,154	(5,565)	11,063	1,445,083
Movements during the year	–	–	(1,289)	(24,034)	22,413	24,771	114,706	5,913	2,091	144,571
(1) Total comprehensive income for the year	–	–	(921)	(24,034)	–	–	231,460	5,913	219	212,637
(2) Changes in share capital										
i Acquisition of subsidiaries	–	–	(269)	–	–	–	–	–	590	321
ii Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	13	13
iii Establishment of subsidiaries	–	–	–	–	–	–	–	–	1,343	1,343
iv Change in shareholdings in subsidiaries	–	–	(99)	–	–	–	–	–	(45)	(144)
(3) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	22,413	–	(22,413)	–	–	–
ii Appropriation to general reserve	–	–	–	–	–	24,771	(24,771)	–	–	–
iii Appropriation to ordinary shareholders	–	–	–	–	–	–	(68,503)	–	–	(68,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,067)	–	–	(1,067)
v Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(29)	(29)
As at 31 December 2016	250,011	19,659	133,960	(976)	175,445	211,193	786,860	348	13,154	1,589,654

The notes on pages 144 to 259 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017
(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2017	2016
Cash flows from operating activities			
Profit before tax		**299,787**	295,210
Adjustments for:			
– Impairment losses	13	**127,362**	93,204
– Depreciation and amortisation	12	**17,414**	16,017
– Interest income from impaired financial assets		**(3,182)**	(3,704)
– Revaluation loss on financial instruments at fair value through profit or loss		**32**	1,412
– Share of profit of associates and joint ventures		**(161)**	(69)
– Dividend income	9	**(2,195)**	(2,558)
– Unrealised foreign exchange gain		**(531)**	(479)
– Interest expense on bonds issued		**12,110**	11,362
– Net loss/(gain) on disposal of investment securities	10	**835**	(11,098)
– Net gain on disposal of fixed assets and other long-term assets		**(138)**	(159)
		451,333	399,138
Changes in operating assets:			
Net decrease/(increase) in deposits with central banks and with banks and non-bank financial institutions		**32,837**	(328,481)
Net decrease in placements with banks and non-bank financial institutions		**47,448**	10,762
Net increase in financial assets at fair value through profit or loss		**(92,424)**	(211,099)
Net (increase)/decrease in financial assets held under resale agreements		**(105,468)**	208,433
Net increase in loans and advances to customers		**(1,299,971)**	(1,258,420)
Net decrease/(increase) in other operating assets		**56,768**	(166,173)
		(1,360,810)	(1,744,978)
Changes in operating liabilities:			
Net increase in borrowings from central banks		**110,473**	395,118
Net increase in deposits from customers and from banks and non-bank financial institutions		**766,290**	1,829,273
Net increase/(decrease) in placements from banks and non-bank financial institutions		**79,857**	(16,216)
Net increase in financial liabilities at fair value through profit or loss		**18,588**	92,919
Net decrease in financial assets sold under repurchase agreements		**(115,297)**	(78,104)
Net increase in certificates of deposit issued		**141,011**	12,653
Income tax paid		**(54,551)**	(65,264)
Net increase in other operating liabilities		**42,196**	57,993
		988,567	2,228,372
Net cash from operating activities		**79,090**	882,532

The notes on pages 144 to 259 form part of these financial statements.

	Note	2017	2016
Cash flows from investing activities			
Proceeds from sale and redemption of investments		**1,446,732**	777,941
Dividends received		**2,237**	2,566
Proceeds from disposal of fixed assets and other long-term assets		**2,911**	1,187
Purchase of investment securities		**(1,525,529)**	(1,363,040)
Purchase of fixed assets and other long-term assets		**(22,263)**	(27,742)
Acquisition of subsidiaries, associates and joint ventures		**(1,544)**	(1,393)
Net cash used in investing activities		**(97,456)**	(610,481)
Cash flows from financing activities			
Issue of bonds		**34,989**	16,522
Capital contribution by non-controlling interests		**3,569**	13
Contribution by preference shareholders		**59,977**	–
Consideration paid for acquisition of non-controlling interests		**–**	(144)
Dividends paid		**(70,688)**	(69,574)
Repayment of borrowings		**(6,347)**	(11,711)
Interest paid on bonds issued		**(12,708)**	(10,474)
Net cash from/(used in) in financing activities		**8,792**	(75,368)
Effect of exchange rate changes on cash and cash equivalents		**(18,211)**	14,520
Net (decrease)/increase in cash and cash equivalents		**(27,785)**	211,203
Cash and cash equivalents as at 1 January	58	**599,124**	387,921
Cash and cash equivalents as at 31 December	58	**571,339**	599,124
Cash flows from operating activities include:			
Interest received		**730,411**	687,994
Interest paid, excluding interest expense on bonds issued		**(297,536)**	(262,259)

The notes on pages 144 to 259 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H-shares and A-shares were listed on Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939) respectively. As at 31 December 2017, the Bank issued the total ordinary share capital of RMB250,011 million, with a par value of RMB1.00 per share.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investment Ltd. ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), exercises its rights and obligations as an investor on behalf of the PRC government.

These financial statements were authorised for issue by the board of directors of the Bank on 27 March 2018.

2 BASIS OF PREPARATION

The Group uses the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and joint ventures.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) available-for-sale financial assets are measured at fair value; and (iv) certain non-financial assets are measured at designated cost. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of the domestic operations of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

2 BASIS OF PREPARATION (CONTINUED)

(3) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(24).

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the new Hong Kong Companies Ordinance (Cap. 622), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted the following new or revised IFRSs and Interpretations effective for the current year. There is no early adoption of any new IFRSs and Interpretations not yet effective for the year ended 31 December 2017.

Amendments to IAS 7, "Statement of cash flows".

These amendments IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure initiative, which continues to explore how financial statement disclosure can be improved.

Amendments to IAS 12, "Income taxes".

These amendments clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

Amendment to IFRS 12, "Disclosure of interest in other entities".

This amendment clarifies that the disclosure requirement of IFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. The objective of IFRS 12 was to provide information about nature of interests in other entities, risks associated with these interests, and the effect of these interests on financial statements. The Board noted that this objective is relevant to interests in other entities regardless of whether they are classified as held for sale.

The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) Business combinations

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where the cost of a business combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

(b) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank has the power over the entity, and is exposed to, or has the rights to the variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination or the capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(11).

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Significant intragroup balances and transactions, and any significant profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(c) Associates and joint arrangements

An associate is an enterprise in 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 policy decisions.

Joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates or joint ventures are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates or joint ventures. The Group's share of the post-acquisition, post-tax results of the associates or joint ventures for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associates or joint ventures is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures.

The Group discontinues recognising its share of net losses of the associates or joint ventures after the carrying amount of investments in associates and joint ventures together with any long-term interests that in substance form part of the Group's net investment in the associates or joint ventures are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associates or joint ventures make net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as "exchange reserve" in the shareholders' equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments

(a) Categorisation

The Group classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near future, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and investment classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Investment securities in the financial statements comprise the securities classified as held-to-maturity investments, available-for-sale financial assets and investment classified as receivables.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(b) Derivatives and hedge accounting

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified 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 that are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but not qualified for hedge accounting, changes in the fair value of these derivatives are recognised in “net trading gain” of the consolidated statement of comprehensive income.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(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 an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

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 over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

(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 a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the “capital reserve”. The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(c) Embedded derivatives

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 4(3)(a).

(d) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(e) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Measurement (continued)

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

(f) Impairment

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of the financial asset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) Impairment (continued)

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed and loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a roll rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual losses level is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience.

Impairment losses recognised on a collective basis represent a transitional step which identifies the impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but were not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) Impairment (continued)

Loans and receivables and held-to-maturity investments (continued)

Impairment reversal and loan write-offs

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

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

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms as appropriate. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(g) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(h) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. 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 company or the counterparty.

(i) Securitisations

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(j) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are recognised in profit or loss. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as cost on the date of restructuring. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values and annual depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Bank premises	30-35 years	3%	2.8%-3.2%
Equipment	3-8 years	3%	12.1%-32.3%
Others	4-11 years	3%	8.8%-24.3%

Aircraft and vessels are used for the Group's operating lease business, depreciated using straight-line method over the expected useful life of 20 to 30 years (less the years in service at the time of purchase) with the estimated residual value rate varying from 2.9% to 4.8%.

The Group reviews the estimated useful life and estimated residual value of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(c) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Finance lease

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receivables and initial direct costs at the commencement of the lease term, is included in "loans and advances to customers" on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(3)(f).

(b) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(7) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(11).

(8) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(9) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's 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 semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in profit or loss.

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.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(11).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses Note 4(11).

(11) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, 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 of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows 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 semi-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. In 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. In such circumstances, the entity 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.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Allowances for impairment losses on non-financial 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.

(12) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) 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 entity (a fund) and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance for the employees during the reporting period, while defined benefit plans are mainly supplementary retirement benefits.

Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity contributions

In addition to the statutory provision contributions, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. Such supplementary retirement benefits are defined benefit plans.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. The service cost and net interest from the supplementary retirement benefits are recognised in profit or loss, and the remeasurements are recognised in other comprehensive income.

The liability recognised in the statement of financial position in respect of supplementary retirement benefits is the present value of supplementary retirement benefit obligations at the end of the reporting period less the fair value of plan assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Employee benefits (continued)

(b) Termination benefits

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

(c) Early retirement expenses

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(d) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(13) Insurance contracts

Insurance contracts classification

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 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.

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.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group identifies insurance contracts where insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payments that the Group is obliged to pay in order to fulfil relevant obligations under the insurance contract. Structured product that cannot be sold separately is classified as one measurement unit.

The Group performs liability adequacy test at the end of each reporting period. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on the date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the differences. Otherwise, no adjustment is made to the respective insurance contract liabilities.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(14) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or nonoccurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(15) 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 issued 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.

(16) Financial guarantees

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(17) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(18) Income recognition

Provided it is probable that economic benefits will flow to the Group and the amount, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(a) Interest income

Interest income for interest bearing financial instruments is recognised in profit or loss based on the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as commission on expiry.

(c) Finance income from finance leases and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(d) Dividend income

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(19) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(20) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(21) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(22) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;

(b) the Bank's subsidiaries;

(c) other entities which are controlled by the Bank's parents;

(d) an investor who has joint control over the Group;

(e) an investor who can exercise significant influence over the Group;

(f) an associate of the Group;

(g) a joint venture entity of the Group;

(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);

(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);

(j) key management personnel of the Bank's parents and close family members of such individuals;

(k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals; and

(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(23) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements

(a) Impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. The same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or other-than-temporary decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or other-than-temporary, the Group considers if the fair value of an available-for-sale equity instrument as at the end of reporting period is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than a year (including one year) together with other relevant considerations.

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring orderly transactions.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates credit spreads and the liquidity premium. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on the maximising observable market data at the end of each reporting period. However, where market data is not available, the Group needs to make the best estimates on such unobservable market inputs.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants in an orderly transaction.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements (continued)

(d) Reclassification of held-to-maturity investments

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) Employee retirement benefit obligations

The Group has established liabilities in connection with benefits payable to certain retired employees. The amounts of employee benefit expense and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's capital reserve and liability related to its employee retirement benefit obligations.

(g) Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's 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.

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Business tax

Business tax was charged at 5% on taxable income.

Value added tax ("VAT")

Pursuant to the 'Circular on the Comprehensive Plan for Levying VAT in place of Business Tax' (CaiShui [2016] No.36) jointly issued by the Ministry of Finance and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in Mainland China was replaced by VAT from 1 May 2016. Accordingly, the income and expense under VAT were reported on a net basis. The main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% – 7% of business tax or VAT.

Education surcharge

Education surcharge is calculated as 3% of business tax or VAT.

Local education surcharge

Local education surcharge is calculated as 2% of business tax or VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

6 NET INTEREST INCOME

	2017	2016
Interest income arising from:		
Deposits with central banks	**43,027**	39,512
Deposits with banks and non-bank financial institutions	**7,166**	11,595
Placements with banks and non-bank financial institutions	**8,113**	8,020
Financial assets at fair value through profit or loss	**11,046**	4,164
Financial assets held under resale agreements	**5,708**	4,102
Investment securities	**159,667**	152,040
Loans and advances to customers		
– Corporate loans and advances	**301,921**	289,477
– Personal loans and advances	**206,598**	172,078
– Discounted bills	**6,908**	15,649
Total	**750,154**	696,637
Interest expense arising from:		
Borrowings from central banks	**(14,486)**	(5,671)
Deposits from banks and non-bank financial institutions	**(34,736)**	(33,579)
Placements from banks and non-bank financial institutions	**(11,885)**	(7,014)
Financial assets sold under repurchase agreements	**(3,391)**	(3,485)
Debt securities issued	**(19,887)**	(16,615)
Deposits from customers		
– Corporate deposits	**(110,651)**	(105,232)
– Personal deposits	**(102,662)**	(107,242)
Total	**(297,698)**	(278,838)
Net interest income	**452,456**	417,799

(1) Interest income from impaired financial assets is listed as follows:

	2017	2016
Impaired loans and advances	**3,143**	3,675
Other impaired financial assets	**39**	29
Total	**3,182**	3,704

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

7 NET FEE AND COMMISSION INCOME

	2017	2016
Fee and commission income		
Bank card fees	**42,242**	37,649
Wealth management service fees	**20,040**	20,537
Agency service fees	**16,256**	20,025
Settlement and clearing fees	**13,211**	12,612
Commission on trust and fiduciary activities	**11,857**	11,174
Consultancy and advisory fees	**9,906**	11,368
Electronic banking service fees	**9,341**	7,584
Guarantee fees	**3,330**	2,938
Credit commitment fees	**1,525**	1,830
Others	**3,614**	2,146
Total	**131,322**	127,863
Fee and commission expense		
Bank card transaction fees	**(7,710)**	(5,378)
Inter-bank transaction fees	**(1,284)**	(1,132)
Others	**(4,530)**	(2,844)
Total	**(13,524)**	(9,354)
Net fee and commission income	**117,798**	118,509

8 NET TRADING GAIN

	2017	2016
Debt securities	**(1,138)**	(1,034)
Derivatives	**1,404**	2,421
Equity investments	**471**	185
Others	**4,121**	2,403
Total	**4,858**	3,975

For the year ended 31 December 2017, trading gain related to financial assets designated at fair value through profit or loss of the Group amounted to RMB14,024 million (2016: gain RMB9,587 million). Trading loss related to financial liabilities designated at fair value through profit or loss of the Group amounted to RMB15,340 million (2016: loss RMB12,161 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

9 DIVIDEND INCOME

	2017	2016
Dividend income from listed trading equity investments	486	131
Dividend income from available-for-sale equity investments		
– Listed	1,310	2,097
– Unlisted	399	330
Total	2,195	2,558

10 NET (LOSS)/GAIN ARISING FROM INVESTMENT SECURITIES

	2017	2016
Net gain and investment income of available-for-sale financial assets	2,549	3,390
Net revaluation (loss)/gain reclassified from other comprehensive income on disposal	(4,048)	5,546
Net gain on sale of held-to-maturity investments	278	732
Net gain on sale of investments classified as receivables	33	906
Others	353	524
Total	(835)	11,098

11 OTHER OPERATING INCOME, NET

Other operating income

	2017	2016
Insurance related income	26,349	45,684
Foreign exchange gain	14,455	2,817
Rental income	2,449	1,428
Others	5,756	5,411
Total	49,009	55,340

Foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and currency swaps entered into in order to economically hedge long positions in foreign currency assets).

Other operating expenses

	2017	2016
Insurance related cost	26,946	47,023
Others	4,504	2,396
Total	31,450	49,419

12 OPERATING EXPENSES

	2017	2016
Staff costs		
– Salaries, bonuses, allowances and subsidies	**64,274**	62,093
– Other social insurance and welfare	**10,213**	8,997
– Housing funds	**6,214**	6,296
– Union running costs and employee education costs	**2,609**	2,567
– Defined contribution plans	**12,923**	12,846
– Early retirement expenses	**37**	45
– Compensation to employees for termination of employment relationship	**4**	3
	96,274	92,847
Premises and equipment expenses		
– Depreciation charges	**14,049**	13,804
– Rent and property management expenses	**9,578**	9,341
– Maintenance	**2,882**	2,890
– Utilities	**1,988**	2,071
– Others	**1,988**	1,875
	30,485	29,981
Taxes and surcharges	**5,767**	17,473
Amortisation expenses	**2,306**	2,213
Audit fees	**172**	142
Other general and administrative expenses	**32,039**	28,859
Total	**167,043**	171,515

13 IMPAIRMENT LOSSES

	2017	2016
Loans and advances to customers		
– Additions	**141,957**	101,757
– Releases	**(18,568)**	(12,169)
Investment classified as receivables	**796**	(586)
Available-for-sale debt securities	**457**	217
Held-to-maturity investments	**413**	970
Available-for-sale equity investments	**307**	89
Fixed assets	**1**	46
Others	**1,999**	2,880
Total	**127,362**	93,204

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2017				
	Allowances	Remuneration paid	Contributions to defined contribution retirement schemes	Other benefits in kind (note (v))	Total (note(i))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Tian Guoli (note (ii) & (vi))	–	213	22	40	275
Wang Zuji (note (vi))	–	519	51	90	660
Pang Xiusheng (note (vi))	–	467	51	88	606
Zhang Gengsheng (note (vi))	–	467	51	88	606
Non-executive directors					
Li Jun (note (iii))	–	–	–	–	–
Hao Aiqun (note (iii))	–	–	–	–	–
Feng Bing (note (ii) & (iii))	–	–	–	–	–
Zhu Hailin (note (ii) & (iii))	–	–	–	–	–
Wu Min (note (ii) & (iii))	–	–	–	–	–
Zhang Qi (note (ii) & (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	390	–	–	–	390
Carl Walter	440	–	–	–	440
Chung Shui Ming Timpson	440	–	–	–	440
Murray Horn	470	–	–	–	470
Malcolm Christopher McCarthy (note (ii))	171	–	–	–	171
Supervisors					
Guo You (note (vi))	–	519	51	90	660
Liu Jin (note (vi))	–	660	51	124	835
Li Xiaoling (note (vi))	–	650	46	122	818
Li Xiukun (note (iv))	50	–	–	–	50
Jin Yanmin (note (iv))	50	–	–	–	50
Li Zhenyu (note (iv))	50	–	–	–	50
Bai Jianjun	250	–	–	–	250
Former executive director					
Wang Hongzhang (note (ii) & (vi))	–	346	33	42	421
Former non-executive directors					
Guo Yanpeng (note (ii) & (iii))	–	–	–	–	–
Dong Shi (note (ii) & note (iii))	–	–	–	–	–
Former independent non-executive directors					
Wim Kok (note (ii))	190	–	–	–	190
Zhang Long (note (ii))	137	–	–	–	137
	2,638	3,841	356	684	7,519

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2016				
	Accrued cost	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank	Other monetary income	Total (note (vii))	Allowance
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Wang Hongzhang (note (ii))	702	131	–	833	–
Wang Zuji	702	156	–	858	–
Pang Xiusheng	632	149	–	781	–
Zhang Gengsheng	632	149	–	781	–
Non-executive directors					
Li Jun (note (iii))	–	–	–	–	–
Hao Aiqun (note (iii))	–	–	–	–	–
Dong Shi (note (ii) & (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	–	–	–	–	98
Carl Walter	–	–	–	–	98
Zhang Long (note (ii))	–	–	–	–	410
Chung Shui Ming Timpson	–	–	–	–	440
Wim Kok (note (ii))	–	–	–	–	380
Murray Horn	–	–	–	–	470
Supervisors					
Guo You	702	156	–	858	–
Liu Jin	1,648	162	–	1,810	–
Li Xiaoling	1,648	162	–	1,810	–
Li Xiukun (note (iv))	–	–	–	–	46
Jin Yanmin (note (iv))	–	–	–	–	46
Li Zhenyu (note (iv))	–	–	–	–	46
Bai Jianjun	–	–	–	–	250
Former non-executive directors					
Chen Yuanling	–	–	–	–	–
Xu Tie	–	–	–	–	–
Guo Yanpeng	–	–	–	–	–
Former independent non-executive director					
Margaret Leung Ko May Yee	–	–	–	–	195
Former supervisors					
Jin Panshi	–	–	–	–	4
Zhang Huajian	–	–	–	–	4
Wang Lin	–	–	–	–	4
Wang Xinmin	–	–	–	–	–
	6,666	1,065	–	7,731	2,491

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

(i) The amounts of emoluments for the year ended 31 December 2017 in respect of the services rendered by the directors and supervisors are subject to the approval of the Annual General Meeting.

(ii) As disclosed in the Bank's announcement on 8 February 2017, Mr. Guo Yanpeng ceased to serve as non-executive director of the Bank due to change of job.

As disclosed in the Bank's announcement on 28 April 2017, Mr. Zhang Long ceased to serve as independent non-executive director of the Bank due to personal reasons.

As disclosed in the Bank's announcement on 15 June 2017, Mr. Dong Shi ceased to serve as non-executive director of the Bank due to expiry of term.

As disclosed in the Bank's announcement on 15 June 2017, Mr. Wim Kok ceased to serve as independent non-executive director of the Bank due to expiry of term.

Upon election at the 2016 Annual General Meeting of the Bank, Ms. Feng Bing, Mr. Zhu Hailin, Mr. Wu Min and Mr. Zhang Qi commenced their positions as non-executive directors of the Bank from 28 July 2017, Sir Malcolm Christopher McCarthy commenced his position as independent non-executive director of the Bank from 15 August 2017.

As disclosed in the Bank's announcement on 17 August 2017, Mr. Wang Hongzhang ceased his positions as Chairman of the Board, executive director of the Bank, as well as the chairman and member of the Strategy Development Committee due to his age.

Upon election at the first extraordinary general meeting of 2017 of the Bank, Mr. Tian Guoli commenced his positions as chairman of the Board and executive director of the Bank from 9 October 2017.

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2017 and 2016.

(iv) The amounts only included fees for their services as supervisors.

(v) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2017 and 2016.

(vi) The total compensation package for these directors and supervisors for the year ended 31 December 2017 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 a significant impact on the Group's financial statements for the year ended 31 December 2017. The final compensation will be disclosed in a separate announcement when determined.

(vii) The total compensation package for certain directors and supervisors for the year ended 31 December 2016 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2016 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2016 was the final amount.

(viii) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities are paid in accordance with relevant policies relating to the central remuneration reform.

15 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 14. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2017 RMB'000	2016 RMB'000
Salaries and allowance	**15,589**	16,336
Variable compensation	**31,914**	35,941
Contributions to defined contribution retirement schemes	**1,056**	1,183
Other benefit in kind	**554**	365
	49,113	53,825

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2017	2016
RMB7,000,001 – RMB7,500,000	**–**	–
RMB8,000,001 – RMB8,500,000	**1**	–
RMB8,500,001 – RMB9,000,000	**1**	–
RMB9,000,001 – RMB9,500,000	**–**	–
RMB9,500,001 – RMB10,000,000	**1**	1
RMB10,000,001 – RMB10,500,000	**1**	1
RMB10,500,001 – RMB11,000,000	**–**	1
RMB11,000,001 – RMB11,500,000	**–**	1
RMB11,500,001 – RMB12,000,000	**1**	1

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the year ended 31 December 2017 and 2016.

16 INCOME TAX EXPENSE

(1) Income tax expense

	2017	2016
Current tax	**63,737**	60,380
– Mainland China	**60,753**	58,713
– Hong Kong	**1,377**	875
– Other countries and regions	**1,607**	792
Adjustments for prior years	**(352)**	(187)
Deferred tax	**(7,213)**	2,628
Total	**56,172**	62,821

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the year respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Note	2017	2016
Profit before tax		**299,787**	295,210
Income tax calculated at 25% statutory tax rate		**74,947**	73,803
Effects of different applicable rates of tax prevailing in other countries/regions		**(573)**	(577)
Non-deductible expenses	(i)	**9,340**	10,648
Non-taxable income	(ii)	**(27,190)**	(20,866)
Adjustments on income tax for prior years which affect profit or loss		**(352)**	(187)
Income tax expense		**56,172**	62,821

(i) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amount under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(ii) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

17 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2017 and 2016 have been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2017 and 2016, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	2017	2016
Net profit attributable to equity shareholders of the Bank	**242,264**	231,460
Less: profit for the year attributable to preference shareholders of the Bank	**(1,045)**	(1,067)
Net profit attributable to ordinary shareholders of the Bank	**241,219**	230,393
Weighted average number of ordinary shares (in millions of shares)	**250,011**	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**0.96**	0.92
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**0.96**	0.92

18 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	2017	2016
Cash		73,876	73,296
Deposits with central banks			
– Statutory deposit reserves	(1)	2,665,738	2,566,219
– Surplus deposit reserves	(2)	209,080	183,764
– Fiscal deposits		39,562	25,982
Subtotal		2,914,380	2,775,965
Total		2,988,256	2,849,261

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates in Mainland China of the Bank were as follows:

	2017	2016
Reserve rate for RMB deposits	17.0%	17.0%
Reserve rate for foreign currency deposits	5.0%	5.0%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

19 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2017	2016
Banks	163,521	482,348
Non-bank financial institutions	11,541	12,336
Gross balances	175,062	494,684
Allowances for impairment losses (Note 38)	(57)	(66)
Net balances	175,005	494,618

(2) Analysed by geographical sectors

	2017	2016
Mainland China	147,945	466,765
Overseas	27,117	27,919
Gross balances	175,062	494,684
Allowances for impairment losses (Note 38)	(57)	(66)
Net balances	175,005	494,618

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

20 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2017	2016
Banks	**173,762**	121,238
Non-bank financial institutions	**151,583**	139,555
Gross balances	**325,345**	260,793
Allowances for impairment losses (Note 38)	**(112)**	(123)
Net balances	**325,233**	260,670

(2) Analysed by geographical sectors

	2017	2016
Mainland China	**276,308**	172,492
Overseas	**49,037**	88,301
Gross balances	**325,345**	260,793
Allowances for impairment losses (Note 38)	**(112)**	(123)
Net balances	**325,233**	260,670

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Analysed by nature

	Note	2017	2016
Held for trading purposes	(1)		
– Debt securities		189,447	141,330
– Equity instruments and funds		1,312	1,825
		190,759	143,155
Designated at fair value through profit or loss	(2)		
– Debt securities		10,211	8,690
– Equity instruments and funds		23,076	16,553
– Other debt instruments		354,390	319,972
		387,677	345,215
Total		578,436	488,370

Analysed by types of issuers

(1) Held for trading purpose

(a) Debt securities

	Note	2017	2016
Government		10,812	15,173
Central bank		543	–
Policy banks		22,395	9,064
Banks and non-bank financial institutions		58,485	65,307
Enterprises		97,212	51,786
Total		189,447	141,330
Listed	(i)	189,447	141,330
– of which in Hong Kong		26	502
Total		189,447	141,330

(i) Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

(b) Equity instruments and funds

	2017	2016
Banks and non-bank financial institutions	152	123
Enterprises	1,160	1,702
Total	1,312	1,825
Listed	1,171	1,701
– of which in Hong Kong	1,067	1,682
Unlisted	141	124
Total	1,312	1,825

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Analysed by types of issuers (continued)

(2) Designated at fair value through profit or loss

(a) Debt securities

	2017	2016
Unlisted enterprises	**10,211**	8,690
Total	**10,211**	8,690

(b) Equity instruments and funds

	2017	2016
Banks and non-bank financial institutions	**8,037**	10,934
Enterprises	**15,039**	5,619
Total	**23,076**	16,553
Listed	**837**	15
– of which in Hong Kong	**699**	–
Unlisted	**22,239**	16,538
Total	**23,076**	16,553

(c) Other debt instruments

	2017	2016
Banks and non-bank financial institutions	**218,322**	213,182
Enterprises	**136,068**	106,790
Total	**354,390**	319,972

Other debt instruments were mainly the deposits with banks, credit assets invested by principal guaranteed wealth management products and bonds (Note 31(2)).

There was no significant limitation on the ability of the Group to dispose of financial assets at fair value through profit or loss.

22 DERIVATIVES AND HEDGE ACCOUNTING

(1) Analysed by type of contract

	Note	2017 Notional amounts	2017 Assets	2017 Liabilities	2016 Notional amounts	2016 Assets	2016 Liabilities
Interest rate contracts		**332,480**	**980**	**487**	470,809	3,278	2,492
Exchange rate contracts		**5,307,995**	**78,909**	**78,581**	4,650,215	73,183	83,025
Other contracts	(a)	**182,632**	**3,091**	**799**	333,553	13,325	4,816
Total		**5,823,107**	**82,980**	**79,867**	5,454,577	89,786	90,333

(2) Analysed by credit risk-weighted assets

	Note	**2017**	2016
Counterparty credit default risk-weighted assets			
– Interest rate contracts		**651**	2,649
– Exchange rate contracts		**47,728**	35,373
– Other contracts	(a)	**5,395**	10,751
Subtotal		**53,774**	48,773
Credit value adjustment		**20,545**	25,987
Total		**74,319**	74,760

The notional amounts of derivatives only represent the unsettled transactions volume as at the end of the reporting period, instead of the amount of risk assets. Since 1 January 2013, the Group has adopted Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and other related policies. According to the new rules set out by the CBRC, the credit risk-weighted assets included credit valuation adjustments, with the considerations of counterparty status and maturity characteristic, and back-to-back client-driven transactions.

(a) Other contracts mainly consist of precious metals contracts.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

(3) Hedge accounting

The following designated hedging instruments are included in the derivatives financial instruments disclosed above.

	2017			2016		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	49,087	469	(98)	45,148	507	(69)
Foreign exchange swaps	325	12	–	348	24	–
Cash flow hedges						
Foreign exchange swaps	33,193	1,051	(418)	21,491	–	(823)
Foreign exchange forwards	51,684	918	(69)	–	–	–
Total	134,289	2,450	(585)	66,987	531	(892)

(a) Fair value hedge

The Group uses interest rate swaps and foreign exchange swaps to hedge against changes of fair value in some deposits from customers, certificates of deposit issued, loans and advances to customers arising from changes in interest rates and exchange rates.

Net (losses)/gains on fair value hedges are as follows:

	2017	2016
Net (losses)/gains on		
– hedging instruments	(77)	419
– hedged items	71	(439)

The gain and loss arising from ineffective portion of fair value hedge was immaterial for the year ended 31 December 2017 and 2016.

(b) Cash flow hedge

The Group uses foreign exchange swaps and foreign exchange forward to hedge against exposures to cash flow variability primarily from foreign exchange risks of some loans and advances to customers. The maturities of hedging instruments and hedged items are both within one year.

For the year ended 31 December 2017, net profit from the cash flow hedge of RMB470 million were recognised in other comprehensive income (2016: net loss 150 million) and the gain and loss arising from ineffective portion of cash flow hedge was immaterial.

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	2017	2016
Debt securities		
– Government bonds	106,541	21,726
– Debt securities issued by policy banks, banks and non-bank financial institutions	94,461	38,751
– Corporate bonds	2,618	–
– Others	1,051	–
Subtotal	204,671	60,477
Discounted bills	3,689	42,697
Gross and net balances	208,360	103,174

24 INTEREST RECEIVABLE

	2017	2016
Deposits with central banks	1,354	1,163
Deposits with banks and non-bank financial institutions	680	2,286
Financial assets held under resale agreements	145	218
Loans and advances to customers	39,583	29,789
Debt securities	69,550	63,359
Others	5,681	4,830
Gross and net balances	116,993	101,645

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	2017	2016
Corporate loans and advances		
– Loans	7,365,095	6,711,679
– Finance leases	122,737	112,259
	7,487,832	6,823,938
Personal loans and advances		
– Residential mortgages	4,252,698	3,625,574
– Personal consumer loans	203,218	87,346
– Personal business loans	41,417	51,189
– Credit cards	567,683	447,244
– Others	214,878	209,586
	5,279,894	4,420,939
Discounted bills	135,715	512,155
Gross loans and advances to customers	12,903,441	11,757,032
Allowances for impairment losses (Note 38)	(328,968)	(268,677)
– Individual assessment	(113,820)	(99,453)
– Collective assessment	(215,148)	(169,224)
Net loans and advances to customers	12,574,473	11,488,355

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of allowances for impairment losses

		Loans and advances for which allowances are collectively assessed	Impaired loans and advances		
			for which allowance are collectively assessed	for which allowances are individually assessed	Total
	Note	(a)	(b)	(b)	
As at 31 December 2017					
Gross loans and advances to customers		**12,711,150**	**22,493**	**169,798**	**12,903,441**
Allowances for impairment losses		**(201,346)**	**(13,802)**	**(113,820)**	**(328,968)**
Net loans and advances to customers		**12,509,804**	**8,691**	**55,978**	**12,574,473**
As at 31 December 2016					
Gross loans and advances to customers		11,578,342	22,254	156,436	11,757,032
Allowances for impairment losses		(155,949)	(13,275)	(99,453)	(268,677)
Net loans and advances to customers		11,422,393	8,979	56,983	11,488,355

(a) Loans and advances assessed on a collective basis for impairment are those graded normal or special mention.

(b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:

– individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

– collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 31 December 2017 is 1.49% (31 December 2016: 1.52%).

(c) The definitions of the loan classifications stated in notes (a) and (b) above are set out in Note 65(1).

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

		2017			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
	Note		which are collectively assessed	which are individually assessed	Total
As at 1 January		**155,949**	**13,275**	**99,453**	**268,677**
Charge for the year		**45,602**	**7,524**	**88,831**	**141,957**
Release during the year		**–**	**–**	**(18,568)**	**(18,568)**
Unwinding of discount		**–**	**–**	**(3,143)**	**(3,143)**
Transfers out	(a)	**(205)**	**(2,919)**	**(24,352)**	**(27,476)**
Write-offs		**–**	**(5,270)**	**(31,721)**	**(36,991)**
Recoveries		**–**	**1,192**	**3,320**	**4,512**
As at 31 December		**201,346**	**13,802**	**113,820**	**328,968**

		2016			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
	Note		which are collectively assessed	which are individually assessed	Total
As at 1 January		157,632	10,789	82,196	250,617
Charge for the year		–	9,948	91,809	101,757
Release during the year		(1,840)	–	(10,329)	(12,169)
Unwinding of discount		–	–	(3,675)	(3,675)
Additions through acquisitions		8	10	18	36
Transfers out	(a)	149	(2,808)	(35,487)	(38,146)
Write-offs		–	(5,687)	(27,960)	(33,647)
Recoveries		–	1,023	2,881	3,904
As at 31 December		155,949	13,275	99,453	268,677

(a) Transfers out include the transfer of allowances for impairment losses upon disposal of non-performing loans, asset-backed securitization of non-performing loans and repossession of assets, and the relevant exchange gain or loss.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period

	2017				
	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	8,701	6,594	5,640	1,138	22,073
Guaranteed loans	15,569	20,668	24,730	3,047	64,014
Loans secured by tangible assets other than monetary assets	28,556	22,547	22,715	2,658	76,476
Loans secured by monetary assets	564	1,072	1,458	215	3,309
Total	53,390	50,881	54,543	7,058	165,872
As a percentage of gross loans and advances to customers	0.42%	0.40%	0.42%	0.05%	1.29%

	2016				
	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	9,921	5,943	4,608	911	21,383
Guaranteed loans	15,879	29,972	22,248	1,973	70,072
Loans secured by tangible assets other than monetary assets	29,794	28,213	22,970	1,473	82,450
Loans secured by monetary assets	580	1,974	1,531	109	4,194
Total	56,174	66,102	51,357	4,466	178,099
As a percentage of gross loans and advances to customers	0.48%	0.56%	0.43%	0.04%	1.51%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

(5) Package sale of non-performing loans

During the year ended 31 December 2017, the total amount of non-performing loans sold through packaged sales to external asset management companies was RMB45,522 million (2016: RMB57,058 million).

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Analysed by nature

	Note	2017	2016
Debt securities	(1)	**1,461,824**	1,348,814
Equity instruments	(2)	**31,723**	22,640
Funds	(2)	**57,133**	262,380
Total	(3)	**1,550,680**	1,633,834

(1) **Debt securities**
Analysed by type of issuers

	Note	2017	2016
Government		**985,559**	772,775
Central banks		**36,742**	21,299
Policy banks		**228,104**	94,430
Banks and non-bank financial institutions		**89,327**	321,228
Enterprises		**122,092**	139,082
Total		**1,461,824**	1,348,814
Listed	(i)	**1,428,927**	1,320,530
– of which in Hong Kong		**22,662**	51,784
Unlisted		**32,897**	28,284
Total		**1,461,824**	1,348,814

(i) Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

(2) **Equity instruments and funds**

	2017	2016
Debt equity swap ("DES") Investments	**913**	887
Other equity instruments	**30,810**	21,753
Funds	**57,133**	262,380
Total	**88,856**	285,020
Listed	**54,172**	76,525
– of which in Hong Kong	**1,957**	4,180
Unlisted	**34,684**	208,495
Total	**88,856**	285,020

Mainly pursuant to the DES arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control, joint control or significant influence over these entities.

(3) As at 31 December 2017, the Group's cost of available-for-sale debt securities was RMB1,502,144 million (as at 31 December 2016: RMB1,351,960 million). The Group's cost of available-for-sale equity instruments and funds was RMB91,716 million (as at 31 December 2016: RMB293,459 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 HELD-TO-MATURITY INVESTMENTS

Analysed by types of issuers

	Note	2017	2016
Government		**1,908,032**	1,603,894
Central banks		**434**	422
Policy banks		**552,057**	258,080
Banks and non-bank financial institutions		**27,045**	456,139
Enterprises		**102,564**	122,931
Gross balances		**2,590,132**	2,441,466
Allowances for impairment losses (Note 38)		**(3,410)**	(3,049)
Net balances		**2,586,722**	2,438,417
Listed	(1)	**2,575,216**	2,401,617
– of which in Hong Kong		**4,000**	2,522
Unlisted		**11,506**	36,800
Total		**2,586,722**	2,438,417
Market value of listed Securities		**2,522,112**	2,456,614

(1) Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

28 INVESTMENT CLASSIFIED AS RECEIVABLES

	Note	2017	2016
Government			
– Special government bond	(1)	**49,200**	49,200
– Others		**304,554**	228,762
Policy banks		**20,000**	–
Banks and non-bank financial institutions		**13,462**	50,271
Enterprises		**29,096**	33,662
Others	(2)	**51,612**	147,419
Gross balances		**467,924**	509,314
Allowance for impairment losses (Note 38)		**(2,114)**	(1,351)
Net balances		**465,810**	507,963
Listed		**406,864**	281,640
– of which in Hong Kong		**1,181**	485
Unlisted		**58,946**	226,323
Total		**465,810**	507,963

(1) This represents a non-transferable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance (“MOF”) in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum. The PBOC approved the Bank’s use of the special government bond as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(2) Others include asset management plans and capital trust plan with fixed or determined payments. They will mature from January 2018 to October 2027 and bear interest rates ranging from 2.00% to 8.50% per annum. During the reporting period, matured plans have been repaid without overdue.

29 INVESTMENTS IN SUBSIDIARIES

(1) Investment cost

	Note	2017	2016
CCB Financial Asset Investment Corporation Limited ("CCBFI")	(a)	**12,000**	–
CCB Brasil Financial Holding – Investimentos e Participações Ltda.	(b)	**9,542**	6,906
CCB Financial Leasing Corporation Limited ("CCBFLCL")		**8,163**	8,163
CCB Life Insurance Company Limited ("CCB Life")		**3,902**	3,902
CCB Trust Corporation Limited ("CCB Trust")		**3,409**	3,409
China Construction Bank (London) Limited ("CCB London")		**2,861**	2,861
CCB Pension Management Corporation Limited ("CCB Pension")		**1,955**	1,955
China Construction Bank (Europe) S.A. ("CCB Europe")		**1,629**	1,629
Sino-German Bausparkasse Corporation Limited ("Sino-German Bausparkasse")		**1,502**	1,502
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")		**1,352**	1,352
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")		**1,334**	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")		**976**	976
China Construction Bank (Russia) Limited Liability Company ("CCB Russia")		**851**	851
Golden Fountain Finance Limited ("Golden Fountain")		**676**	676
CCB Principal Asset Management Corporation Limited ("CCB Principal")		**130**	130
CCB International Group Holdings Limited ("CCBIG")		**–**	–
Rural Banks	(c)	**1,378**	1,378
Total		**51,660**	37,024

(a) On July 2017, the Bank set up a wholly-owned subsidiary, CCB Financial Asset Investment Corporation Limited. As at 31 December 2017, the Bank held 100% of the total capital of CCBFI.

(b) In October 2017, the Bank injected additional capital of USD400 million to China Construction Bank (Brasil) Banco Multiplo S/A. by CCB Brasil Financial Holding – Investimentos e Participações Ltda.

(c) The total investment amount of rural banks consists of investment costs of 27 rural banks in total, which are established and controlled by the Bank in substance (as at 31 December 2016: 27 rural banks).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

29 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(2) Except for CCB Indonesia, major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCBFI	Beijing the PRC	RMB 12,000 million	Investment	100%	–	100%	Establishment
CCB Brasil Financial Holding – Investimentos e Participações Ltda	Sao Paulo Brasil	R$ 4,281 million	Investment	99.99%	0.01%	100%	Acquisition
CCBFLCL	Beijing, the PRC	RMB 8,000 million	Financial Leasing	100%	–	100%	Establishment
CCB Life	Shanghai, the PRC	RMB 4,496 million	Insurance	51%	–	51%	Acquisition
CCB Trust	Anhui, the PRC	RMB 1,527 million	Trust business	67%	–	67%	Acquisition
CCB Pension	Beijing the PRC	RMB 2,300 million	Pension Management	85%	–	85%	Establishment
CCB London	London, United Kingdom	US$ 200 million RMB 1,500 million	Commercial Banking	100%	–	100%	Establishment
CCB Europe	Luxembourg	Euro 200 million	Commercial Banking	100%	–	100%	Establishment
Sino-German Bausparkasse	Tianjin, the PRC	RMB 2,000 million	House savings	75.1%	–	75.1%	Establishment
CCB Indonesia	Jakarta, Indonesia	IDR 1,663,146 million	Commercial Banking	60%	–	60%	Acquisition
CCB Malaysia	Kuala Lumpur, Malaysia	MYR 823 million	Commercial Banking	100%	–	100%	Establishment
CCB New Zealand	Auckland New Zealand	NZD 199 million	Commercial Banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB 4,200 million	Commercial Banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$ 50,000	Investment	100%	–	100%	Acquisition
CCB Principal	Beijing, the PRC	RMB 200 million	Fund management services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US$ 601 million	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$ 6,511 million RMB 17,600 million	Commercial Banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Multiplo S/A. ("CCB Brasil")	Sao Paulo Brasil	R$ 2,957 million	Commercial Banking	–	100%	100%	Acquisition

(3) As at 31 December 2017, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

30 INTERESTS IN ASSOCIATES AND JOINT VENTURES

(1) The movement of the Group's interests in associates and joint ventures is as follows:

	2017	2016
As at 1 January	**7,318**	4,986
Acquisition during the year	**1,544**	2,408
Disposal during the year	**(1,549)**	(326)
Share of profits	**161**	69
Cash dividend receivable	**(42)**	(8)
Effect of exchange difference and others	**(365)**	189
As at 31 December	**7,067**	7,318

(2) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership held	% of voting held	Total assets at year end	Total liabilities at year end	Revenue for the year	Net profit for the year
Guoji Capital Limited	Beijing, the PRC	RMB2,370 million	Investment management and consultancy	12.66%	12.66%	2,967	611	63	41
Diamond String Limited	Hong Kong, the PRC	HK$10,000	Property investment	50.00%	50.00%	2,064	1,662	254	114
Wuhu Jianxin Dingxin Investment Management Center (Limited Partnership)	Wuhu, the PRC	RMB701 million	Investment management and consultancy	28.53%	28.53%	1,211	465	24	23
Guangdong SOE Reorganization Development Fund (Limited Partnership)	Zhuhai, the PRC	RMB900 million	Investment management and consultancy	49.67%	33.00%	1,014	–	13	8
Beijing Jianxin Ruixiang Investment Management Center (Limited Partnership)	Beijing, the PRC	RMB876 million	Investment management and consultancy	31.49%	31.49%	877	9	–	(8)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

31 STRUCTURED ENTITIES

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-back securities and wealth management products held for investment purpose, and non-principal guaranteed wealth management products, trust plans and funds, etc which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 31 December 2017 and 2016, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amount and the maximum exposure were as follows:

	2017	2016
Financial assets at fair value through profit or loss	**17,405**	5,408
Interest receivables	**178**	155
Available-for-sale financial assets	**79,231**	275,035
Investment classified as receivables	**48,356**	121,527
Interest in associates and joint ventures	**3,430**	4,184
Other assets	**3,398**	3,451
Total	**151,998**	409,760

For the year ended 31 December 2017 and 2016, the income from these unconsolidated structured entities held by the Group was as follows:

	2017	2016
Interest income	**2,661**	4,773
Fee and commission income	**19,760**	21,491
Net trading gain	**471**	132
Dividend income	**1,486**	2,102
Net (loss)/gain arising from investment securities	**(3,623)**	3,033
Share of profit of associates and joint ventures	**55**	30
Total	**20,810**	31,561

As at 31 December 2017, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,730,820 million (as at 31 December 2016: RMB1,794,708 million). For the year ended 31 December 2017, there were debt securities purchased and sold between the Group and non-principal guaranteed wealth management products mentioned above. These transactions were based on market prices or general commercial terms. The profit and loss from these transactions was not material to the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 21(2)c) and certain asset management plans and trust plans.

32 FIXED ASSETS

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/deemed cost						
As at 1 January 2017	**119,972**	**25,543**	**54,987**	**20,501**	**42,193**	**263,196**
Additions	**1,082**	**6,305**	**4,109**	**6,229**	**2,309**	**20,034**
Transfer in/(out)	**3,111**	**(4,568)**	**59**	**–**	**1,398**	**–**
Other movements	**(1,295)**	**(634)**	**(4,166)**	**(3,875)**	**(2,264)**	**(12,234)**
As at 31 December 2017	**122,870**	**26,646**	**54,989**	**22,855**	**43,636**	**270,996**
Accumulated depreciation						
As at 1 January 2017	**(30,328)**	**–**	**(34,598)**	**(1,478)**	**(26,201)**	**(92,605)**
Charge for the year	**(4,192)**	**–**	**(5,791)**	**(1,058)**	**(4,066)**	**(15,107)**
Other movements	**364**	**–**	**4,038**	**286**	**2,126**	**6,814**
As at 31 December 2017	**(34,156)**	**–**	**(36,351)**	**(2,250)**	**(28,141)**	**(100,898)**
Allowances for impairment losses (Note 38)						
As at 1 January 2017	**(418)**	**–**	**–**	**(75)**	**(3)**	**(496)**
Charge for the year	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Other movements	**3**	**–**	**–**	**75**	**–**	**78**
As at 31 December 2017	**(415)**	**–**	**–**	**(1)**	**(3)**	**(419)**
Net carrying value						
As at 1 January 2017	**89,226**	**25,543**	**20,389**	**18,948**	**15,989**	**170,095**
As at 31 December 2017	**88,299**	**26,646**	**18,638**	**20,604**	**15,492**	**169,679**
Cost/deemed cost						
As at 1 January 2016	113,844	27,274	51,305	10,440	40,338	243,201
Additions	1,602	5,286	6,423	9,909	2,318	25,538
Transfer in/(out)	4,513	(6,065)	50	–	1,502	–
Other movements	13	(952)	(2,791)	152	(1,965)	(5,543)
As at 31 December 2016	119,972	25,543	54,987	20,501	42,193	263,196
Accumulated depreciation						
As at 1 January 2016	(26,319)	–	(32,101)	(633)	(24,116)	(83,169)
Charge for the year	(4,016)	–	(5,070)	(852)	(3,866)	(13,804)
Other movements	7	–	2,573	7	1,781	4,368
As at 31 December 2016	(30,328)	–	(34,598)	(1,478)	(26,201)	(92,605)
Allowances for impairment losses (Note 38)						
As at 1 January 2016	(423)	–	–	(75)	(3)	(501)
Charge for the year	–	–	–	–	(46)	(46)
Other movements	5	–	–	–	46	51
As at 31 December 2016	(418)	–	–	(75)	(3)	(496)
Net carrying value						
As at 1 January 2016	87,102	27,274	19,204	9,732	16,219	159,531
As at 31 December 2016	89,226	25,543	20,389	18,948	15,989	170,095

Notes:

(1) Other movements include disposals, retirements and exchange gains or losses of fixed assets.

(2) As at 31 December 2017, the ownership documentation for the Group's bank premises with a net carrying value of RMB19,512 million (as at 31 December 2016: RMB22,952 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

33 LAND USE RIGHTS

	2017	2016
Cost/deemed cost		
As at 1 January	21,206	21,217
Additions	499	86
Disposals	(210)	(97)
As at 31 December	21,495	21,206
Amortisation		
As at 1 January	(6,322)	(5,844)
Charge for the year	(535)	(505)
Disposals	47	27
As at 31 December	(6,810)	(6,322)
Allowances for impairment losses (Note 38)		
As at 1 January	(142)	(142)
Disposals	2	–
As at 31 December	(140)	(142)
Net carrying value		
As at 1 January	14,742	15,231
As at 31 December	14,545	14,742

34 INTANGIBLE ASSETS

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2017	7,688	1,128	8,816
Additions	851	121	972
Disposals	(115)	(38)	(153)
As at 31 December 2017	8,424	1,211	9,635
Amortisation			
As at 1 January 2017	(5,851)	(358)	(6,209)
Charge for the year	(628)	(107)	(735)
Disposals	50	19	69
As at 31 December 2017	(6,429)	(446)	(6,875)
Allowances for impairment losses (Note 38)			
As at 1 January 2017	(1)	(7)	(8)
Additions	–	(1)	(1)
Disposals	1	–	1
As at 31 December 2017	–	(8)	(8)
Net carrying value			
As at 1 January 2017	1,836	763	2,599
As at 31 December 2017	1,995	757	2,752

34 INTANGIBLE ASSETS (CONTINUED)

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2016	6,435	959	7,394
Additions	1,307	178	1,485
Disposals	(54)	(9)	(63)
As at 31 December 2016	7,688	1,128	8,816
Amortisation			
As at 1 January 2016	(5,018)	(265)	(5,283)
Charge for the year	(858)	(98)	(956)
Disposals	25	5	30
As at 31 December 2016	(5,851)	(358)	(6,209)
Allowances for impairment losses (Note 38)			
As at 1 January 2016	(1)	(7)	(8)
As at 31 December 2016	(1)	(7)	(8)
Net carrying value			
As at 1 January 2016	1,416	687	2,103
As at 31 December 2016	1,836	763	2,599

35 GOODWILL

(1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movement of the goodwill is listed as follows:

	2017	2016
As at 1 January	**2,947**	2,140
Additions through acquisitions	**–**	566
Effect of exchange difference	**(196)**	241
As at 31 December	**2,751**	2,947

(2) **Impairment test for CGU containing goodwill**

The Group calculated the recoverable amount of CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment test, no impairment losses on goodwill of the Group were recognised as at 31 December 2017 (as at 31 December 2016: nil).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

36 DEFERRED TAX

	2017	2016
Deferred tax assets	46,189	31,062
Deferred tax liabilities	(389)	(570)
Total	45,800	30,492

(1) Analysed by nature

	2017		2016	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	31,341	8,162	1,899	458
– Allowances for impairment losses	153,278	38,023	111,883	27,952
– Early retirement benefits and accrued salaries	23,511	5,814	24,749	6,188
– Others	(26,160)	(5,810)	(17,429)	(3,536)
Total	181,970	46,189	121,102	31,062
Deferred tax liabilities				
– Fair value adjustments	(1,446)	(343)	(2,115)	(501)
– Allowances for impairment losses	–	–	28	7
– Others	(556)	(46)	(447)	(76)
Total	(2,002)	(389)	(2,534)	(570)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Early retirement benefits and accrued salaries	Others	Total
As at 1 January 2017	(43)	27,959	6,188	(3,612)	30,492
Recognised in profit or loss	(233)	10,064	(374)	(2,244)	7,213
Recognised in other comprehensive income	8,095	–	–	–	8,095
As at 31 December 2017	7,819	38,023	5,814	(5,856)	45,800
As at 1 January 2016	(8,529)	31,507	5,945	(4,168)	24,755
Recognised in profit or loss	121	(3,548)	243	556	(2,628)
Recognised in other comprehensive income	8,365	–	–	–	8,365
As at 31 December 2016	(43)	27,959	6,188	(3,612)	30,492

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

37 OTHER ASSETS

	Note	2017	2016
Repossessed assets	(1)		
– Buildings		1,589	1,773
– Land use rights		624	745
– Others		953	955
		3,166	3,473
Fee and commission receivables		9,463	7,782
Clearing and settlement accounts		6,095	23,494
Leasehold improvements		3,401	3,489
Deferred expenses		3,254	3,297
Policyholder account assets of insurance business		431	5,664
Others		49,628	33,139
Gross balance		75,438	80,338
Allowances for impairment losses (Note 38)			
– Repossessed assets		(1,035)	(1,062)
– Others		(2,987)	(3,278)
Total		71,416	75,998

(1) For the year ended 31 December 2017, the original cost of repossessed assets disposed of by the Group amounted to RMB606 million (for the year ended 31 December 2016: RMB161 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

38 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

		2017				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	66	(9)	–	–	57
Placements with banks and non-bank financial institutions	20	123	(11)	–	–	112
Loans and advances to customers	25(3)	268,677	123,389	(26,107)	(36,991)	328,968
Available for sale debt securities		1,309	457	57	–	1,823
Available for sale equity instrument		4,076	307	119	(30)	4,472
Held-to-maturity investments	27	3,049	413	(52)	–	3,410
Investment classified as receivables	28	1,351	796	(33)	–	2,114
Fixed assets	32	496	1	–	(78)	419
Land use rights	33	142	–	–	(2)	140
Intangible assets	34	8	1	–	(1)	8
Other assets	37	4,340	1,613	–	(1,931)	4,022
Total		283,637	126,957	(26,016)	(39,033)	345,545

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

38 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (CONTINUED)

		2016				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	7	59	–	–	66
Placements with banks and non-bank financial institutions	20	36	90	–	(3)	123
Interest receivable	24	1	–	–	(1)	–
Loans and advances to customers	25(3)	250,617	89,588	(37,881)	(33,647)	268,677
Available for sale debt securities		1,051	217	41	–	1,309
Available for sale equity instrument		4,317	89	(330)	–	4,076
Held-to-maturity investments	27	2,033	970	46	–	3,049
Investment classified as receivables	28	1,908	(586)	29	–	1,351
Fixed assets	32	501	46	(51)	–	496
Land use rights	33	142	–	–	–	142
Intangible assets	34	8	–	–	–	8
Other assets	37	4,582	752	–	(994)	4,340
Total		265,203	91,225	(38,146)	(34,645)	283,637

Transfer (out)/in includes exchange differences.

39 BORROWINGS FROM CENTRAL BANKS

	2017	2016
Mainland China	484,657	385,375
Overseas	62,630	53,964
Total	547,287	439,339

40 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2017	2016
Banks	149,749	413,150
Non-bank financial institutions	1,187,246	1,199,845
Total	1,336,995	1,612,995

(2) Analysed by geographical sectors

	2017	2016
Mainland China	1,181,374	1,442,126
Overseas	155,621	170,869
Total	1,336,995	1,612,995

41 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2017	2016
Banks	353,317	297,639
Non-bank financial institutions	30,322	24,907
Total	383,639	322,546

(2) Analysed by geographical sectors

	2017	2016
Mainland China	148,424	118,944
Overseas	235,215	203,602
Total	383,639	322,546

42 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
Principal guaranteed wealth management products	354,382	324,443
Financial liabilities related to precious metals	39,927	31,313
Structured financial instruments	19,839	40,835
Total	414,148	396,591

The Group's financial liabilities at fair value through profit or loss are those designated at fair value through profit or loss. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2017 and 2016.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

43 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	2017	2016
Securities		
– Government bonds	**63,322**	167,088
– Debt securities issued by policy banks, banks and non-bank financial institutions	**3,632**	15,640
Subtotal	**66,954**	182,728
Discounted bills	**401**	5,500
Others	**6,924**	2,352
Total	**74,279**	190,580

44 DEPOSITS FROM CUSTOMERS

	2017	2016
Demand deposits		
– Corporate customers	**5,767,595**	5,206,395
– Personal customers	**3,204,950**	3,022,447
Subtotal	**8,972,545**	8,228,842
Time deposits (including call deposits)		
– Corporate customers	**3,312,456**	3,120,699
– Personal customers	**4,078,753**	4,053,374
Subtotal	**7,391,209**	7,174,073
Total	**16,363,754**	15,402,915

Deposits from customers include:

		2017	2016
(1)	Pledged deposits		
	– Deposits for acceptance	**83,365**	99,822
	– Deposits for guarantee	**97,050**	80,930
	– Deposits for letter of credit	**22,491**	28,264
	– Others	**290,235**	313,110
	Total	**493,141**	522,126
(2)	Outward remittance and remittance payables	**29,635**	14,121

45 ACCRUED STAFF COSTS

		2017			
	Note	As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		**24,813**	**64,274**	**(65,459)**	**23,628**
Other social insurance and welfare		**2,735**	**10,213**	**(8,975)**	**3,973**
Housing funds		**193**	**6,214**	**(6,244)**	**163**
Union running costs and employee education costs		**2,252**	**2,609**	**(2,123)**	**2,738**
Post-employment benefits	(1)				
– Defined contribution plans		**964**	**12,923**	**(12,994)**	**893**
– Defined benefit plans		**970**	**25**	**(1,435)**	**(440)**
Early retirement benefits		**1,940**	**76**	**(342)**	**1,674**
Compensation to employees for termination of employment relationship		**3**	**4**	**(4)**	**3**
Total		**33,870**	**96,338**	**(97,576)**	**32,632**

		2016			
	Note	As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses,allowances and subsidies		25,291	62,093	(62,571)	24,813
Other social insurance and welfare		2,288	8,997	(8,550)	2,735
Housing funds		135	6,296	(6,238)	193
Union running costs and employee education costs		2,123	2,567	(2,438)	2,252
Post-employment benefits	(1)				
– Defined contribution plans		906	12,846	(12,788)	964
– Defined benefit plans		128	842	–	970
Early retirement benefits		2,315	91	(466)	1,940
Compensation to employees for termination of employment relationship		4	3	(4)	3
Total		33,190	93,735	(93,055)	33,870

The Group has no overdue balance of accrued staff costs as at the end of the reporting period.

(1) Post-employment benefits

(a) Defined contribution plans

	2017			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	**664**	**9,622**	**(9,697)**	**589**
Unemployment insurance	**42**	**312**	**(317)**	**37**
Annuity contribution	**258**	**2,989**	**(2,980)**	**267**
Total	**964**	**12,923**	**(12,994)**	**893**

	2016			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	635	9,429	(9,400)	664
Unemployment insurance	33	485	(476)	42
Annuity contribution	238	2,932	(2,912)	258
Total	906	12,846	(12,788)	964

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

	Present value of defined benefit plan obligations		Fair value of plan assets		Net liabilities of defined benefit plans	
	2017	2016	**2017**	2016	**2017**	2016
As at 1 January	**7,131**	6,664	**6,161**	6,536	**970**	128
Cost of the net defined benefit liability in profit or loss						
– Interest costs	**212**	186	**187**	183	**25**	3
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial (gain)/losses	**(519)**	919	**–**	–	**(519)**	919
– Returns on plan assets	**–**	–	**74**	80	**(74)**	(80)
Other changes						
– Benefits paid	**(627)**	(638)	**(627)**	(638)	**–**	–
– Contribution to plan assets	**–**	–	**842**	–	**(842)**	–
As at 31 December	**6,197**	7,131	**6,637**	6,161	**(440)**	970

Interest cost was recognised in other general and administrative expenses.

(i) Principal actuarial assumptions of the Group as at the end of reporting period are as follows:

	2017	2016
Discount rate	**4.00%**	3.00%
Health care cost increase rate	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**12.4 years**	12.8 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table published historical statistics in China.

(ii) The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	Decrease in assumption by 0.25%
Discount rate	(121)	125
Health care cost increase rate	45	(44)

(iii) As at 31 December 2017, the weighted average duration of supplementary retirement benefit obligations of the Group is 7.9 years (As at 31 December 2016: 8.7 years).

45 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits (continued)

(iv) Plan assets of the Group are as follows:

	2017	2016
Cash and cash equivalents	411	1,185
Equity instruments	532	359
Debt instruments	5,557	4,522
Others	137	95
Total	6,637	6,161

46 TAXES PAYABLE

	2017	2016
Income tax	44,359	35,526
Business tax	–	68
Value added tax	7,549	7,039
Others	2,198	2,267
Total	54,106	44,900

47 INTEREST PAYABLE

	2017	2016
Deposits from customers	175,126	185,018
Deposits from banks and non-bank financial institutions	7,550	15,801
Debts securities issued	2,307	2,312
Others	14,605	8,199
Total	199,588	211,330

48 PROVISIONS

	2017	2016
Litigation provisions	2,946	2,292
Others	7,635	6,984
Total	10,581	9,276

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

49 DEBT SECURITIES ISSUED

	Note	2017	2016
Certificates of deposit issued	(1)	**321,366**	199,008
Bonds issued	(2)	**71,331**	47,163
Subordinated bonds issued	(3)	**144,898**	145,599
Eligible Tier 2 capital bonds issued	(4)	**58,931**	59,784
Total		**596,526**	451,554

(1) Certificates of deposit were mainly issued by head office, overseas branches and Sino-German Bausparkasse.

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	2017	2016
2014-04-01	2017-04-01	2.375%	Hong Kong	USD	**–**	2,085
2014-05-28	2019-05-28	1.375%	Switzerland	CHF	**2,002**	2,047
2014-06-27	2017-06-27	3.45%	Switzerland	RMB	**–**	1,250
2014-07-02	2019-07-02	3.25%	Hong Kong	USD	**3,904**	4,170
2014-09-05	2017-09-05	3.35%	Taiwan	RMB	**–**	800
2014-09-05	2019-09-05	3.75%	Taiwan	RMB	**600**	600
2014-09-05	2021-09-05	4.00%	Taiwan	RMB	**600**	600
2014-11-18	2019-11-18	3.75%	Taiwan	RMB	**1,000**	1,000
2014-11-18	2021-11-18	3.95%	Taiwan	RMB	**1,000**	1,000
2014-11-18	2024-11-18	4.08%	Taiwan	RMB	**600**	600
2015-01-20	2020-01-20	3.125%	Hong Kong	USD	**4,555**	4,865
2015-02-11	2020-02-11	1.50%	Luxembourg	EUR	**3,902**	3,655
2015-06-18	2018-06-18	4.317%	Auckland	NZD	**231**	241
2015-06-18	2019-06-18	4.30%	Auckland	NZD	**7**	7
2015-06-18	2020-06-18	3 month New Zealand benchmark interest rate+1.2%	Auckland	NZD	**115**	120
2015-07-16	2018-06-18	3.935%	Auckland	NZD	**69**	72
2015-07-28	2020-07-28	3.25%	Hong Kong	USD	**3,253**	3,475
2015-09-10	2019-09-10	3.945%	Auckland	NZD	**57**	59
2015-09-18	2018-09-18	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	**2,031**	2,003
2015-10-19	2017-10-19	4.30%	London	RMB	**–**	990
2015-11-26	2017-11-26	4.00%	Hong Kong	RMB	**–**	1,000
2015-12-07	2018-09-18	3 month Australia benchmark interest rate+1.15%	Sydney	AUD	**15**	15
2015-12-29	2020-01-27	3.80%	Auckland	NZD	**92**	96
2016-03-30	2026-03-30	4.08%	Mainland China	RMB	**3,500**	3,500
2016-05-16	2019-05-16	3.10%	Auckland	NZD	**47**	48
2016-05-31	2019-05-31	2.38%	Hong Kong	USD	**1,434**	757
2016-05-31	2021-05-31	2.75%	Hong Kong	USD	**1,967**	1,934
2016-08-18	2020-09-18	2.95%	Auckland	NZD	**475**	496
2016-10-18	2020-10-18	3.05%	Auckland	NZD	**7**	7
2016-10-21	2021-10-21	2.25%	Hong Kong	USD	**1,757**	4,865
2016-11-09	2019-11-09	3.05%	Mainland China	RMB	**3,200**	4,000
2016-11-09	2021-11-09	3.05%	Mainland China	RMB	**800**	1,000
2016-12-22	2019-12-22	3.35%	Auckland	NZD	**46**	48
2017-02-17	2020-02-17	0.63%	Luxembourg	EUR	**3,902**	–
2017-05-05	2022-07-26	Senior Tranche A: CNLR1Y+0.18% Senior Tranche B: CNLR1Y+0.64%	Mainland China	RMB	**1,012**	–
2017-05-31	2020-05-29	3MLIBOR+0.77%	Hong Kong	USD	**7,808**	–
2017-06-13	2022-06-13	2.75%	Hong Kong	USD	**3,904**	–
2017-08-04	2018-02-05	1.87%	Hong Kong	USD	**163**	–
2017-09-27	2019-09-27	2.37%	Hong Kong	USD	**488**	–
2017-10-25	2022-10-25	3.15%	Hong Kong	USD	**651**	–
2017-10-25	2020-10-27	2.20%	Hong Kong	USD	**78**	–
2017-10-26	2020-10-26	2.08%	Singapore	SGD	**2,432**	–
2017-11-09	2022-11-09	3.93%	Auckland	NZD	**692**	–
2017-12-04	2020-12-04	2.29%	Hong Kong	USD	**5,205**	–
2017-12-04	2020-12-04	2.75%	Hong Kong	USD	**3,253**	–
2017-12-04	2022-12-04	3.00%	Hong Kong	USD	**2,603**	–
2017-12-22	2018-12-21	3.25%	Hong Kong	USD	**2,798**	–
Total nominal value					**72,255**	47,405
Less: unamortised issuance costs					**(924)**	(242)
Carrying value as at 31 December					**71,331**	47,163

49 DEBT SECURITIES ISSUED (CONTINUED)

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC, the CBRC, the HKMA and Brasil Central Bank is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	2017	2016
2009-02-24	2024-02-26	4.00%	RMB	(a)	**28,000**	28,000
2009-08-07	2024-08-11	4.04%	RMB	(b)	**10,000**	10,000
2009-11-03	2019-11-04	Benchmark rate released by Brasil Central Bank	BRL	(c)	**393**	427
2009-12-18	2024-12-22	4.80%	RMB	(d)	**20,000**	20,000
2010-04-27	2020-04-27	8.50%	USD	(c)	**1,713**	1,883
2010-07-30	2017-10-15	7.31%	USD	(c)	**–**	222
2011-11-03	2026-11-07	5.70%	RMB	(e)	**40,000**	40,000
2012-11-20	2027-11-22	4.99%	RMB	(f)	**40,000**	40,000
2014-08-20	2024-08-20	4.25%	USD	(g)	**4,880**	5,212
Total nominal value					**144,986**	145,744
Less: Unamortised issuance cost					**(88)**	(145)
Carrying value as at 31 December					**144,898**	145,599

(a) The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7.00% per annum from 26 February 2019 for the next five years.

(b) The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(c) The subordinated bonds were issued by BIC, including a bond expired on 15 October 2017.

(d) The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(e) The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

(f) The Group has an option to redeem the bonds on 22 November 2022, subject to an approval from relevant authority.

(g) The Group has an option to redeem the bonds on 20 August 2019, subject to an approval from relevant authority.

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	2017	2016
2014-08-15	2029-08-18	5.98%	RMB	(a)	**20,000**	20,000
2014-11-12	2024-11-12	4.90%	RMB	(b)	**2,000**	2,000
2015-05-13	2025-05-13	3.875%	USD	(c)	**13,014**	13,899
2015-12-18	2025-12-21	4.00%	RMB	(d)	**24,000**	24,000
Total nominal value					**59,014**	59,899
Less: Unamortised issuance cost					**(83)**	(115)
Carrying value as at 31 December					**58,931**	59,784

(a) The Group has an option to redeem the bonds on 18 August 2024, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.

(b) The Group has an option to redeem the bonds on 12 November 2019, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate per annum will increase by 1.538% on the basis of twelve months CNH HIBOR applicable on the interest reset date from 12 November 2019 for the next five years, these eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.

(c) The Group has an option to redeem the bonds on 13 May 2020, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 13 May 2020 and increase by 2.425% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.

(d) The Group has an option to redeem the bonds on 21 December 2020, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

50 OTHER LIABILITIES

	2017	2016
Insurance related liabilities	112,914	95,892
Clearing and settlement accounts	16,136	966
Payment and collection clearance accounts	13,986	3,190
Deferred income	11,731	11,473
Capital expenditure payable	9,552	10,388
Cash pledged and rental income received in advance	8,887	8,259
Dormant accounts	5,032	4,501
Accrued expenses	3,382	3,074
Others	53,145	29,509
Total	234,765	167,252

51 SHARE CAPITAL

	2017	2016
Listed in Hong Kong (H share)	240,417	240,417
Listed in Mainland China (A share)	9,594	9,594
Total	250,011	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

52 OTHER EQUITY INSTRUMENTS

(1) Preference shares outstanding as at the end of the reporting period

Preference shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Total amount Original Currency (USD)	Total amount (RMB)	Maturity date	Conversion conditions
2015 Offshore Preference Shares	16 December 2015	Equity instruments	4.65%	$20 per share	152.5	3,050	19,711	No maturity date	None
2017 Domestic Preference Shares	21 December 2017	Equity instruments	4.75%	RMB100 per share	600		60,000	No maturity date	None
Less: Issuance fee							(75)		
Carrying amount							79,636		

52 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) The key terms

(a) Offshore Preference Shares

(i) Dividend

The initial annual dividend rate is 4.65% and is subsequently subject to reset per agreement, but in no case shall exceed 20.4850%. The dividend is measured and paid in dollars. After such dividend being paid at the agreed dividend payout ratio, the holders of the above offshore preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends for offshore preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend for the offshore preference shares, and such cancellation shall not be deemed a default. However, until the Bank fully pays the dividends for the current dividend period, the Bank shall not make any dividend distribution to ordinary shareholders.

(ii) Redemption

Subject to receiving the prior approval of CBRC and satisfaction of the redemption conditions precedent, all or some only of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 16 December 2020 or on any dividend payment date thereafter at the redemption price which is equal to issue price plus dividends payable but not yet distributed in current period.

(iii) Compulsory conversion of preference shares

When an Additional Tier 1 Capital Instrument Trigger Event occurs, that is Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% (or below), the Bank shall (without the need for the consent of offshore preference shareholders) convert all or some only of the preference shares in issue into such number of H shares which will be sufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125% according to contract; When a Tier 2 Capital Instrument Trigger Event occurs, the Bank shall (without the need for the consent of offshore preference shareholders) convert all of the offshore preference shares in issue into such number of H shares according to contract. Tier 2 Capital Instrument Trigger Event is defined as the earlier of: (i) the CBRC having decided that without a conversion or write-off the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Once a preference share has been converted, it will not be restored in any circumstances. When the compulsory conversion of offshore preference shares occurs, the Bank shall report to the CBRC for approval and decision.

(b) Domestic Preference Shares

(i) Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

(ii) Redemption

The Bank may, subject to CBRC Approval and compliance with the Redemption Preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

52 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) The key terms (continued)

(b) Domestic Preference Shares (continued)

(iii) Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (1) the CBRC having decided that without a conversion or write-off of the Bank's capital the Bank would become non-viable; and (2) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBRC for approval and decision, and perform the announcement obligation according to the regulations of Securities Act and CSRC.

The Bank classifies preference shares issued as an equity instrument and presented as an equity item on statements of financial position. Capital raised from the issuance of the above preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(3) Changes in Preference shares outstanding

	1 January 2017		Increase		31 December 2017	
Preference Shares	**Amount (million shares)**	**Carrying value**	**Amount (million shares)**	**Carrying value**	**Amount (million shares)**	**Carrying value**
2015 Offshore Preference Shares	152.5	19,659	–	–	**152.5**	**19,659**
2017 Domestic Preference Shares	–	–	600	59,977	**600**	**59,977**
Total	152.5	19,659	600	59,977	**752.5**	**79,636**

(4) Interests attributable to the holders of equity instruments

Items	2017	2016
1. Total equity attributable to equity holders of the Bank	**1,779,760**	1,576,500
(1) Equity attributable to ordinary equity holders of the Bank	**1,700,124**	1,556,841
(2) Equity attributable to other equity holders of the Bank	**79,636**	19,659
Of which: net profit	**1,045**	1,067
dividends received	**1,045**	1,067
2. Total equity attributable to non-controlling interests	**16,067**	13,154
(1) Equity attributable to non-controlling interests of ordinary shares	**12,645**	13,154
(2) Equity attributable to non-controlling interests of other equity instruments	**3,422**	–

53 CAPITAL RESERVE

	2017	2016
Share premium	134,537	134,543
Cash flow hedge reserve	320	(150)
Others	368	(433)
Total	135,225	133,960

54 INVESTMENT REVALUATION RESERVE

The changes in fair value of available-for-sale financial assets were recognised in “investment revaluation reserve”. Movements of investment revaluation reserve are as follows:

	2017		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	(1,381)	405	(976)
(Losses)/Gains during the year			
– Debt securities	(39,394)	9,541	(29,853)
– Equity instruments and funds	1,896	(474)	1,422
	(37,498)	9,067	(28,431)
Reclassification adjustments			
– Impairment	764	(191)	573
– Disposals	4,048	(1,012)	3,036
– Others	(274)	68	(206)
	4,538	(1,135)	3,403
As at 31 December	(34,341)	8,337	(26,004)

	2016		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	30,791	(7,733)	23,058
Losses during the year			
– Debt securities	(20,531)	5,228	(15,303)
– Equity instruments and funds	(6,401)	1,600	(4,801)
	(26,932)	6,828	(20,104)
Reclassification adjustments			
– Impairment	306	(77)	229
– Disposals	(5,546)	1,387	(4,159)
	(5,240)	1,310	(3,930)
As at 31 December	(1,381)	405	(976)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

55 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in annual general meetings.

56 GENERAL RESERVE

The general reserve of the Group as at the end of the reporting period is set up based upon the requirements of:

	Note	2017	2016
MOF	(1)	**254,104**	205,933
Hong Kong Banking Ordinance	(2)	**2,124**	2,124
Other regulatory bodies in Mainland China	(3)	**2,866**	2,546
Other overseas regulatory bodies		**586**	590
Total		**259,680**	211,193

(1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the 'Regulation on Management of Financial Institutions for Reserves' (Cai Jin [2012] No. 20), issued by the MOF on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

57 PROFIT DISTRIBUTION

In the Annual General Meeting held on 15 June 2017, the shareholders approved the profit distribution for the year ended 31 December 2016. The Bank appropriated cash dividend for the year ended 31 December 2016 in an aggregate amount of RMB69,503 million.

In the Board of Directors' Meeting held on 15 June 2017, the directors approved the payment of dividends to offshore preference shareholders. Calculated by the initial dividend rate before the first call date which is in accordance with the terms and conditions of the offshore preference shares and equals to 4.65% (after tax), the dividends payments amounted to RMB1,045 million yuan (including tax). The dividend payment date was 18 December 2017.

On 27 March 2018, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2017:

(1) Appropriate statutory surplus reserve amounted to RMB23,168 million, based on 10% of the net profit of the Bank amounted to RMB231,680 million for the year 2017 (2016: RMB22,413 million). It has been recorded in "Surplus reserve" as at the end of the reporting period.

(2) Appropriate general reserve amounted to RMB13,943 million, pursuant to relevant regulations issued by MOF (2016: RMB34,228 million).

(3) Appropriate cash dividend RMB0.291 per share before tax (2016: RMB0.278 per share) and in aggregation amount of RMB727,53 million to all shareholders. Proposed dividends as at the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

58 NOTES TO CASH FLOW STATEMENT

Cash and cash equivalents

	2017	2016
Cash	**73,876**	73,296
Surplus deposit reserves with central banks	**209,080**	183,764
Demand deposits with banks and non-bank financial institutions	**60,910**	60,921
Deposits with banks and non-bank financial institutions with original maturity with or within three months	**59,220**	229,622
Placements with banks and non-bank financial institutions with original maturity with or within three months	**168,253**	51,521
Total	**571,339**	599,124

59 TRANSFERRED FINANCIAL ASSETS

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

Securities Lending Transactions

Transferred financial assets that do not qualify for derecognition 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 derecognized them. As at 31 December 2017, the carrying value of debt securities lent to counterparties was RMB35,938 million (as at 31 December 2016: RMB36,577 million).

Credit Assets Securitisation Transactions

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group retains interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement.

As at 31 December 2017, loans with an original carrying amount of RMB153,397 million (as at 31 December 2016: RMB69,530 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2017, the carrying amount of assets that the Group continued to recognise was RMB13,375 million (as at 31 December 2016: RMB5,156 million). The carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB13,352 million as at 31 December 2017 (as at 31 December 2016: RMB5,216 million).

60 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- "Pearl River Delta" refers to the following areas where the tier-1 branches of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the "Central" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;
- the "Western" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the "Northeastern" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2017								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	48,813	44,573	38,519	52,282	53,586	12,290	186,954	15,439	452,456
Internal net interest income/(expense)	23,973	19,223	33,632	28,890	25,935	11,576	(136,706)	(6,523)	–
Net interest income	72,786	63,796	72,151	81,172	79,521	23,866	50,248	8,916	452,456
Net fee and commission income	17,095	15,584	18,332	16,872	11,383	3,813	31,780	2,939	117,798
Net trading gain/(loss)	1,022	1,567	637	362	407	189	(1,392)	2,066	4,858
Dividend income	1,288	5	–	189	11	–	245	457	2,195
Net gain/(loss) arising from investment securities	481	–	35	658	199	–	(2,846)	638	(835)
Other operating income, net	58	790	1,569	561	2,625	149	3,394	8,413	17,559
Operating income	92,730	81,742	92,724	99,814	94,146	28,017	81,429	23,429	594,031
Operating expenses	(25,727)	(21,426)	(26,204)	(30,140)	(27,754)	(11,324)	(16,748)	(7,720)	(167,043)
Impairment losses	(13,724)	(16,877)	(31,377)	(21,669)	(20,555)	(14,243)	(5,324)	(3,593)	(127,362)
Share of profit of associates and joint ventures	–	–	–	100	–	–	–	61	161
Profit before tax	53,279	43,439	35,143	48,105	45,837	2,450	59,357	12,177	299,787
Capital expenditure	1,932	1,916	7,655	2,666	2,006	1,054	1,687	6,209	25,125
Depreciation and amortisation	2,581	1,750	3,166	3,343	2,704	1,417	1,624	829	17,414
	2017								
Segment assets	4,687,992	3,479,166	4,916,680	4,058,155	3,294,459	1,100,318	8,672,547	1,723,881	31,933,198
Interests in associates and joint ventures	1	–	–	4,904	–	–	–	2,162	7,067
	4,687,993	3,479,166	4,916,680	4,063,059	3,294,459	1,100,318	8,672,547	1,726,043	31,940,265
Deferred tax assets									46,189
Elimination									(9,862,071)
Total assets									22,124,383
Segment liabilities	4,675,179	3,479,313	4,887,516	4,058,490	3,303,501	1,110,903	7,050,551	1,624,785	30,190,238
Deferred tax liabilities									389
Elimination									(9,862,071)
Total liabilities									20,328,556
Off-balance sheet credit commitments	600,582	422,504	767,363	492,226	348,508	155,452	–	242,537	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2016								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	40,351	36,855	34,408	45,352	49,218	11,517	191,503	8,595	417,799
Internal net interest income/(expense)	28,147	22,638	36,501	30,117	25,491	12,653	(153,546)	(2,001)	–
Net interest income	68,498	59,493	70,909	75,469	74,709	24,170	37,957	6,594	417,799
Net fee and commission income	17,974	16,352	19,581	17,983	13,301	5,821	24,865	2,632	118,509
Net trading gain/(loss)	388	517	(686)	122	44	46	1,051	2,493	3,975
Dividend income	1,908	5	1	278	2	–	87	277	2,558
Net gain arising from investment securities	759	–	29	501	254	–	8,780	775	11,098
Other operating income/(expense), net	173	709	1,812	522	2,987	221	(3,202)	2,699	5,921
Operating income	89,700	77,076	91,646	94,875	91,297	30,258	69,538	15,470	559,860
Operating expenses	(26,634)	(21,740)	(27,905)	(31,221)	(29,002)	(11,658)	(16,683)	(6,672)	(171,515)
Impairment losses	(23,181)	(18,363)	(16,112)	(17,404)	(9,517)	(4,949)	(1,612)	(2,066)	(93,204)
Share of profit of associates and joint ventures	–	–	–	30	–	–	–	39	69
Profit before tax	39,885	36,973	47,629	46,280	52,778	13,651	51,243	6,771	295,210
Capital expenditure	2,351	1,873	7,896	3,110	2,533	1,209	2,233	5,935	27,140
Depreciation and amortisation	2,433	1,639	2,731	3,032	2,483	1,280	1,674	745	16,017

	2016								
Segment assets	3,287,924	2,248,437	2,341,529	3,223,419	2,745,765	966,670	8,456,699	1,663,306	24,933,749
Interests in associates and joint ventures	–	–	31	4,184	–	–	–	3,103	7,318
	3,287,924	2,248,437	2,341,560	3,227,603	2,745,765	966,670	8,456,699	1,666,409	24,941,067
Deferred tax assets									31,062
Elimination									(4,008,424)
Total assets									20,963,705
Segment liabilities	3,292,293	2,252,473	2,325,284	3,220,764	2,742,194	966,764	7,020,522	1,561,611	23,381,905
Deferred tax liabilities									570
Elimination									(4,008,424)
Total liabilities									19,374,051
Off-balance sheet credit commitments	570,239	403,398	699,060	418,924	318,757	151,838	2,800	159,510	2,724,526

60 OPERATING SEGMENTS (CONTINUED)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2017				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	150,924	101,139	173,958	26,435	452,456
Internal net interest income/(expense)	73,083	74,348	(139,552)	(7,879)	–
Net interest income	224,007	175,487	34,406	18,556	452,456
Net fee and commission income	30,739	61,298	19,850	5,911	117,798
Net trading (loss)/gain	(6,128)	(1,357)	11,687	656	4,858
Dividend income	–	–	–	2,195	2,195
Net gain/(loss) arising from investment securities	–	–	681	(1,516)	(835)
Other operating (expense)/income, net	(556)	526	(700)	18,289	17,559
Operating income	248,062	235,954	65,924	44,091	594,031
Operating expenses	(59,291)	(83,839)	(9,582)	(14,331)	(167,043)
Impairment losses	(106,047)	(14,379)	(1,725)	(5,211)	(127,362)
Share of profit of associates and joint ventures	–	–	–	161	161
Profit before tax	82,724	137,736	54,617	24,710	299,787
Capital expenditure	5,110	7,974	849	11,192	25,125
Depreciation and amortisation	5,701	8,897	947	1,869	17,414
	2017				
Segment assets	6,837,261	5,377,252	8,475,693	1,648,535	22,338,741
Interests in associates and joint ventures	–	–	–	7,067	7,067
	6,837,261	5,377,252	8,475,693	1,655,602	22,345,808
Deferred tax assets					46,189
Elimination					(267,614)
Total assets					22,124,383
Segment liabilities	10,072,832	7,502,694	900,534	2,119,721	20,595,781
Deferred tax liabilities					389
Elimination					(267,614)
Total liabilities					20,328,556
Off-balance sheet credit commitments	2,016,432	761,613	–	251,127	3,029,172

60 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2016				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	165,280	62,914	171,382	18,223	417,799
Internal net interest income/(expense)	52,430	95,564	(141,946)	(6,048)	–
Net interest income	217,710	158,478	29,436	12,175	417,799
Net fee and commission income	33,038	60,426	21,352	3,693	118,509
Net trading (loss)/gain	(7,075)	673	8,801	1,576	3,975
Dividend income	–	–	–	2,558	2,558
Net gain arising from investment securities	–	–	9,066	2,032	11,098
Other operating (expense)/income, net	(58)	(256)	9,998	(3,763)	5,921
Operating income	243,615	219,321	78,653	18,271	559,860
Operating expenses	(59,923)	(88,569)	(10,179)	(12,844)	(171,515)
Impairment losses	(85,363)	(1,483)	(2,466)	(3,892)	(93,204)
Share of profit of associates and joint ventures	–	–	–	69	69
Profit before tax	98,329	129,269	66,008	1,604	295,210
Capital expenditure	5,376	9,040	1,095	11,629	27,140
Depreciation and amortisation	5,014	8,433	1,021	1,549	16,017

	2016				
Segment assets	7,064,795	4,522,379	8,195,103	1,564,749	21,347,026
Interests in associates and joint ventures	–	–	–	7,318	7,318
	7,064,795	4,522,379	8,195,103	1,572,067	21,354,344
Deferred tax assets					31,062
Elimination					(421,701)
Total assets					20,963,705
Segment liabilities	9,780,961	7,169,317	834,943	2,009,961	19,795,182
Deferred tax liabilities					570
Elimination					(421,701)
Total liabilities					19,374,051
Off-balance sheet credit commitments	1,917,363	647,498	–	159,665	2,724,526

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 ENTRUSTED LENDING BUSINESS

At the balance sheet date, the amounts of the entrusted loans and funds were as follows:

	2017	2016
Entrusted loans	2,736,842	2,398,103
Entrusted funds	2,736,842	2,398,103

62 PLEDGED ASSETS

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	2017	2016
Discounted bills	401	5,500
Bonds	628,172	655,915
Others	6,924	2,352
Total	635,497	663,767

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2017 and 2016, the Group did not hold any collateral for resale agreements, which it was permitted to sell or repledge in the absence of default for the transactions.

63 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit, etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	2017	2016
Loan commitments		
– with an original maturity within one year	192,768	191,077
– with an original maturity of one year or over	396,467	383,530
Credit card commitments	801,618	690,144
	1,390,853	1,264,751
Bank acceptances	276,629	296,606
Financing guarantees	60,821	107,160
Non-financing guarantees	898,422	776,775
Sight letters of credit	41,216	37,383
Usance letters of credit	266,865	160,141
Others	94,366	81,710
Total	3,029,172	2,724,526

63 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

	2017	2016
Credit risk-weighted amount of contingent liabilities and commitments	1,110,481	1,073,108

(3) Operating lease commitments

The Group leases certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	2017	2016
Within one year	5,720	5,717
After one year but within two years	4,289	4,396
After two years but within three years	3,024	3,194
After three years but within five years	3,350	5,076
After five years	2,423	2,756
Total	18,806	21,139

(4) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	2017	2016
Contracted for	5,882	9,294

(5) Underwriting obligations

As at 31 December 2017, there was no unexpired underwriting commitment of the Group (as at 31 December 2016: nil).

(6) Government bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 31 December 2017, were RMB79,431 million (as at 31 December 2016: RMB75,695 million).

(7) Outstanding litigation and disputes

As at 31 December 2017, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB10,499 million (as at 31 December 2016: RMB7,783 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 48). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies (Note 4 (14)).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of the PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company. It was registered in Beijing with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2017, Huijin directly held 57.11% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB144,986 million (as at 31 December 2016: RMB145,744 million). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows:

Amounts

	2017		2016	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,096**	**0.15%**	460	0.07%
Interest expense	**128**	**0.04%**	106	0.04%

Balances

	2017		2016	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Interest receivable	**140**	**0.12%**	151	0.15%
Loans and advances to customers	**28,000**	**0.22%**	–	0.00%
Available-for-sale financial assets	**2,199**	**0.14%**	–	0.00%
Held-to-maturity investments	**9,140**	**0.35%**	12,770	0.52%
Deposits from banks and non-bank financial institutions	**6,114**	**0.46%**	20	0.00%
Deposits from customers	**55**	**0.00%**	865	0.01%
Interest payable	**–**	**0.00%**	6	0.00%
Credit commitments	**288**	**0.01%**	288	0.01%

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies

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

Amounts

	Note	2017 Amount	2017 Ratio to similar transactions	2016 Amount	2016 Ratio to similar transactions
Interest income		32,102	4.28%	28,755	4.13%
Interest expense		10,237	3.44%	2,528	0.91%
Fee and commission income		667	0.51%	228	0.18%
Fee and commission expense		198	1.46%	295	3.15%
Operating expenses	(i)	724	0.46%	612	0.40%

Balances

	Note	2017 Balance	2017 Ratio to similar transactions	2016 Balance	2016 Ratio to similar transactions
Deposits with banks and non-bank financial institutions		36,672	20.95%	72,746	14.71%
Placements with banks and non-bank financial institutions		71,066	21.85%	69,487	26.66%
Financial assets at fair value through profit or loss		22,323	3.86%	8,111	1.66%
Positive fair value of derivatives		7,522	9.06%	3,581	3.99%
Financial assets held under resale agreements		62,500	30.00%	10,897	10.56%
Interest receivable		21,747	18.59%	14,606	14.37%
Loans and advances to customers		30,553	0.24%	53,297	0.46%
Available-for-sale financial assets		215,607	13.90%	234,915	14.38%
Held-to-maturity investments		458,789	17.74%	419,087	17.19%
Investment classified as receivables		28,925	6.21%	46,959	9.24%
Other assets		15	0.02%	80	0.11%
Deposits from banks and non-bank financial institutions	(ii)	194,730	14.56%	34,485	2.14%
Placements from banks and non-bank financial institutions		109,661	28.58%	68,722	21.31%
Negative fair value of derivatives		6,739	8.44%	7,332	8.12%
Financial assets sold under repurchase agreements		1,255	1.69%	15,904	8.35%
Deposits from customers		14,455	0.09%	18,471	0.12%
Interest payable		423	0.21%	3,058	1.45%
Other liabilities		1,251	0.53%	–	0.00%
Credit commitments		10,231	0.34%	23,159	1.18%

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.

(ii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	2017	2016
Interest income	**604**	12
Interest expense	**571**	4
Fee and commission income	**27**	–
Operating expenses	**–**	7

Balances

	2017	2016
Loans and advances to customers	**7,497**	680
Placements from banks and non-bank financial institutions	**98**	–
Financial liabilities at fair value through profit or loss	**–**	448
Deposits from customers	**2,223**	1,547
Interest payable	**2**	–
Other liabilities	**264**	–
Credit commitments	**82**	5

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2017	2016
Interest income	**1,320**	1,154
Interest expense	**577**	1,651
Fee and commission income	**1,820**	3,421
Fee and commission expense	**542**	646
Dividend income	**65**	50
Net gain arising from investment securities	**399**	315
Other operating expense, net	**(94)**	(370)
Operating expenses	**811**	3

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Transactions between the Bank and its subsidiaries (continued)

Balances

	2017	2016
Deposits with banks and non-bank financial institutions	**4,871**	11,254
Placements with banks and non-bank financial institutions	**90,481**	86,820
Positive fair value of derivatives	**1,424**	1,087
Interest receivable	**120**	81
Loans and advances to customers	**10,653**	6,259
Available-for-sale financial assets	**9,074**	2,271
Held-to-maturity investments	**656**	690
Investment classified as receivables	**455**	486
Other assets	**38,480**	49,931
Deposits from banks and non-bank financial institutions	**19,547**	9,315
Placements from banks and non-bank financial institutions	**58,017**	105,653
Negative fair value of derivatives	**1,288**	3,715
Deposits from customers	**3,821**	3,974
Interest payable	**94**	611
Debt securities issued	**840**	890
Other liabilities	**1,033**	110

As at 31 December 2017, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB53,726 million (as at 31 December 2016: RMB44,793 million).

For the year ended 31 December 2017, the transactions between subsidiaries of the Group are mainly deposits with banks and non-bank financial institution and deposits from banks and non-bank financial institutions. As at 31 December 2017, the balances of the above transactions were RMB4,613 million (as at 31 December 2016: RMB173 million) and RMB10,721 million (as at 31 December 2016: RMB4,478 million) respectively.

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; purchase, sale, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(5) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme for the years ended 31 December 2017 and 2016.

As at 31 December 2017, RMB3,183 million of the Group's supplementary retirement benefit plan assets (as at 31 December 2016: RMB2,950 million) were managed by CCB Principal and management fees from the Bank was RMB8.73 million (as at 31 December 2016: RMB8.73 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the years ended 31 December 2017 and 2016, there were no material transactions and balances with key management personnel.

The compensation of directors and supervisors is disclosed in Note 14. The senior executives' annual compensation before individual income tax during the year is as follows:

	2017			
	Remuneration paid	Contributions to defined contribution retirement schemes	Other benefits in kind (note (i))	Total (note (ii))
	RMB'000	RMB'000	RMB'000	RMB'000
Executive Vice President				
Yang Wensheng	467	51	88	606
Huang Yi	467	51	88	606
Yu Jingbo	467	51	88	606
Zhang Lilin	265	27	47	339
Chief Disciplinary Officer				
Zhu Kepeng	467	51	88	606
Chief Risk Officer				
Liao Lin	657	43	114	814
Chief Financial Officer				
Xu Yiming	788	51	136	975
Secretary to the Board				
Huang Zhiling	–	–	–	–
Former Chief Risk Officer				
Zeng Jianhua	131	8	22	161
Former Secretary to the Board				
Chen Caihong	713	16	115	844
	4,422	349	786	5,557

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2016			
	Accrued cost	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank	Other monetary income	Total (note (iii))
	RMB'000	RMB'000	RMB'000	RMB'000
Executive Vice President				
Yang Wensheng	631	150	–	781
Huang Yi	631	150	–	781
Yu Jingbo	631	150	–	781
Chief Disciplinary Officer				
Zhu Kepeng	631	150	–	781
Chief Risk Officer				
Liao Lin	–	–	–	–
Chief Financial Officer				
Xu Yiming	1,977	169	–	2,146
Secretary to the Board				
Chen Caihong	1,977	169	–	2,146
Former Chief Risk Officer				
Zeng Jianhua	1,977	169	–	2,146
	8,455	1,107	–	9,562

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) The total compensation package for these key management personnel for the year ended 31 December 2017 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation to be adjusted for is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2017. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2016 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2016 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2016 was the final amount.

(iv) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities has been paid in accordance with relevant policies relating to the central remuneration reform.

(7) Loans, quasi-loans and other credit transactions to directors, supervisors and senior executives

The Group had no material balance of loans, quasi-loans and other credit transactions to directors, supervisors and senior executives as at the end of reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

65 RISK MANAGEMENT

The Group has exposure to the following risks:

- credit risk
- market risk
- liquidity risk
- operational risk
- insurance risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors carry out their responsibilities according to Articles of Association and other related regulatory requirements. The Board of Directors of the Bank has established the Risk Management Committee, responsible for making risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. The Board of Supervisors has oversight of the establishment of the overall risk management system and how well the Board of Directors and senior management carry out risk management responsibilities. Senior management is responsible for carrying out the risk strategy established by the Board of Directors and the implementation of the overall risk management of the Group. Senior management appoints Chief Risk Officer who assisted the president with the corresponding risk management work.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training system, standardised management and process management, aims at developing a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk Management Department is the overall business risk management department. Credit Management Department is the overall credit risk management department. Credit Approval Department is the overall credit business approval department. Internal Control and Compliance Department is the coordination department for operating risk management and internal control and compliance risk management. Other departments are responsible for various corresponding risks.

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core business sectors and their management procedures. Internal Control and Compliance Department assists the Audit Committee to execute the above mentioned responsibilities and reports to the Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading and is responsible for the special assets resolutions. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Credit Approval Department is responsible for the group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the SME Business Department, the Institutional Banking Department, the International Business Department, the Strategic Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Credit business (continued)

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risks and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors credit businesses, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A fine management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Credit grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered as impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

The core definitions of the five categories of loans and advances 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' abilities to service their loans are apparently in question and they cannot rely entirely on normal business revenues to repay principal and interest. Certain losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Group has also applied the same grading criteria and management approach in classifying the off-balance sheet credit-related operations.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Treasury business

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information there on is disclosed in notes (1)(h) and (1)(i) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

(a) Maximum credit risk exposure

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance.

	2017	2016
Deposits with central banks	**2,914,380**	2,775,965
Deposits with banks and non-bank financial institutions	**175,005**	494,618
Placements with banks and non-bank financial institutions	**325,233**	260,670
Debt investments at fair value through profit or loss	**554,048**	469,992
Positive fair value of derivatives	**82,980**	89,786
Financial assets held under resale agreements	**208,360**	103,174
Interest receivable	**116,993**	101,645
Loans and advances to customers	**12,574,473**	11,488,355
Available-for-sale debt securities	**1,461,824**	1,348,814
Held-to-maturity investments	**2,586,722**	2,438,417
Investment classified as receivables	**465,810**	507,963
Other financial assets	**65,238**	69,405
Total	**21,531,066**	20,148,804
Off-balance sheet credit commitments	**3,029,172**	2,724,526
Maximum credit risk exposure	**24,560,238**	22,873,330

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows

	Note	2017	2016
Gross impaired loans			
– Individually assessed and impaired gross amount		**169,798**	156,436
– Allowances for impairment losses		**(113,820)**	(99,453)
Subtotal		**55,978**	56,983
– Collectively assessed and impaired gross amount		**22,493**	22,254
– Allowances for impairment losses		**(13,802)**	(13,275)
Subtotal		**8,691**	8,979
Overdue but not impaired			
– between 1 day and 90 days		**30,483**	31,522
– between 91 days and 180 days		**–**	4
– more than 180 days		**–**	21
Gross amount		**30,483**	31,547
Allowances for impairment losses	(i)	**(3,164)**	(6,804)
Subtotal		**27,319**	24,743
Neither overdue nor impaired			
– Unsecured loans		**3,856,502**	3,442,193
– Guaranteed loans		**2,035,372**	1,880,508
– Loans secured by tangible assets other than monetary assets		**5,441,687**	5,002,018
– Loans secured by monetary assets		**1,347,106**	1,222,076
Gross amount		**12,680,667**	11,546,795
Allowances for impairment losses	(i)	**(198,182)**	(149,145)
Subtotal		**12,482,485**	11,397,650
Total		**12,574,473**	11,488,355

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued)

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are shown as follows:

	2017		
	Overdue but not impaired loans and advances		**Impaired loans and advances which are subject to individual assessment**
	Corporate	**Personal**	**Corporate**
Portion covered	**4,112**	**14,678**	**29,810**
Portion not covered	**3,523**	**8,170**	**139,988**
Total	**7,635**	**22,848**	**169,798**

	2016		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	3,632	15,005	27,773
Portion not covered	5,644	7,266	128,663
Total	9,276	22,271	156,436

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

	2017			2016		
	Gross Loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	**1,429,583**	**11.08%**	**516,193**	1,287,693	10.95%	520,293
– Manufacturing	**1,318,827**	**10.22%**	**410,706**	1,323,238	11.24%	464,514
– Leasing and commercial services	**981,704**	**7.61%**	**347,367**	826,410	7.03%	309,203
– Production and supply of electric power, heat, gas and water	**867,818**	**6.73%**	**199,689**	726,706	6.18%	192,922
– Real estate	**522,242**	**4.05%**	**284,698**	448,576	3.82%	316,657
– Wholesale and retail trade	**477,404**	**3.70%**	**266,890**	492,343	4.19%	252,177
– Water, environment and public utility management	**395,163**	**3.06%**	**193,538**	324,204	2.76%	167,715
– Construction	**280,721**	**2.18%**	**70,228**	259,268	2.21%	76,772
– Mining	**250,698**	**1.94%**	**28,685**	250,530	2.13%	29,755
– Public management, social securities and social organisation	**107,297**	**0.83%**	**18,035**	130,037	1.11%	33,862
– Agriculture, forestry, farming, fishing	**74,831**	**0.58%**	**24,972**	90,685	0.77%	34,986
– Education	**70,981**	**0.55%**	**16,912**	77,445	0.66%	21,415
– Others	**710,563**	**5.50%**	**87,281**	586,803	4.99%	80,183
Total corporate loans and advances	**7,487,832**	**58.03%**	**2,465,194**	6,823,938	58.04%	2,500,454
Personal loans and advances	**5,279,894**	**40.92%**	**4,429,426**	4,420,939	37.60%	3,820,851
Discounted bills	**135,715**	**1.05%**	**–**	512,155	4.36%	–
Total loans and advances to customers	**12,903,441**	**100.00%**	**6,894,620**	11,757,032	100.00%	6,321,305

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2017				
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**	**Charged to profit or loss during the year**	**Written off during the year**
Transportation, storage and postal services	**13,844**	**(8,651)**	**(26,573)**	**(10,184)**	**549**
Manufacturing	**76,557**	**(51,220)**	**(39,504)**	**(47,638)**	**15,896**

	2016				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Transportation, storage and postal services	6,004	(3,935)	(21,943)	(2,412)	250
Manufacturing	71,443	(44,348)	(29,902)	(44,859)	14,272

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

	2017			2016		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**2,288,830**	**17.74%**	**1,476,742**	2,117,133	18.02%	1,360,362
Central	**2,176,159**	**16.86%**	**1,346,200**	1,982,785	16.86%	1,197,869
Bohai Rim	**2,131,045**	**16.52%**	**1,024,363**	1,946,622	16.56%	892,618
Western	**2,117,740**	**16.41%**	**1,206,486**	1,953,377	16.61%	1,124,332
Pearl River Delta	**1,941,337**	**15.05%**	**1,370,326**	1,762,963	14.99%	1,312,827
Northeastern	**672,309**	**5.21%**	**341,388**	643,515	5.47%	296,115
Head office	**574,506**	**4.45%**	**–**	452,941	3.85%	–
Overseas	**1,001,515**	**7.76%**	**129,115**	897,696	7.64%	137,182
Gross loans and advances to customers	**12,903,441**	**100.00%**	**6,894,620**	11,757,032	100.00%	6,321,305

As at the end of reporting period, details of impaired loans and impairment allowances in respect of geographical sectors are as follows:

	2017		
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**
Bohai Rim	**38,302**	**(22,645)**	**(39,339)**
Western	**34,973**	**(19,205)**	**(37,230)**
Central	**32,154**	**(19,135)**	**(35,432)**
Yangtze River Delta	**31,460**	**(21,038)**	**(40,866)**
Pearl River Delta	**27,777**	**(18,022)**	**(31,612)**
Northeastern	**18,920**	**(11,925)**	**(15,798)**
Head Office	**5,867**	**(394)**	**(10,640)**
Overseas	**2,838**	**(1,456)**	**(4,231)**
Total	**192,291**	**(113,820)**	**(215,148)**

	2016		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	29,199	(15,573)	(31,505)
Western	29,435	(14,557)	(30,102)
Central	26,654	(14,557)	(28,012)
Yangtze River Delta	41,539	(27,423)	(32,173)
Pearl River Delta	29,426	(18,429)	(24,124)
Northeastern	14,794	(7,885)	(10,423)
Head Office	4,296	–	(9,471)
Overseas	3,347	(1,029)	(3,414)
Total	178,690	(99,453)	(169,224)

The definitions of geographical segments are set out in Note 60 (1).

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by types of collateral

	2017	2016
Unsecured loans	3,885,329	3,471,042
Guaranteed loans	2,123,492	1,964,685
Loans secured by tangible assets other than monetary assets	5,539,863	5,095,325
Loans secured by monetary assets	1,354,757	1,225,980
Gross loans and advances to customers	12,903,441	11,757,032

(f) Rescheduled loans and advances to customers

	2017		2016	
	Total	Percentage of gross loans and advances to customers	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	4,001	0.03%	5,020	0.04%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	998	0.01%	2,321	0.02%

(g) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	Note	2017	2016
Impaired			
– Individually assessed and impaired gross amount		25	29
– Allowances for impairment losses		(25)	(29)
Subtotal		–	–
Neither overdue nor impaired			
– Grade A to AAA		646,592	815,896
– Grade B to BBB		489	5,238
– Unrated		61,661	37,488
Total		708,742	858,622
Allowances for impairment losses	(i)	(144)	(160)
Subtotal		708,598	858,462
Total		708,598	858,462

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group have not assigned an internal credit rating.

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt investments portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

		2017					
	Note	Unrated	AAA	AA	A	Lower than A	Total
Impaired							
Individually assessed and impaired gross amount							
– Banks and non-bank financial institutions		–	–	–	–	–	–
– Enterprises		632	–	–	–	–	632
– Others		200	–	–	–	–	200
Total		832	–	–	–	–	832
Allowances for impairment losses							(434)
Subtotal							398
Neither overdue nor impaired							
– Government		2,042,536	1,158,184	8,698	24,490	25,461	3,259,369
– Central banks		6,891	5,837	25,089	–	–	37,817
– Policy banks		803,872	3,665	1,545	13,491	–	822,573
– Banks and non-bank financial institutions		253,410	100,733	12,765	31,369	8,443	406,720
– Enterprises		164,026	282,420	29,681	15,708	5,319	497,154
– Others		8,278	22,641	19,218	695	454	51,286
Total		3,279,013	1,573,480	96,996	85,753	39,677	5,074,919
Allowances for impairment losses	(i)						(6,913)
Subtotal							5,068,006
Total							5,068,404

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt investments analysed by rating (continued)

		2016					
	Note	Unrated	AAA	AA	A	Lower than A	Total
Impaired							
Individually assessed and impaired gross amount							
– Banks and non-bank financial institutions		347	–	–	–	–	347
– Enterprises		718	–	–	–	120	838
– Others		200	–	–	200	–	400
Total		1,265	–	–	200	120	1,585
Allowances for impairment losses							(878)
Subtotal							707
Neither overdue nor impaired							
– Government		1,892,081	728,643	21,717	6,253	21,988	2,670,682
– Central banks		12,087	–	9,681	–	–	21,768
– Policy banks		359,789	50	1,735	–	–	361,574
– Banks and non-bank financial institutions		865,663	166,698	30,002	36,798	6,701	1,105,862
– Enterprises		137,574	290,981	16,148	11,610	6,092	462,405
– Others		115,341	15,941	13,237	2,500	–	147,019
Total		3,382,535	1,202,313	92,520	57,161	34,781	4,769,310
Allowances for impairment losses	(i)						(4,831)
Subtotal							4,764,479
Total							4,765,186

(i) The balances represent collectively assessed allowances of impairment losses.

(i) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(j) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department manages the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc. to monitor the interest rate risk periodically.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

		2017			
	Note	**As at 31 December**	**Average**	**Maximum**	**Minimum**
Risk valuation of trading portfolio		**112**	**167**	**252**	**105**
Of which:					
– Interest rate risk		**59**	**84**	**148**	**50**
– Foreign exchange risk	(i)	**90**	**117**	**226**	**70**
– Commodity risk		**1**	**8**	**21**	**–**

		2016			
	Note	As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio		106	157	265	91
Of which:					
– Interest rate risk		61	52	144	20
– Foreign exchange risk	(i)	97	156	253	64
– Commodity risk		6	13	60	–

(i) The VaR in relation to bullion is included in foreign exchange risk above.

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

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group for the year by RMB46,727 million (as at 31 December 2016: RMB48,500 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group for the year would decrease or increase by RMB50,694 million (as at 31 December 2016: RMB43,566 million).

The above interest rate sensitivity is for illustration purpose only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the department who manages the interest related risk or related business departments to mitigate interest rate risk have not been taken into account. In practice, the department who manage the interest related risk strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate repricing gap. The main reason for measuring the interest rate repricing gap is to assist in analysing the impact of interest rate changes on net interest income.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

The following tables indicate the average interest rate ("AIR") for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

		2017						
	Note	Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.51%	122,593	2,865,663	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions		2.64%	–	364,272	128,267	7,699	–	500,238
Financial assets held under resale agreements		2.99%	–	208,360	–	–	–	208,360
Loans and advances to customers	(ii)	4.18%	–	7,514,939	4,660,444	336,579	62,511	12,574,473
Investments	(iii)	3.74%	120,309	460,631	522,564	2,362,479	1,722,732	5,188,715
Other assets			664,341	–	–	–	–	664,341
Total assets		3.66%	907,243	11,413,865	5,311,275	2,706,757	1,785,243	22,124,383
Liabilities								
Borrowings from central banks		2.99%	–	204,808	341,709	770	–	547,287
Deposits and placements from banks and non-bank financial institutions		2.49%	–	1,462,200	202,473	51,471	4,490	1,720,634
Financial liabilities at fair value through profit or loss		3.37%	19,854	234,157	153,549	6,588	–	414,148
Financial assets sold under repurchase agreements		3.33%	–	67,469	1,892	4,632	286	74,279
Deposits from customers		1.33%	121,264	11,569,194	2,987,851	1,674,005	11,440	16,363,754
Debt securities issued		3.69%	–	251,877	79,399	210,334	54,916	596,526
Other liabilities			611,928	–	–	–	–	611,928
Total liabilities		1.56%	753,046	13,789,705	3,766,873	1,947,800	71,132	20,328,556
Asset-liability gap		2.10%	154,197	(2,375,840)	1,544,402	758,957	1,714,111	1,795,827

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

		2016						
	Note	Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.51%	110,050	2,739,211	–	–	–	2,849,261
Deposits and placements with banks and non-bank financial institutions		2.76%	–	599,855	153,084	2,349	–	755,288
Financial assets held under resale agreements		2.60%	–	101,581	1,593	–	–	103,174
Loans and advances to customers	(ii)	4.26%	–	6,682,710	4,406,772	320,988	77,885	11,488,355
Investments	(iii)	3.65%	310,718	534,360	583,313	2,004,704	1,642,807	5,075,902
Other assets			691,725	–	–	–	–	691,725
Total assets		3.67%	1,112,493	10,657,717	5,144,762	2,328,041	1,720,692	20,963,705
Liabilities								
Borrowings from central banks		2.76%	–	142,591	296,602	146	–	439,339
Deposits and placements from banks and non-bank financial institutions		2.09%	–	1,447,097	450,354	36,010	2,080	1,935,541
Financial liabilities at fair value through profit or loss		2.88%	19,947	247,942	128,702	–	–	396,591
Financial assets sold under repurchase agreements		2.72%	–	187,932	1,008	1,574	66	190,580
Deposits from customers		1.45%	110,999	10,313,397	3,377,431	1,593,009	8,079	15,402,915
Debt securities issued		4.04%	–	158,133	71,781	131,577	90,063	451,554
Other liabilities			557,531	–	–	–	–	557,531
Total liabilities		1.61%	688,477	12,497,092	4,325,878	1,762,316	100,288	19,374,051
Asset-liability gap		2.06%	424,016	(1,839,375)	818,884	565,725	1,620,404	1,589,654

(i) Average interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB64,750 million as at 31 December 2017 (as at 31 December 2016: RMB76,096 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, investment classified as receivables and investments in associates and joint ventures.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the Treasury Department's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposure risk, and minimizes foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact to the pre-tax profits and other comprehensive income of the Group is not material.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

		2017			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,796,711	102,635	88,910	2,988,256
Deposits and placements with banks and non-bank financial institutions	(i)	538,969	151,775	17,854	708,598
Loans and advances to customers		11,304,255	832,693	437,525	12,574,473
Investments		4,927,815	167,193	93,707	5,188,715
Other assets		589,623	31,493	43,225	664,341
Total assets		20,157,373	1,285,789	681,221	22,124,383
Liabilities					
Borrowings from central banks		484,657	35,805	26,825	547,287
Deposits and placements from banks and non-bank financial institutions	(ii)	1,378,896	277,483	138,534	1,794,913
Financial liabilities at fair value through profit or loss		392,984	20,628	536	414,148
Deposits from customers		15,453,722	593,332	316,700	16,363,754
Debt securities issued		269,389	226,549	100,588	596,526
Other liabilities		511,113	77,123	23,692	611,928
Total liabilities		18,490,761	1,230,920	606,875	20,328,556
Net position		1,666,612	54,869	74,346	1,795,827
Net notional amount of derivatives		268,286	(294,407)	55,765	29,644
Credit commitments		2,673,845	153,622	201,705	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

		2016			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,627,642	132,659	88,960	2,849,261
Deposits and placements with banks and non-bank financial institutions	(i)	677,609	164,499	16,354	858,462
Loans and advances to customers		10,318,156	815,966	354,233	11,488,355
Investments		4,874,843	122,967	78,092	5,075,902
Other assets		508,602	153,120	30,003	691,725
Total assets		19,006,852	1,389,211	567,642	20,963,705
Liabilities					
Borrowings from central banks		385,374	28,964	25,001	439,339
Deposits and placements from banks and non-bank financial institutions	(ii)	1,740,191	275,673	110,257	2,126,121
Financial liabilities at fair value through profit or loss		380,632	15,162	797	396,591
Deposits from customers		14,539,781	568,294	294,840	15,402,915
Debt securities issued		213,579	213,937	24,038	451,554
Other liabilities		512,886	28,376	16,269	557,531
Total liabilities		17,772,443	1,130,406	471,202	19,374,051
Net position		1,234,409	258,805	96,440	1,589,654
Net notional amount of derivatives		213,538	(280,450)	89,001	22,089
Credit commitments		2,461,840	88,183	174,503	2,724,526

(i) Including financial assets held under resale agreements.

(ii) Including financial assets sold under repurchase agreements.

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk

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 the other funding needs in regular business development. Major factors and events affecting liquidity risks include: massive outflow of wholesale or retail deposits, increase in wholesale or retail financing cost, debtor defaults, decrease in the liquidity of assets, and decrease in the financing ability etc.

In managing liquidity risks, the decision-making system consists of the Bank's Board of Directors and its sub-committee, and the senior management. The Head Office's Asset and Liability Management Department takes the lead in the daily management of the Bank's liquidity risks, and works along with the Financial Market Department, Channel and Operation Management Department, Data Management Department, Public Relations & Corporate Culture Department, Board of Directors' Office, management arms of business lines, and relevant divisions of the branches and subsidiaries to ensure proper execution of liquidity risk management actions. The Board of Supervisors and Audit Department constitute as the supervisory component. These three units perform decision-making, execution and supervisory functions respectively in the Bank's liquidity risk management as per their roles and responsibilities.

The Group's objective for liquidity risk management is to guarantee the Group's payment and settlement security, and maintain an optimal balance between the Bank's liquidity position and profitability. Liquidity risks are managed on a consolidated basis, where the Head Office centrally manages the Bank's overall liquidity risks, and in light of regulatory requirements, external macro environment and the Bank's business development status, formulates liquidity risk management policies, including limit management, intraday liquidity risk management, stress testing and contingency planning. Subsidiaries are the primary owners of their own liquidity risk management.

The Group conducts stress testing on its liquidity risk position on a quarterly basis in order to gauge its risk tolerance in adverse situations, including improbable extreme scenarios. The results have shown that under stress scenarios, the Bank's liquidity risk increases but remains manageable.

The Group uses a variety of methods to measure its liquidity risks, including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	2017							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,705,300	282,956	–	–	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions	–	85,221	194,429	80,625	128,814	11,149	–	500,238
Financial assets held under resale agreements	–	–	203,910	4,450	–	–	–	208,360
Loans and advances to customers	72,933	631,065	445,807	581,601	2,641,172	2,881,396	5,320,499	12,574,473
Investments								
– Financial assets at fair value through profit or loss	24,386	–	150,934	103,563	150,580	128,825	20,148	578,436
– Available-for-sale financial assets	88,855	–	37,644	31,627	127,903	931,628	333,023	1,550,680
– Held-to-maturity investments	–	–	13,953	36,360	220,316	1,186,295	1,129,798	2,586,722
– Investment classified as receivables	–	–	2,841	11,479	23,610	207,401	220,479	465,810
– Investments in associates and joint ventures	7,067	–	–	–	–	–	–	7,067
Other assets	244,725	76,990	42,548	85,403	127,317	48,817	38,541	664,341
Total assets	3,143,266	1,076,232	1,092,066	935,108	3,419,712	5,395,511	7,062,488	22,124,383
Liabilities								
Borrowings from central banks	–	–	97,125	107,684	341,708	770	–	547,287
Deposits and placements from banks and non-bank financial institutions	–	764,478	347,584	287,101	250,648	65,779	5,044	1,720,634
Financial liabilities at fair value through profit or loss	–	19,854	136,833	97,323	153,550	6,588	–	414,148
Financial assets sold under repurchase agreements	–	–	66,125	1,344	1,892	4,632	286	74,279
Deposits from customers	–	9,783,474	1,117,271	1,101,977	2,636,627	1,699,395	25,010	16,363,754
Debt securities issued								
– Certificates of deposit issued	–	–	60,085	150,190	91,918	19,140	33	321,366
– Bonds issued	–	–	–	162	3,715	63,355	4,099	71,331
– Subordinated bonds issued	–	–	–	–	–	140,044	4,854	144,898
– Eligible Tier 2 capital bonds issued	–	–	–	–	–	12,967	45,964	58,931
Other liabilities	4,022	135,125	74,668	78,171	255,819	49,822	14,301	611,928
Total liabilities	4,022	10,702,931	1,899,691	1,823,952	3,735,877	2,062,492	99,591	20,328,556
Net gaps	3,139,244	(9,626,699)	(807,625)	(888,844)	(316,165)	3,333,019	6,962,897	1,795,827
Notional amount of derivatives								
– Interest rate contracts	–	–	30,749	45,943	145,336	98,848	11,604	332,480
– Exchange rate contracts	–	–	870,778	893,633	3,430,481	110,477	2,626	5,307,995
– Other contracts	–	–	33,184	61,192	84,471	3,513	272	182,632
Total	–	–	934,711	1,000,768	3,660,288	212,838	14,502	5,823,107

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2016							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,592,203	257,058	–	–	–	–	–	2,849,261
Deposits and placements with banks and non-bank financial institutions	–	85,218	306,393	138,820	218,544	6,313	–	755,288
Financial assets held under resale agreements	–	–	78,001	23,580	1,593	–	–	103,174
Loans and advances to customers	75,438	484,321	401,828	709,215	2,644,332	2,901,246	4,271,975	11,488,355
Investments								
– Financial assets at fair value through profit or loss	18,378	–	62,282	133,374	152,097	107,723	14,516	488,370
– Available-for-sale financial assets	285,020	–	29,090	66,362	168,110	783,090	302,162	1,633,834
– Held-to-maturity investments	–	–	5,318	44,950	200,830	1,053,776	1,133,543	2,438,417
– Investment classified as receivables	–	–	45,048	26,747	53,056	178,486	204,626	507,963
– Investments in associates and joint ventures	7,318	–	–	–	–	–	–	7,318
Other assets	229,069	89,276	34,077	79,502	173,739	55,946	30,116	691,725
Total assets	3,207,426	915,873	962,037	1,222,550	3,612,301	5,086,580	5,956,938	20,963,705
Liabilities								
Borrowings from central banks	–	–	83,176	59,415	296,602	146	–	439,339
Deposits and placements from banks and non-bank financial institutions	–	982,735	226,509	167,189	491,880	61,488	5,740	1,935,541
Financial liabilities at fair value through profit or loss	–	19,947	131,301	116,642	128,701	–	–	396,591
Financial assets sold under repurchase agreements	–	–	184,074	3,858	1,008	1,574	66	190,580
Deposits from customers	–	8,336,446	966,975	1,113,365	2,723,870	2,244,258	18,001	15,402,915
Debt securities issued								
– Certificates of deposit issued	–	–	61,274	65,381	57,153	15,037	163	199,008
– Bonds issued	–	–	–	2,084	4,023	36,959	4,097	47,163
– Subordinated bonds issued	–	–	–	–	218	100,230	45,151	145,599
– Eligible Tier 2 capital bonds issued	–	–	–	–	–	13,828	45,956	59,784
Other liabilities	582	116,506	52,697	67,710	234,456	78,943	6,637	557,531
Total liabilities	582	9,455,634	1,706,006	1,595,644	3,937,911	2,552,463	125,811	19,374,051
Net gaps	3,206,844	(8,539,761)	(743,969)	(373,094)	(325,610)	2,534,117	5,831,127	1,589,654
Notional amount of derivatives								
– Interest rate contracts	–	–	70,611	77,418	204,710	106,484	11,586	470,809
– Exchange rate contracts	–	–	771,445	782,146	2,949,614	140,260	6,750	4,650,215
– Other contracts	–	–	47,553	98,665	177,124	10,177	34	333,553
Total	–	–	889,609	958,229	3,331,448	256,921	18,370	5,454,577

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet credit commitments of the Group as at the end of reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	2017							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	547,287	563,332	–	99,448	110,503	352,611	770	–
Deposits and placements from banks and non-bank financial institutions	1,720,634	1,751,770	766,491	351,816	291,385	260,618	74,705	6,755
Financial liabilities at fair value through profit or loss	414,148	418,613	19,854	138,903	98,501	154,750	6,605	–
Financial assets sold under repurchase agreements	74,279	75,774	–	66,326	1,374	2,030	5,658	386
Deposits from customers	16,363,754	16,725,423	9,785,489	1,131,863	1,138,058	2,735,162	1,905,745	29,106
Debt securities issued								
– Certificates of deposit issued	321,366	359,190	–	63,261	150,660	104,893	40,339	37
– Bond issued	71,331	82,226	–	201	1,796	8,139	67,539	4,551
– Subordinated bonds issued	144,898	204,878	–	36	1,224	5,913	175,336	22,369
– Eligible Tier 2 capital bonds issued	58,931	80,778	–	–	–	2,758	28,842	49,178
Other financial liabilities	216,642	216,642	24,349	26,551	28,197	124,193	–	13,352
Total	19,933,270	20,478,626	10,596,183	1,878,405	1,821,698	3,751,067	2,305,539	125,734
Off- balance sheet loan commitments and credit card commitments (Note)		1,390,853	1,133,818	85,704	8,111	37,721	83,073	42,426
Guarantees, acceptances and other credit commitments (Note)		1,638,319	–	398,492	232,930	425,987	542,427	38,483

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	2016							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	439,339	448,505	–	84,409	59,995	303,955	146	–
Deposits and placements from banks and non-bank financial institutions	1,935,541	1,971,240	982,986	230,278	168,537	512,184	69,621	7,634
Financial liabilities at fair value through profit or loss	396,591	399,304	19,947	132,354	117,192	129,811	–	–
Financial assets sold under repurchase agreements	190,580	190,852	–	184,290	3,903	1,019	1,574	66
Deposits from customers	15,402,915	15,773,027	8,337,879	978,905	1,142,665	2,829,974	2,462,243	21,361
Debt securities issued								
– Certificates of deposit issued	199,008	201,424	–	61,772	65,817	58,028	15,639	168
– Bond issued	47,163	53,205	–	208	2,196	5,196	40,721	4,884
– Subordinated bonds issued	145,599	179,558	–	–	1,231	6,185	124,329	47,813
– Eligible Tier 2 capital bonds issued	59,784	80,834	–	–	–	2,814	24,277	53,743
Other financial liabilities	189,807	189,807	67,124	12,538	19,252	85,665	–	5,228
Total	19,006,327	19,487,756	9,407,936	1,684,754	1,580,788	3,934,831	2,738,550	140,897
Off- balance sheet loan commitments and credit card commitments (Note)		1,264,751	1,043,081	71,231	15,313	70,347	52,127	12,652
Guarantees, acceptances and other credit commitments (Note)		1,459,775	–	317,599	163,731	367,089	566,264	45,092

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amount to be paid.

65 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk is the risk of loss due to inadequate or flawed internal processes, people, systems or external events. In 2017, the Group continued to strengthen its operational risk management, optimize operational risk management tools and deepen and expand the applications of these tools.

– Using a variety of means and methods, including special self-assessments, entity-level comprehensive self-assessments and project re-visits, the Bank took anticipatory actions to identify and assess operational risks and strengthen and improve internal controls.

– It also strengthened its operational risk monitoring and early-warning capability, including establishing tailored key risk indicator monitoring systems in tier-one branches, overseas institutions and subsidiaries, improving the head office-level key risk indicator system, and reinforcing risk management and control over key areas and components.

– As part of its efforts to strengthen the business continuity management system, the Bank harmonized the emergency management and disaster recovery strategy in the New Generation Core System, and followed the implementation of the New Generation Core System with timely development of relevant supporting rules and procedures as well as special action plans.

(5) Fair value of financial instruments

(a) Valuation process, technique and input

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and Senior Management. According to the requirements of the Board and the Board of Supervisors, Senior Management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

The major valuation techniques and inputs used by the Group are set out in Note 4(3)(g) and Note 4(24)(c). For the year ended 31 December 2017, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2016.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

– Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	2,050	187,397	–	189,447
– Equity instruments and funds	1,312	–	–	1,312
Financial assets designated as at fair value through profit or loss				
– Debt securities	–	–	10,211	10,211
– Equity instruments and funds	837	–	22,239	23,076
– Other debt instruments	–	228,995	125,395	354,390
Positive fair value of derivatives	–	82,881	99	82,980
Available-for-sale financial assets				
– Debt securities	176,791	1,282,194	2,839	1,461,824
– Equity instruments and funds	8,181	63,806	4,419	76,406
Total	189,171	1,845,273	165,202	2,199,646
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	–	413,676	472	414,148
Negative fair value of derivatives	–	79,769	98	79,867
Total	–	493,445	570	494,015

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	3,134	138,196	–	141,330
– Equity instruments and funds	1,825	–	–	1,825
Financial assets designated as at fair value through profit or loss				
– Debt securities	–	–	8,690	8,690
– Equity instruments and funds	421	–	16,132	16,553
– Other debt instruments	–	55,116	264,856	319,972
Positive fair value of derivatives	–	89,320	466	89,786
Available-for-sale financial assets				
– Debt securities	59,380	1,283,715	5,719	1,348,814
– Equity instruments and funds	40,617	231,378	9,349	281,344
Total	105,377	1,797,725	305,212	2,208,314
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	–	395,883	708	396,591
Negative fair value of derivatives	–	89,788	545	90,333
Total	–	485,671	1,253	486,924

A majority of the financial assets classified as level 2 is RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as at fair value through profit or loss classified as level 2 is the fund raised from principal guaranteed wealth management products, the fair value of which is determined based on the income approach. The majority of derivatives is classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial asset at fair value through profit or loss classified as level 3 is the underlying assets of principal guaranteed wealth management products. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate.

As at 31 December 2017 and 2016, there were no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group.

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	2017									
	Financial assets designated as at fair value through profit or loss				Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Other debt instruments	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2017	8,690	16,132	264,856	466	5,719	9,349	305,212	(708)	(545)	(1,253)
Total gains or losses:										
In profit or loss	114	162	2,398	(243)	(264)	(46)	2,121	204	242	446
In other comprehensive income	–	–	–	–	(81)	(50)	(131)	–	–	–
Purchases	3,546	19,532	396,578	–	715	5,160	425,531	(287)	–	(287)
Sales and settlements	(2,139)	(13,587)	(538,437)	(124)	(3,250)	(9,994)	(576,531)	319	205	524
As at 31 December 2017	10,211	22,239	125,395	99	2,839	4,419	165,202	(472)	(98)	(570)

	2016									
	Financial assets designated as at fair value through profit or loss				Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Other debt instruments	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2016	586	2,326	208,204	883	9,604	5,027	226,630	(519)	(864)	(1,383)
Total gains or losses:										
In profit or loss	(19)	(113)	7,600	(361)	275	(19)	7,363	55	275	330
In other comprehensive income	–	–	–	–	424	(34)	390	–	–	–
Purchases	8,221	20,155	397,871	–	690	9,837	436,774	(369)	–	(369)
Sales and settlements	(98)	(6,236)	(348,819)	(56)	(5,274)	(5,462)	(365,945)	125	44	169
As at 31 December 2016	8,690	16,132	264,856	466	5,719	9,349	305,212	(708)	(545)	(1,253)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy (continued)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and impairment losses of the statement of comprehensive income.

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

	2017			2016		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains/(losses)	1,964	603	2,567	7,782	(89)	7,693

(d) Financial instruments not measured at fair value

(i) Financial assets

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, held-to-maturity investments and investment classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Investments

The following table shows the carrying values and the fair values of investment classified as receivables and held-to-maturity investments which are not presented in the statement of financial position at their fair values.

	2017					2016				
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value	Level 1	Level 2	Level 3
Investment classified as receivables	465,810	480,353	–	466,521	13,832	507,963	512,409	–	358,488	153,921
Held-to-maturity investments	2,586,722	2,535,280	23,186	2,512,094	–	2,438,417	2,494,243	1,351	2,492,892	–
Total	3,052,532	3,015,633	23,186	2,978,615	13,832	2,946,380	3,006,652	1,351	2,851,380	153,921

(ii) Financial liabilities

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The fair value of subordinated bonds and the eligible Tier 2 capital bonds issued as at 31 December 2017 was RMB211,511 million (as at 31 December 2016: RMB212,166 million), and their carrying value was RMB203,829 million (as at 31 December 2016: RMB205,383 million). The carrying values of other financial liabilities approximated their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified as the Level 2 of the fair value hierarchy.

65 RISK MANAGEMENT (CONTINUED)

(6) 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 an election, 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 IFRS.

As at 31 December 2017, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(7) Insurance Risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

The Group makes related assumptions for the insurance risks and recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholder's behavior and decision.

65 RISK MANAGEMENT (CONTINUED)

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policies design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitoring and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with CBRC's "Measures for Capital Management of Commercial Banks (trial)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and total capital ratio at or above a minimum of 8%. Systematically important domestic banks should also meet the 1% additional capital requirement, with their Common Equity Tier 1 capital. Meanwhile, in accordance with CBRC's "Notice of relevant transitional arrangement for implementation of Measures for Capital Management of Commercial Banks (trial)", a capital conservation buffer will be introduced progressively during the transitional period, which will be raised through Common Equity Tier 1 capital. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

In April 2014, CBRC has officially approved the implementation of the advanced approach of capital management by the Bank. In this approach, the Bank has elected to use foundation internal rating based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure.

65 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Measures for Capital Management of Commercial Banks (trial)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	2017	2016
Common Equity Tier 1 ratio	(a)(b)(c)	**13.09%**	12.98%
Tier 1 ratio	(a)(b)(c)	**13.71%**	13.15%
Total capital ratio	(a)(b)(c)	**15.50%**	14.94%
Common Equity Tier 1 capital			
– Qualifying common share capital		**250,011**	250,011
– Capital reserve	(d)	**109,968**	132,800
– Surplus reserve		**198,613**	175,445
– General reserve		**259,600**	211,134
– Retained earnings		**883,184**	784,164
– Non-controlling interest recognised in Common Equity Tier 1 capital		**3,264**	4,069
– Others	(e)	**(4,256)**	798
Deductions for Common Equity Tier 1 capital			
– Goodwill	(f)	**2,556**	2,752
– Other intangible assets (excluding land use rights)	(f)	**2,274**	2,083
– Cash-flow hedge reserve		**320**	(150)
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		**3,902**	3,902
Additional Tier 1 capital			
– Other directly issued qualifying additional Tier 1 instruments including related premium		**79,636**	19,659
– Non-controlling interest recognised in Additional Tier 1 capital		**152**	82
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		**138,848**	155,684
– Provisions in Tier 2	(g)	**92,838**	58,281
– Non-controlling interest recognised in Tier 2 capital		**266**	375
Common Equity Tier 1 capital after deduction	(h)	**1,691,332**	1,549,834
Tier 1 capital after deduction	(h)	**1,771,120**	1,569,575
Total capital after deduction	(h)	**2,003,072**	1,783,915
Risk-weighted assets	(i)	**12,919,980**	11,937,774

65 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

Notes:

(a) Since the Half Year report of 2014, the Group has elected the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.

(b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after deduction by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after deduction by risk-weighted assets. Total Capital ratio is calculated by dividing the Total capital after deduction by risk-weighted assets.

(c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (excluding CCB Life).

(d) Capital reserve includes investment revaluation reserve.

(e) Others mainly include foreign exchange reserve.

(f) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(g) Since the Half Year report of 2014, eligible excessive loan provisions was measured based on the advanced approach and implemented parallel period rules.

(h) Common Equity Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after deduction is calculated by netting off the corresponding deduction items from the total capital.

(i) At 31 December 2017, according to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excessive risk-weighted assets due to the application of capital floor.

66 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK

	2017	2016
Assets:		
Cash and deposits with central banks	**2,973,506**	2,842,072
Deposits with banks and non-bank financial institutions	**126,766**	389,062
Precious metals	**157,036**	202,851
Placements with banks and non-bank financial institutions	**286,797**	318,511
Financial assets at fair value through profit or loss	**395,536**	360,628
Positive fair value of derivatives	**75,851**	81,425
Financial assets held under resale agreements	**194,850**	67,391
Interest receivable	**111,436**	98,040
Loans and advances to customers	**12,081,328**	11,084,938
Available-for-sale financial assets	**1,402,017**	1,473,168
Held-to-maturity investments	**2,550,066**	2,410,110
Investment classified as receivables	**575,994**	508,363
Investments in subsidiaries	**51,660**	37,024
Investment in consolidated structured entities	**187,486**	211,908
Fixed assets	**144,042**	145,421
Land use rights	**13,657**	14,277
Intangible assets	**1,831**	1,588
Deferred tax assets	**43,821**	28,281
Other assets	**91,671**	106,344
Total assets	**21,465,351**	20,381,402

	2017	2016
Liabilities:		
Borrowings from central banks	**546,633**	438,660
Deposits from banks and non-bank financial institutions	**1,323,371**	1,582,881
Placements from banks and non-bank financial institutions	**318,488**	311,095
Financial liabilities at fair value through profit or loss	**413,523**	395,769
Negative fair value of derivatives	**73,730**	83,332
Financial assets sold under repurchase agreements	**53,123**	170,067
Deposits from customers	**16,064,638**	15,114,993
Accrued staff costs	**29,908**	31,779
Taxes payable	**51,772**	43,653
Interest payable	**197,153**	210,035
Provisions	**8,543**	7,336
Debt securities issued	**538,989**	386,491
Deferred tax liabilities	**39**	53
Other liabilities	**95,324**	54,015
Total liabilities	**19,715,234**	18,830,159

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

66 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	2017	2016
Equity:		
Share capital	**250,011**	250,011
Other equity instruments Preference Shares	**79,636**	19,659
Capital reserve	**135,791**	134,520
Investment revaluation reserve	**(24,463)**	(1,213)
Surplus reserve	**198,613**	175,445
General reserve	**254,864**	206,697
Retained earnings	**856,109**	766,312
Exchange reserve	**(444)**	(188)
Total equity	**1,750,117**	1,551,243
Total liabilities and equity	**21,465,351**	20,381,402

Approved and authorised for issue by the Board of Directors 27 March 2018.

Wang Zuji	**Chung Shui Ming Timpson**	**Carl Walter**
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

66 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	Share capital	Other equity instruments-preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 31 December 2016	250,011	19,659	134,520	(1,213)	175,445	206,697	766,312	(188)	1,551,243
Movements during the year	–	59,977	1,271	(23,250)	23,168	48,167	89,797	(256)	198,874
(1) Total comprehensive income for the year	–	–	1,271	(23,250)	–	–	231,680	(256)	209,445
(2) Changes in share capital									
i Capital injection by other equity holders	–	59,977	–	–	–	–	–	–	59,977
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	23,168	–	(23,168)	–	–
ii Appropriation to general reserve	–	–	–	–	–	48,167	(48,167)	–	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	(69,503)	–	(69,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,045)	–	(1,045)
As at 31 December 2017	250,011	79,636	135,791	(24,463)	198,613	254,864	856,109	(444)	1,750,117

	Share capital	Other equity instruments-preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 31 December 2015	250,011	19,659	135,441	22,549	153,032	182,319	658,545	(1,460)	1,420,096
Movements during the year	–	–	(921)	(23,762)	22,413	24,378	107,767	1,272	131,147
(1) Total comprehensive income for the year	–	–	(921)	(23,762)	–	–	224,128	1,272	200,717
(2) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	22,413	–	(22,413)	–	–
ii Appropriation to general reserve	–	–	–	–	–	24,378	(24,378)	–	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	(68,503)	–	(68,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,067)	–	(1,067)
As at 31 December 2016	250,011	19,659	134,520	(1,213)	175,445	206,697	766,312	(188)	1,551,243

67 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

68 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to confirm with the presentation and disclosures in the current period.

69 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

70 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the year ended 31 December 2017 and have not been adopted in the financial statements.

Standards		Effective for annual periods beginning on or after
(1)	IFRS 9, "Financial Instruments"	1 January 2018
(2)	IFRS 15, "Revenue from Contracts with Customers"	1 January 2018
(3)	IFRS 16, "Leases"	1 January 2019
(4)	IFRS 17, "Insurance Contracts"	1 January 2021

(1) IFRS 9, "Financial Instruments"

IFRS 9 was issued in July 2014. It will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 has three financial asset classifications categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classifications categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

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 IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost, a day-1 loss equal to the 12-month ECL is recognised in profit or loss. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

Credit risk assessment and ECL estimates must reflect unbiased and probability-weighted amounts, and incorporate all available information relevant to the assessments, including reasonable and supportable information on past events, and current and forecasted economic conditions. In addition, ECL estimation should also consider the time value of money. In comparison with IAS 39, IFRS 9 intends impairment recognition and measurement to be more forward-looking.

IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS39.

The Group estimated that the adoption of IFRS 9 would reduce its net assets by approximately 1% as at 1 January 2018, mainly due to the application of ECL model.

70 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(2) IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

The Group anticipates that adoption of IFRS 15 will not have a significant impact on the Group's consolidated financial statements.

(3) IFRS 16, "Leases"

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The standard replaces IAS 17 "Leases", and related interpretations. The Group is currently assessing the impact of IFRS 16 upon initial application.

(4) IFRS 17, "Insurance Contracts"

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured 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 income statement 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 contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The Group is currently assessing the impact of IFRS 17 upon initial application.

羅兵咸永道

To the Shareholders of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") set out on pages 139 to 284, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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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 identified in our audit are summarised as follows:

- Expected credit losses for loans and advances to customers at amortised cost
- Consolidation assessment of, and disclosures about, structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses for loans and advances to customers at amortised cost *Refer to Note 4(3), 4(24)(b), 25 and Note 62(1).* As at 31 December 2018, the Group's gross loans and advances to customers at amortised cost amounted to RMB13,405 billion, and the related expected credit loss allowance amounted to RMB417.6 billion. The balance of loss allowances on loans and advances to customers at amortised cost represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9"). IFRS 9 became effective on 1 January 2018. Management first assesses whether the credit risk of loans and advances to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL. For loans and advances classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), and personal loans in stage 3 (default and credit-impaired), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and advances in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, over the following: 1. Management of the ECL models, including the selection and application of modelling methodology; and the on-going monitoring of the models; 2. Portfolio grouping, stage assessment, selection of specific models, parameter estimation, and forward-looking economic factors; 3. The accuracy and completeness of key data inputs used by the models; 4. The estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances in stage 3; 5. The information systems for model-based measurement.

KEY AUDIT MATTERS(CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses for loans and advances to customers at amortised cost (Continued) The measurement of expected credit losses involves significant management judgments and assumptions, including the following: 1. Grouping of the Group's business operations sharing similar credit risk characteristics, selection of appropriate measurement models and determination of relevant key parameters; 2. Criteria for determining whether or not there is a significant increase in credit risk, a default or an impairment has incurred; 3. Selection of relevant economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; 4. Estimation of future cash flows for corporate loans and advances classified in stage 3. The measurement of expected credit losses uses complex models, numerous parameters and a large volume of data, and involves significant management judgments and assumptions. The amount of related loss allowance was significant to the consolidated financial statements. In view of these reasons, we focused on this in our audit.	The substantive audit procedures that we performed included: 1. We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio grouping, models selection and key parameter estimation in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflected the modelling methodologies. 2. We selected samples, by reviewing the financial information and non-financial information of the borrowers, also considering relevant external evidence and other factors, to assess whether or not management's identification of significant increases in credit risk and default and credit-impaired loans was appropriate. 3. For forward-looking measurements, we reviewed management's selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis. 4. On selected samples, we examined key data inputs into the ECL models and transmission of key data between the models' measurement engines and the related information systems. 5. For corporate loans and advances in stage 3, we examined, on a sample basis, management's forecast future cash flows based on the financial information of borrowers and guarantors, latest valuation of collaterals and other available information together with discount rates in supporting the computation of loss allowances. Based on the procedures performed, the models, key parameters and data, and assumptions adopted by management in the measurement of expected credit losses for loans and advances to customers, were supported by the available evidence.
Consolidation assessment of, and disclosures about, structured entities *Refer to notes 4(1), 4(24)(f), 26(1)(a), 28 to the consolidated financial statements.* As at 31 December 2018, structured entities mainly included wealth management products, asset management plans and trust plans. The amounts of structured entities which are either consolidated or not consolidated are disclosed in notes 26(1)(a) and 28 respectively. The amount of structured entities was significant and the assessment of consolidation or not involved significant management's judgement. We focused on the following key aspects: 1. The reasonableness of the consolidation assessment made by management based on the three elements of control and the appropriateness of disclosures in the consolidated financial statements. 2. Whether information on the structured entities that were not consolidated was appropriately disclosed in the consolidated financial statements.	Our procedures included: 1. Evaluated and tested the related internal controls that management adopted over the consolidation assessment and disclosure of structured entities. 2. Tested structured entities on a sample basis to assess management's judgement to consolidate or not by checking against supporting documents including contracts and evaluated them against the following elements of control: • The Group's power over the structured entities; • The Group's exposure, or rights, to variable returns from involvement with the structured entities; and • The Group's ability to use power over the structured entities to affect the amount of the Group's returns. 3. Evaluated and checked the appropriateness of disclosures in the consolidated financial statements relating to structured entities. Based on the available evidence we found that, in all material respects, management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.

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 HKSAs 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 HKSAs, we exercise professional judgment and maintain professional skepticism 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.
- 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.

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

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, related safeguards.

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 Yip Siu Foon, Linda.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2019

CONTENTS OF FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Interest income		**811,026**	750,154
Interest expense		**(324,748)**	(297,698)
Net interest income	6	**486,278**	452,456
Fee and commission income		**138,017**	131,322
Fee and commission expense		**(14,982)**	(13,524)
Net fee and commission income	7	**123,035**	117,798
Net trading gain	8	**12,614**	4,858
Dividend income	9	**773**	2,195
Net gain/(loss) arising from investment securities	10	**3,444**	(835)
Net losses on derecognition of financial assets measured at amortised cost	11	**(2,241)**	N/A
Other operating income, net:			
– Other operating income		**35,918**	49,009
– Other operating expense		**(26,049)**	(31,450)
Other operating income, net	12	**9,869**	17,559
Operating income		**633,772**	594,031
Operating expenses	13	**(174,764)**	(167,043)
		459,008	426,988
Impairment losses on:			
– Loans and advances to customers		**(143,045)**	(123,389)
– Others		**(7,943)**	(3,973)
Impairment losses	14	**(150,988)**	(127,362)
Share of profit of associates and joint ventures		**140**	161
Profit before tax		**308,160**	299,787
Income tax expense	17	**(52,534)**	(56,172)
Net profit		**255,626**	243,615

The notes on pages 146 to 284 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Other comprehensive income:			
(1) Other comprehensive income that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**(296)**	593
Changes of equity instruments designated as measured at fair value through other comprehensive income		**120**	N/A
Others		**43**	208
Subtotal		**(133)**	801
(2) Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income		**35,887**	N/A
Losses of available-for-sale financial assets arising during the period		**N/A**	(38,151)
Income tax impact relating to available-for-sale financial assets		**N/A**	9,230
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income		**303**	N/A
Reclassification adjustments included in profit or loss due to disposals		**(149)**	N/A
Reclassification adjustments included in profit or loss		**N/A**	3,403
Net (loss)/gain on cash flow hedges		**(267)**	470
Exchange difference on translating foreign operations		**2,573**	(4,748)
Subtotal		**38,347**	(29,796)
Other comprehensive income for the year, net of tax		**38,214**	(28,995)
Total comprehensive income for the year		**293,840**	214,620
Net profit attributable to:			
Equity shareholders of the Bank		**254,655**	242,264
Non-controlling interests		**971**	1,351
		255,626	243,615
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**292,705**	213,837
Non-controlling interests		**1,135**	783
		293,840	214,620
Basic and diluted earnings per share (in RMB Yuan)	18	**1.00**	0.96

The notes on pages 146 to 284 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Assets:			
Cash and deposits with central banks	19	**2,632,863**	2,988,256
Deposits with banks and non-bank financial institutions	20	**486,949**	175,005
Precious metals		**33,928**	157,036
Placements with banks and non-bank financial institutions	21	**349,727**	325,233
Positive fair value of derivatives	22	**50,601**	82,980
Financial assets held under resale agreements	23	**201,845**	208,360
Interest receivable	24	**N/A**	116,993
Loans and advances to customers	25	**13,365,430**	12,574,473
Financial investments	26		
Financial assets measured at fair value through profit or loss		**731,217**	578,436
Financial assets measured at amortised cost		**3,272,514**	N/A
Financial assets measured at fair value through other comprehensive income		**1,711,178**	N/A
Available-for-sale financial assets		**N/A**	1,550,680
Held-to-maturity investments		**N/A**	2,586,722
Investments classified as receivables		**N/A**	465,810
Long-term equity investments	27	**8,002**	7,067
Fixed assets	29	**169,574**	169,679
Land use rights	30	**14,373**	14,545
Intangible assets	31	**3,622**	2,752
Goodwill	32	**2,766**	2,751
Deferred tax assets	33	**58,730**	46,189
Other assets	34	**129,374**	71,416
Total assets		**23,222,693**	22,124,383
Liabilities:			
Borrowings from central banks	36	**554,392**	547,287
Deposits from banks and non-bank financial institutions	37	**1,427,476**	1,336,995
Placements from banks and non-bank financial institutions	38	**420,221**	383,639
Financial liabilities measured at fair value through profit or loss	39	**431,334**	414,148
Negative fair value of derivatives	22	**48,525**	79,867
Financial assets sold under repurchase agreements	40	**30,765**	74,279
Deposits from customers	41	**17,108,678**	16,363,754
Accrued staff costs	42	**36,213**	32,632
Taxes payable	43	**77,883**	54,106
Interest payable	44	**N/A**	199,588
Provisions	45	**37,928**	10,581
Debt securities issued	46	**775,785**	596,526
Deferred tax liabilities	33	**485**	389
Other liabilities	47	**281,414**	234,765
Total liabilities		**21,231,099**	20,328,556

The notes on pages 146 to 284 form part of these financial statements.

AS AT 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Equity:			
Share capital	48	**250,011**	250,011
Other equity instruments			
Preference Shares	49	**79,636**	79,636
Capital reserve	50	**134,537**	135,225
Investment revaluation reserve		**–**	(26,004)
Other comprehensive income	51	**18,451**	–
Surplus reserve	52	**223,231**	198,613
General reserve	53	**279,725**	259,680
Retained earnings		**990,872**	886,921
Exchange reserve		**–**	(4,322)
Total equity attributable to equity shareholders of the Bank		**1,976,463**	1,779,760
Non-controlling interests		**15,131**	16,067
Total equity		**1,991,594**	1,795,827
Total liabilities and equity		**23,222,693**	22,124,383

Approved and authorised for issue by the Board of Directors on 27 March 2019.

Tian Guoli
Chairman
(Authorised representative)

Chung Shui Ming Timpson
Independent non-executive director

Anita Fung Yuen Mei
Independent non-executive director

The notes on pages 146 to 284 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Attributable to equity shareholders of the Bank										
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2017	250,011	79,636	135,225	(26,004)	–	198,613	259,680	886,921	(4,322)	16,067	1,795,827
Changes in accounting policies (Note 4)	–	–	(688)	26,004	(19,599)	–	–	(29,352)	4,322	(138)	(19,451)
As at 1 January 2018	250,011	79,636	134,537	–	(19,599)	198,613	259,680	857,569	–	15,929	1,776,376
Movements during the year	–	–	–	–	38,050	24,618	20,045	133,303	–	(798)	215,218
(1) Total comprehensive income for the year	–	–	–	–	38,050	–	–	254,655	–	1,135	293,840
(2) Changes in share capital											
i Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	(8)	(8)
ii Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	–	–	(138)	(138)
iii Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(1,667)	(1,667)
(3) Profit distribution											
i Appropriation to surplus reserve	–	–	–	–	–	24,618	–	(24,618)	–	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	20,045	(20,045)	–	–	–
iii Appropriation to ordinary shareholders	–	–	–	–	–	–	–	(72,753)	–	–	(72,753)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	–	(3,936)	–	–	(3,936)
v Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(120)	(120)
As at 31 December 2018	250,011	79,636	134,537	–	18,451	223,231	279,725	990,872	–	15,131	1,991,594

	Attributable to equity shareholders of the Bank									
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2016	250,011	19,659	133,960	(976)	175,445	211,193	786,860	348	13,154	1,589,654
Movements during the year	–	59,977	1,265	(25,028)	23,168	48,487	100,061	(4,670)	2,913	206,173
(1) Total comprehensive income for the year	–	–	1,271	(25,028)	–	–	242,264	(4,670)	783	214,620
(2) Changes in share capital										
i Establishment of subsidiaries	–	–	–	–	–	–	–	–	147	147
ii Change in shareholdings in subsidiaries	–	–	(6)	–	–	–	–	–	(1,322)	(1,328)
iii Capital injection by other equity holders	–	59,977	–	–	–	–	–	–	3,422	63,399
(3) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	23,168	–	(23,168)	–	–	–
ii Appropriation to general reserve	–	–	–	–	–	48,487	(48,487)	–	–	–
iii Appropriation to ordinary shareholders	–	–	–	–	–	–	(69,503)	–	–	(69,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,045)	–	–	(1,045)
v Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(117)	(117)
As at 31 December 2017	250,011	79,636	135,225	(26,004)	198,613	259,680	886,921	(4,322)	16,067	1,795,827

The notes on pages 146 to 284 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		**308,160**	299,787
Adjustments for:			
– Impairment losses	14	**150,988**	127,362
– Depreciation and amortisation		**17,874**	17,414
– Interest income from impaired financial assets		**(3,312)**	(3,182)
– Revaluation (gain)/loss on financial instruments at fair value through profit or loss		**(144)**	32
– Share of profit of associates and joint ventures		**(140)**	(161)
– Dividend income	9	**(773)**	(2,195)
– Unrealised foreign exchange gain		**(6,981)**	(531)
– Interest expense on bonds issued		**12,975**	12,110
– Net (gain)/loss on disposal of investment securities		**(3,444)**	835
– Net gain on disposal of fixed assets and other long-term assets		**(135)**	(138)
		475,068	451,333
Changes in operating assets:			
Net decrease in deposits with central banks and with banks and non-bank financial institutions		**367,756**	32,837
Net (increase)/decrease in placements with banks and non-bank financial institutions		**(50,390)**	47,448
Net increase in loans and advances to customers		**(852,702)**	(1,299,971)
Net decrease/(increase) in financial assets held under resale agreements		**6,778**	(105,468)
Net increase in financial assets measured at fair value through profit or loss		**(35,256)**	(92,424)
Net decrease in other operating assets		**47,322**	56,768
		(516,492)	(1,360,810)
Changes in operating liabilities:			
Net (decrease)/increase in borrowings from central banks		**(3,121)**	110,473
Net increase in placements from banks and non-bank financial institutions		**16,211**	79,857
Net increase in deposits from customers and from banks and non-bank financial institutions		**602,520**	766,290
Net decrease in financial assets sold under repurchase agreements		**(44,616)**	(115,297)
Net increase in certificates of deposit issued		**40,963**	141,011
Income tax paid		**(49,174)**	(54,551)
Net increase in financial liabilities measured at fair value through profit or loss		**11,922**	18,588
Net increase in other operating liabilities		**82,550**	42,196
		657,255	988,567
Net cash from operating activities		**615,831**	79,090

The notes on pages 146 to 284 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2018 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2018	2017
Cash flows from investing activities			
Proceeds from sale and redemption of financial investments		1,202,207	1,446,732
Dividends received		1,037	2,237
Proceeds from disposal of fixed assets and other long-term assets		2,612	2,911
Purchase of investment securities		(1,553,492)	(1,525,529)
Purchase of fixed assets and other long-term assets		(20,783)	(22,263)
Acquisition of subsidiaries, associates and joint ventures		(1,360)	(1,544)
Net cash used in investing activities		(369,779)	(97,456)
Cash flows from financing activities			
Issue of bonds		123,524	34,989
Capital contribution by non-controlling interests		–	3,569
Contribution by preference shareholders		–	59,977
Consideration paid for acquisition of non-controlling interests		(138)	–
Dividends paid		(76,811)	(70,688)
Repayment of borrowings		(6,319)	(6,347)
Interest paid on bonds issued		(11,335)	(12,708)
Net cash from financing activities		28,921	8,792
Effect of exchange rate changes on cash and cash equivalents		14,390	(18,211)
Net increase/(decrease) in cash and cash equivalents		289,363	(27,785)
Cash and cash equivalents as at 1 January	55	571,339	599,124
Cash and cash equivalents as at 31 December	55	860,702	571,339
Cash flows from operating activities include:			
Interest received		825,909	730,411
Interest paid, excluding interest expense on bonds issued		(308,323)	(297,536)

The notes on pages 146 to 284 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H-shares and A-shares were listed on Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939) respectively. As at 31 December 2018, the Bank issued total ordinary share capital of RMB250,011 million, with a par value of RMB1.00 per share.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission ("CBRC") (In 2018, it was renamed as China Banking and Insurance Regulatory Commission, hereinafter referred to as the "CBIRC") of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investment Ltd. ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), exercises its rights and obligations as an investor on behalf of the PRC government.

These financial statements were authorised for issue by the board of directors of the Bank on 27 March 2019.

2 BASIS OF PREPARATION

The Group uses the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and joint ventures.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss; (ii) derivative financial instruments are measured at fair value; (iii) financial assets measured at fair value through other comprehensive income are measured at fair value; and (iv) certain non-financial assets are measured at revalued amount. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of the domestic operations of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

(3) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(24).

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted the following new or revised IFRSs and Interpretations effective for the current year. There is no early adoption of any new IFRSs and Interpretations not yet effective for the year ended 31 December 2018.

IFRS 9, "Financial Instruments"

IFRS 9 classifies financial assets into three categories: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss, based on the entity's business model for managing the assets and their contractual cash flow characteristics. It also introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model.

IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. Besides, it also provides specific guidance on capitalisation of contract cost and licence arrangements.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) *Business combinations*

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where the cost of a business combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

(b) *Subsidiaries and non-controlling interests*

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank has the power over the entity, and is exposed to, or has the rights to the variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination or the capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(11).

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Significant intragroup balances and transactions, and any significant profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(c) Associates and joint arrangements

An associate is an enterprise in 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 policy decisions.

Joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates or joint ventures are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates or joint ventures. The Group's share of the post-acquisition, post-tax results of the associates or joint ventures for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associates or joint ventures is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures.

The Group discontinues recognising its share of net losses of the associates or joint ventures after the carrying amount of investments in associates and joint ventures together with any long-term interests that in substance form part of the Group's net investment in the associates or joint ventures are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associates or joint ventures make net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of equity instruments designated at fair value through other comprehensive income, which are recognised in other comprehensive income.

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. All items within equity except for retained earnings are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of comprehensive income are translated at the weighted average exchange rates for the year. Foreign exchange differences arising from foreign operations are recognised in "other comprehensive income" in the shareholders' equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments

(a) Classification

The Group classifies financial instruments into different categories based on the business model used to manage financial assets and contractual cash flow characteristics or the purposes for which the liabilities were incurred. The categories are: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income ("FVOCI"), financial assets and liabilities measured at fair value through profit or loss ("FVPL"), and other financial liabilities.

The business model of the Group's management of financial assets refers to how the Group manages financial assets to generate cash flows. The business model determines whether the cash flow of financial assets managed by the Group is derived from contractual cash flows, sales of financial assets or both. Factors considered by the Group in determining the business model for a group of financial 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.

The characteristics of the contractual cash flow of financial assets refer to the cash flow attributes agreed in the contract of financial instruments that reflect the economic characteristics of the relevant financial assets, that is, the contractual cash flows generated by the relevant financial assets on a specific date are only for payment of the principal and the interest based on the amount of principal outstanding. Of which, principal refers to the fair value of financial assets at initial recognition. The payment of the underlying interest, where the principal is the fair value of the financial asset at the time of initial recognition, and its amount may change during the lifetime of the financial asset due to prepayment and other reasons; interest includes the time value of money, the credit risk associated with the outstanding principal amount for a specific period, and the consideration of other basic borrowing risks, costs and profits.

Financial assets measured at amortised cost

Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met: (i) the assets are managed within a business model whose objective is to hold assets in order to collect contractual cash flows; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets measured at FVOCI include debt instruments measured at FVOCI and equity instrument designated as measured at FVOCI.

Financial assets are classified as financial assets measured at FVOCI if both of the following conditions are met: (i) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At inception, the Group may designate non-trading equity instruments as financial assets measured at FVOCI, and recognise dividend income in accordance with the relevant policies specified in Note 4(18)(d). Once the designation is made, it cannot be revoked.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(a) Classification (continued)

Financial assets and liabilities measured at fair value through profit or loss (FVPL)

The Group classifies the financial assets other than financial assets measured at amortised cost and FVOCI as financial assets measured at FVPL.

Financial assets measured at FVPL include those held for trading purposes, those designated as measured at FVPL, those could not pass the Solely Payment of Principal and Interests ("SPPI") testing and the remaining equity investments which are not designated as measured at FVOCI.

Financial liabilities measured at FVPL include negative fair value of derivatives, and those designated as measured at FVPL.

Financial assets or financial liabilities are classified as held for trading if they are: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instruments or a financial guarantee contract).

At initial inception, the Group may designate financial assets as financial assets measured at FVPL if the designation can eliminate or significantly reduce accounting mismatch. Once the designation is made, it cannot be revoked.

Financial liabilities are designated as measured at FVPL upon initial recognition when: (i) the designation can eliminate or significantly reduce accounting mismatch; or (ii) the formal written file of the Group's risk management or investment strategy have clearly stated that the financial liability portfolio, or the portfolio of financial assets and financial liabilities, are managed, evaluated and reported to key management personnel on the basis of fair value. Once the designation is made, it cannot be revoked.

Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at FVPL and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

(b) Derivatives and hedge accounting

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified 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 that are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but not qualified for hedge accounting, changes in the fair value of these derivatives are recognised in the consolidated statement of comprehensive income.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(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 an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

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 over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(b) Derivatives and hedge accounting (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 a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

(c) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. If a hybrid contract contains a host that is an financial asset, the embedded derivative shall not be separated from the host and shall be classified and measured as a whole.

If a hybrid contract contains a host that is not an financial asset, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if: (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.The Group could choose to measure the separated derivative at FVPL, or designate the entire hybrid contract as at FVPL.

(d) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments measured at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, the Group measures different categories of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss respectively. Financial liabilities other than those measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial assets measured at fair value through profit or loss

Gains and losses from changes in the fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at FVPL are measured at fair value, where the gain or loss arose are recognised in profit or loss. For the financial liabilities designated as measured at FVPL, they are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be included in other comprehensive income; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities' own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Group shall recognise the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit or loss. When the financial liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to retained earnings.

Financial assets measured at FVOCI

The impairment losses, foreign exchange gains and losses and interest income calculated using effective interest method of financial assets measured at FVOCI are recognised in profit or loss. Besides, other changes of carrying amount are recognised in other comprehensive income.

When the debt instruments measured at FVOCI are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss. For equity instrument investments designated as measured at FVOCI, once the designation is made, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss (the changes in fair value are recognised in retained earnings on disposal). Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Financial assets measured at amortised cost

The amortised cost of a financial asset should be measured with the initial recognition after the following adjustments: (i) deducting the repaid principal; (ii) adding or subtracting the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; (iii) the loss provision for the accumulated accrual.

For financial assets measured at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortization process.

Effective interest rate

The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected lifetime of the financial asset to the carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider expected credit losses but includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

The Group determines interest income based on the book balance of financial assets multiplied by the effective interest rate, except (i) for purchased or sourced financial assets that have suffered credit impairment, from the initial recognition, interest income is calculated using the financial assets' amortised cost and credit-adjusted effective interest rate; (ii) for a purchased or sourced financial asset that has not suffered credit impairment but has become credit impaired in subsequent periods, interest income is determined using the financial asset's amortised cost and the effective interest rate. If the financial instrument no longer has credit impairment due to the improvement of its credit risk in the subsequent period, and this improvement can be objectively related to an event that occurs after the application of the above provisions, interest income should be recalculated using the effective interest rate multiplied by the book balance of the financial assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Measurement (Continued)

Effective interest rate (Continued)

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses.

(f) Impairment

At the end of the reporting period, the Group performs impairment assessment based on expected credit loss on financial assets measured at amortised cost and FVOCI, as well as loan commitments and financial guarantee contracts.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received discounted at the original real interest rate by the Group, that is, the present value of all cash shortages. Among them, financial assets that have been purchased or sourced by the Group and have suffered credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustments.

The Group's method of measuring expected credit losses 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.

At the end of each reporting period, the Group measures the expected credit losses ("ECL") of financial instruments at different stages and recognises its loss provision and its changes in the following cases: the financial instrument is in Stage 1 if the credit risk of the financial instrument has not increased significantly since the initial recognition and the Group measures its loss provision based on the amount of expected credit loss of the financial instrument in the next 12 months; the financial instrument is in Stage 2 if the credit risk of the financial instrument has increased significantly since the initial recognition and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument; the financial instrument is in Stage 3 if the financial instrument has credit impaired and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument. Regardless of whether the Group's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

For debt instruments measured at FVOCI, the Group recognises the allowance of impairment in other comprehensive income and impairment losses or gains in profit and loss, which should not change the book value of the financial assets set out in the statement of financial position.

For loss provision measured at the amount equivalent to the lifetime expected credit loss of the financial instrument previously, if, at the end of the current reporting period, the financial instrument is no longer having significant increase in credit risk since the initial recognition, the Group measures its loss provision based on the amount of its expected credit losses for the next 12 months, and the reversal of the loss provision arising from it is recognised in profit or loss for the current reporting period.

For financial assets that have been purchased or sourced for credit impairment, the Group only recognises cumulative changes in lifetime expected credit losses after initial recognition at the end of the reporting period as loss provision. At the end of each reporting period, the Group recognises the amount of the change in lifetime expected credit losses as an impairment loss or gain in current profit or loss.

(g) Write off

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

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(h) Modification of contracts

The Group sometimes renegotiates or otherwise modifies the contracts with counterparties. If the new terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset under the revised terms.

If the renegotiation or modification does not result in derecognition, but lead to changes in contractual cash flows, the Group assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

(i) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(j) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. 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 company or the counterparty.

(k) Securitisations

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(l) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are recognised in profit or loss. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as cost on the date of restructuring. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual value rates and annual depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual value rates	Annual depreciation rates
Bank premises	30-35 years	3%	2.8%-3.2%
Equipment	3-8 years	3%	12.1%-32.3%
Others	4-11 years	3%	8.8%-24.3%

Aircraft and vessels are used for the Group's operating lease business, depreciated using straight-line method over the expected useful life of 20 to 30 years (less the years in service at the time of purchase) with the estimated residual value rate varying from 2.9% to 4.8%.

The Group reviews the estimated useful life and estimated residual value rates of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(c) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

(6) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Finance lease

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receivables and initial direct costs at the commencement of the lease term, is included in "loans and advances to customers" on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(3)(f).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease (Continued)

(b) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(7) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(11).

(8) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(9) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's 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 semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in profit or loss.

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.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(11).

(10) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses accounted for in accordance with the accounting policies as set out in Note 4(11).

(11) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, 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 of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Allowances for impairment losses on non-financial assets (Continued)

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 semi-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. In 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. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) Impairment loss

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

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

(c) Reversing an impairment loss

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

An impairment loss in respect of goodwill is not reversed.

(12) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) 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 entity (a fund) and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance for the employees during the reporting period, while defined benefit plans are mainly supplementary retirement benefits.

Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Employee benefits (Continued)

(a) Post-employment benefits (Continued)

Annuity contributions

In addition to the statutory provision contributions, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. Such supplementary retirement benefits are defined benefit plans.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. The service cost and net interest from the supplementary retirement benefits are recognised in profit or loss, and the remeasurements are recognised in other comprehensive income.

The liability recognised in the statement of financial position in respect of supplementary retirement benefits is the present value of supplementary retirement benefit obligations at the end of the reporting period less the fair value of plan assets.

(b) Termination benefits

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

(c) Early retirement expenses

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(d) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(13) Insurance contracts

Insurance contracts classification

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 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.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Insurance contracts (Continued)

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.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group identifies insurance contracts where insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payments that the Group is obliged to pay in order to fulfil relevant obligations under the insurance contract. Structured product that cannot be sold separately is classified as one measurement unit.

The Group performs liability adequacy test at the end of each reporting period. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on the date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the differences. Otherwise, no adjustment is made to the respective insurance contract liabilities.

(14) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or nonoccurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(15) 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 issued 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.

(16) Financial guarantees and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment 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 loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(18) Income recognition

Provided the control of goods or services have been transferred to customers in an amount reflects the consideration to which the Group expects to be entitled, revenue is recognised in the income statement as follows:

(a) Interest income

Interest income for interest bearing financial instruments is recognised in profit or loss based on the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis. The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period.

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as commission on expiry.

(c) Finance income from finance leases and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(d) Dividend income

Dividend income from equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established.

(19) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(21) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(22) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;

(b) the Bank's subsidiaries;

(c) other entities which are controlled by the Bank's parents;

(d) an investor who has joint control over the Group;

(e) an investor who can exercise significant influence over the Group;

(f) an associate of the Group;

(g) a joint venture entity of the Group;

(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);

(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);

(j) key management personnel of the Bank's parents and close family members of such individuals;

(k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals; and

(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(23) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements

(a) Classification of financial assets

The Group's significant judgments in determining the classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Group determines the business model for the management of financial assets at the level of portfolios and considers the factors such as how the asset's performance is evaluated and reported to key management personnel, the risks affecting the performance of financial assets and the way in which financial assets are managed, and how managers are compensated.

In assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group uses the following key judgments: whether the principals may change because of the changes of time distribution or amount during the life period due to the reasons such as prepayment; whether the interests includes only the time value of money, credit risk, other basic borrowing risks and the consideration of costs and profits. For example, whether the amount prepaid reflects only the principal that has not yet been paid and the interest based on the outstanding principal, as well as reasonable compensation paid for the early termination of the contract.

(b) Expected credit losses

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 62(1).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses; and
- Establishing groups of similar financial assets for the purpose of measuring expected credit losses.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 62(1) credit risk.

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring orderly transactions.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates credit spreads and the liquidity premium. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on the maximising observable market data at the end of each reporting period. However, where market data is not available, the Group needs to make the best estimates on such unobservable market inputs.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants in an orderly transaction.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements (Continued)

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(e) Employee retirement benefit obligations

The Group has established liabilities in connection with benefits payable to certain retired employees. The amounts of employee benefit expense and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's other comprehensive income and liability related to its employee retirement benefit obligations.

(f) Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's 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.

(25) Changes in significant accounting policies

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" as issued by the International Accounting Standard Board ("IASB") in May 2014. IFRS 15 unifies the previous income standard and the construction contracts standard into one revenue recognition model, replacing the previous "transfer of risk-reward" with the "transfer of control" as the criteria for revenue recognition, and clarifying some specific applications in revenue recognition. The date of transition is 1 January 2018. The adoption of IFRS 15 does not have a significant impact on the Group's consolidated financial statements.

The Group has adopted IFRS 9 "Financial Instruments" as issued by the IASB in July 2014 with a date of transition on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any part of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Any differences between the book value at 1 January 2018 and that as at 31 December 2017 is due to the implementation of IFRS 9.

Consequently, for note disclosures, the consequential amendments to IFRS 7 "Financial Instruments: Disclosure" disclosures have also only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has also resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. For the impact of the adoption of IFRS 9 on the Group's financial statements, please refer to Note 4(26) Impact of changes in significant accounting policies.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (Continued)

Before 1 January 2018, the accounting policies related to financial instruments under the original IAS 39 "Financial Instruments: Recognition and Measurement" used by the Group:

Financial instruments

(a) Categorisation

The Group classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near future, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and investment classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (continued)

Financial instruments (continued)

(b) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

(c) Impairment

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of the financial asset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (continued)

Financial instruments (continued)

(c) *Impairment (continued)*

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed and loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a roll rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual losses level is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience.

Impairment losses recognised on a collective basis represent a transitional step which identifies the impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but were not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Changes in significant accounting policies (continued)

Financial instruments (continued)

(c) *Impairment (continued)*

Loans and receivables and held-to-maturity investments (continued)

Impairment reversal and loan write-offs

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

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

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms as appropriate. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

(d) *Financial guarantees*

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies

Set out below are disclosures of the impact of the adoption of IFRS 9 for the Group:

(a) Classification and measurement of financial instruments

The classification and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 on 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
	Classification	**Carrying amount**	**Classification**	**Carrying amount**
Financial assets				
Cash and deposits with central banks	Amortised cost	2,988,256	Amortised cost	2,988,256
Deposits with banks and non-bank financial institutions	Amortised cost	175,005	Amortised cost	174,933
Placements with banks and non-bank financial institutions	Amortised cost	325,233	Amortised cost	325,230
Positive fair value of derivatives	FVPL	82,980	FVPL	82,980
Financial assets held under resale agreements	Amortised cost	208,360	Amortised cost	208,345
Interest receivable	Amortised cost	116,993	Amortised cost	116,993
Loans and advances to customers	Amortised cost	12,574,473	Amortised cost	12,421,262
			FVOCI	122,358
			FVPL	15,902
Financial investments	FVOCI (Available-for-sale financial assets)	1,550,680	FVPL	76,956
			FVOCI	1,109,513
			Amortised cost	377,973

	IAS 39		IFRS 9	
	Classification	**Carrying amount**	**Classification**	**Carrying amount**
Financial assets				
Financial investments	Amortised cost (Held-to-maturity investments)	2,586,722	Amortised cost	2,454,799
			FVOCI	129,460
			FVPL	722
	Amortised cost (Investments classified as receivables)	465,810	Amortised cost	401,521
			FVOCI	41,513
			FVPL	23,348
	FVPL	578,436	FVPL	578,436
Other financial assets	Amortised cost	65,238	Amortised cost	64,526
			FVPL	712

There were no changes to the classification and measurement of financial liabilities, other than the changes in the fair value of financial liabilities designated as measured at FVPL that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of loans and advances to customers and financial investments, from the classification in accordance with IAS 39 to the new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Loans and advances to customers (measured at amortised cost)				
Opening balance under IAS 39	12,574,473			
Subtraction：				
Transfer to loans and advances to customers (measured at FVPL)		(15,839)		
Subtraction：				
Transfer to loans and advances to customers (measured at FVOCI)		(122,383)		
Remeasurement: ECL allowance			(14,989)	
Closing balance under IFRS 9				12,421,262
Loans and advances to customers (measured at FVPL)				
Opening balance under IAS 39	N/A			
Addition：				
Transfer from loans and advances to customers (measured at amortised cost)		15,839		
Remeasurement: From measured at amortised cost to fair value			63	
Closing balance under IFRS 9				15,902
Loans and advances to customers (measured at FVOCI)				
Opening balance under IAS 39	N/A			
Addition：				
Transfer from loans and advances to customers (measured at amortised cost)		122,383		
Remeasurement: From measured at amortised cost to fair value			(25)	
Closing balance under IFRS 9				122,358

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	IFRS 9 carrying amount as at 1 January 2018
Available-for-sale financial assets			
Opening balance under IAS 39	1,550,680		
Subtraction: Transfer to amortised cost		(364,158)	
Subtraction: Transfer to FVPL		(77,009)	
Subtraction: Transfer to FVOCI		(1,109,513)	
Closing balance under IFRS 9			N/A
Held-to-maturity investments			
Opening balance under IAS 39	2,586,722		
Subtraction: Transfer to amortised cost		(2,454,401)	
Subtraction: Transfer to FVPL		(722)	
Subtraction: Transfer to FVOCI		(131,599)	
Closing balance under IFRS 9			N/A

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	IFRS 9 carrying amount as at 1 January 2018
Investments classified as receivables			
Opening balance under IAS 39	465,810		
Subtraction: Transfer to amortised cost		(401,053)	
Subtraction: Transfer to FVPL		(23,230)	
Subtraction: Transfer to FVOCI		(41,527)	
Closing balance under IFRS 9			N/A

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Financial assets measured at amortised cost				
Opening balance under IAS 39	N/A			
Addition:				
Transfer from held-to-maturity		2,454,401		
Remeasurement: ECL allowance			398	
Addition:				
Transfer from investments classified as receivables		401,053		
Remeasurement: ECL allowance			468	
Addition:				
Transfer from available-for-sale		364,158		
Remeasurement:				
ECL allowance			(594)	
Reclassification:				
From measured at fair value to amortised cost		14,409		
Closing balance under IFRS 9				3,234,293

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Financial assets measured at FVPL				
Opening balance under IAS 39	578,436			
Addition:				
Transfer from available-for-sale		77,009		
Remeasurement: Measured at fair value			(53)	
Addition:				
Transfer from investments classified as receivables		23,230		
Remeasurement: From measured at amortised cost to fair value			(283)	
Reclassification: From measured at amortised cost to fair value		401		
Addition:				
Transfer from held-to-maturity		722		
Addition:				
Transfer from other assets		712		
Closing balance under IFRS 9				680,174

	IAS 39 carrying amount as at 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount as at 1 January 2018
Financial assets measured at FVOCI				
Opening balance under IAS 39	N/A			
Addition:				
Transfer from available-for-sale		1,109,513		
Addition:				
Transfer from held-to-maturity		131,599		
Remeasurement:				
From measured at amortised cost to fair value			(2,206)	
Reclassification:				
From measured at amortised cost to fair value		67		
Addition:				
Transfer from investments classified as receivables		41,527		
Remeasurement:				
From measured at amortised cost to fair value			(143)	
Reclassification:				
From measured at amortised cost to fair value		129		
Closing balance under IFRS 9				1,280,486

The impact of classification and measurement of adopting IFRS 9 is not material for other financial assets other than loans and advances to customers and financial investments.

For the Group, following the adoption of IFRS 9 on 1 January 2018, equity reduced by RMB19,451 million as compared to the financial statements as of the end of 2017.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group:

(i) Bond investments

Most bonds held by the Group could pass the SPPI testing. With regard to the requirements of the new standard, the category of financial assets should be determined based on the business model of managing those assets, which was evaluated according to the established facts and circumstances on the implementation date of the standard. Among the bonds investments, part of held-to-maturity investments and investments classified as receivables are reclassified to financial assets measured at FVOCI because their business model is to hold financial assets in order to collect contractual cash flows and sell financial assets. Some of the available-for-sale bonds are reclassified to financial assets measured at amortised cost due to their business model is achieved by collecting contractual cash flows. In addition, a small number of bonds with subordinated terms and writing-down natures are reclassified to financial assets measured at FVPL due to the inability to pass SPPI testing.

(ii) Discounted bills

Discounted bills held by domestic branches of the Group are in line with the business model as achieved by both collecting contractual cash flows and selling financial assets. Therefore, they are reclassified from loans and advances to customers to financial assets measured at FVOCI.

(iii) Equity investments

The Group has elected to irrevocably designate strategic investments in non-trading equity securities in clearing houses and exchanges at FVOCI as permitted under IFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of. These securities were previously classified as available for sale. In addition to the above，the remaining equity investments of the Group were reclassified to financial assets measured at FVPL from available-for-sale financial assets.

(iv) Others

The Group's holdings of other banks' wealth management products with floating income, fund investments, trust plans and asset management plans are unable to pass the SPPI testing, so they are reclassified from investments classified as receivables and available-for-sale financial assets to financial assets measured at FVPL.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Impact of changes in significant accounting policies (continued)

(c) *Reconciliation of impairment allowance balance from IAS 39 to IFRS 9*

Measurement category	Allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	Allowance under IFRS 9
Deposits with banks and non-bank financial institutions	57	–	72	129
Placements with banks and non-bank financial institutions	112	–	3	115
Financial assets held under resale agreements	–	–	15	15
Loans and advances to customers				
– Loans and advances to customers measured at amortised cost	328,968	(155)	14,989	343,802
– Loans and advances to customers measured at FVOCI	N/A	112	384	496
Financial Investments				
Financial assets measured at amortised cost	N/A	4,927	(272)	4,655
Financial assets measured at FVOCI	N/A	443	1,696	2,139
Held-to-maturity investments	3,410	(3,410)	–	–
Available-for-sale financial assets	6,295	(6,295)	–	–
Investments classified as receivables	2,114	(2,114)	–	–
Other financial assets	2,987	–	–	2,987
Off-balance sheet business	2,402	–	23,333	25,735
Total	346,345	(6,492)	40,220	380,073

(27) Changes in significant accounting estimates and assumptions

On 1 January 2018, the significant accounting estimates and judgements of IFRS 9 used by the Group include the measurement of expected credit losses and the classification of financial assets. Detailed information is set out in Note 4(24).

The significant accounting estimates and judgements used by the Group before 1 January 2018 included:

(a) *Impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments*

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. The same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(27) Changes in significant accounting estimates and assumptions (Continued)

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or other-than-temporary decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or other-than-temporary, the Group considers if the fair value of an available-for-sale equity instrument as at the end of reporting period is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than a year (including one year) together with other relevant considerations.

(c) Reclassification of held-to-maturity investments

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Value added tax ("VAT")

Pursuant to the 'Circular on the Comprehensive Plan for Levying VAT in place of Business Tax' (Cai Shui [2016] No.36) jointly issued by the Ministry of Finance and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in Mainland China was replaced by VAT from 1 May 2016. Accordingly, the income and expense under VAT were reported on a net basis. The main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% – 7% of VAT.

Education surcharge

Education surcharge is calculated as 3% of VAT.

Local education surcharge

Local education surcharge is calculated as 2% of VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

6 NET INTEREST INCOME

	Note	2018	2017
Interest income arising from:			
Deposits with central banks		**38,892**	43,027
Deposits with banks and non-bank financial institutions		**12,231**	7,166
Placements with banks and non-bank financial institutions		**11,765**	8,113
Financial assets measured at fair value through profit or loss		**N/A**	11,046
Financial assets held under resale agreements		**9,049**	5,708
Investment securities	(a)	**172,147**	159,667
Loans and advances to customers			
– Corporate loans and advances		**322,082**	301,921
– Personal loans and advances		**239,888**	206,598
– Discounted bills		**4,972**	6,908
Total		**811,026**	750,154
Interest expense arising from:			
Borrowings from central banks		**(15,671)**	(14,486)
Deposits from banks and non-bank financial institutions		**(36,441)**	(34,736)
Placements from banks and non-bank financial institutions		**(13,684)**	(11,885)
Financial assets sold under repurchase agreements		**(1,340)**	(3,391)
Debt securities issued		**(24,735)**	(19,887)
Deposits from customers			
– Corporate deposits		**(118,392)**	(110,651)
– Personal deposits		**(114,485)**	(102,662)
Total		**(324,748)**	(297,698)
Net interest income		**486,278**	452,456

(a) As for this report, the interest income of investment securities include those generated from bonds measured at amortised cost and FVOCI (In 2017, they were interest income from held-to-maturity bonds, available-for-sale bonds and bonds classified as receivables).

(1) Interest income from impaired financial assets is listed as follows:

	2018	2017
Impaired loans and advances	**3,229**	3,143
Other impaired financial assets	**83**	39
Total	**3,312**	3,182

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

7 NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Bank card fees	46,192	42,242
Electronic banking service fees	18,585	9,341
Agency service fees	16,044	16,256
Commission on trust and fiduciary activities	12,748	11,857
Settlement and clearing fees	12,101	13,211
Wealth management service fees	11,113	20,040
Consultancy and advisory fees	10,441	9,906
Guarantee fees	3,414	3,330
Credit commitment fees	1,573	1,525
Others	5,806	3,614
Total	138,017	131,322
Fee and commission expense		
Bank card transaction fees	(8,000)	(7,710)
Inter-bank transaction fees	(1,360)	(1,284)
Others	(5,622)	(4,530)
Total	(14,982)	(13,524)
Net fee and commission income	123,035	117,798

8 NET TRADING GAIN

	2018	2017
Debt securities	11,496	(1,138)
Derivatives	(66)	1,404
Equity investments	(450)	471
Others	1,634	4,121
Total	12,614	4,858

9 DIVIDEND INCOME

	2018	2017
Dividend income from equity investments measured at fair value through profit or loss	676	N/A
Dividend income from equity instruments investments measured at fair value through other comprehensive income	97	N/A
Total	773	N/A
Dividend income from listed trading equity investments	N/A	486
Dividend income from available-for-sale equity investments		
– Listed	N/A	1,310
– Unlisted	N/A	399
Total	N/A	2,195

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

10 NET GAIN/(LOSS) ARISING FROM INVESTMENT SECURITIES

	2018	2017
Net gain related to financial assets designated as measured at fair value through profit or loss	**15,567**	N/A
Net loss related to financial liabilities designated as measured at fair value through profit or loss	**(14,761)**	N/A
Net gain related to other financial assets measured at fair value through profit or loss	**1,938**	N/A
Net gain related to financial assets measured at fair value through other comprehensive income	**499**	N/A
Net revaluation gain/(loss) reclassified from other comprehensive income on disposal	**204**	(4,048)
Net gain on sale of available-for-sale financial assets	**N/A**	2,549
Net gain on sale of held-to-maturity investments	**N/A**	278
Net gain on sale of receivables	**N/A**	33
Others	**(3)**	353
Total	**3,444**	(835)

11 NET LOSSES ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

For the year ended 31 December 2018, the net losses on derecognition of financial assets measured at amortised cost mainly attributes to the Group's issuance of asset-backed securities, which led to the RMB2,507 million net losses arising from the derecognition of customers' loans and advances (for the year ended 31 December 2017: N/A).

12 OTHER OPERATING INCOME, NET

Other operating income

	2018	2017
Insurance related income	**21,495**	26,349
Foreign exchange gain	**6,153**	14,455
Rental income	**2,790**	2,449
Others	**5,480**	5,756
Total	**35,918**	49,009

Foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and currency swaps entered into in order to economically hedge long positions in foreign currency assets).

Other operating expenses

	2018	2017
Insurance related cost	**20,714**	26,946
Others	**5,335**	4,504
Total	**26,049**	31,450

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

13 OPERATING EXPENSES

	2018	2017
Staff costs		
– Salaries, bonuses, allowances and subsidies	**66,788**	64,274
– Other social insurance and welfare	**11,187**	10,213
– Housing funds	**6,390**	6,214
– Union running costs and employee education costs	**2,820**	2,609
– Defined contribution plans	**14,850**	12,923
– Early retirement expenses	**20**	37
– Compensation to employees for termination of employment relationship	**2**	4
	102,057	96,274
Premises and equipment expenses		
– Depreciation charges	**15,447**	14,049
– Rent and property management expenses	**9,926**	9,578
– Maintenance	**3,000**	2,882
– Utilities	**1,953**	1,988
– Others	**2,064**	1,988
	32,390	30,485
Taxes and surcharges	**6,132**	5,767
Amortisation expenses	**2,427**	2,306
Audit fees	**162**	172
Other general and administrative expenses	**31,596**	32,039
Total	**174,764**	167,043

14 IMPAIRMENT LOSSES

	2018
Credit impairment losses	
Loans and advances to customers	**143,045**
Financial investments	
Financial assets measured at amortised cost	**1,072**
Financial assets measured at fair value through other comprehensive income	**16**
Off-balance sheet business	**5,435**
Others	**1,541**
	151,109
Other impairment losses	**(121)**
Total	**150,988**

	2017
Loans and advances to customers	
– Additions	141,957
– Releases	(18,568)
Investment classified as receivables	796
Available-for-sale debt securities	457
Held-to-maturity investments	413
Available-for-sale equity investments	307
Fixed assets	1
Others	1,999
Total	127,362

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

15 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2018				
	Allowances RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (v)) RMB'000	Total (Note (i)) RMB'000
Executive directors					
Tian Guoli (Note (vi))	–	546	55	110	711
Wang Zuji (Note (vi))	–	546	55	110	711
Zhang Gengsheng (Note (vi))	–	491	55	107	653
Non-executive directors					
Feng Bing (Note (iii))	–	–	–	–	–
Zhu Hailin (Note (iii))	–	–	–	–	–
Li Jun (Note (iii))	–	–	–	–	–
Wu Min (Note (iii))	–	–	–	–	–
Zhang Qi (Note e (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	413	–	–	–	413
Malcolm Christopher McCarthy	410	–	–	–	410
Carl Walter	440	–	–	–	440
Chung Shui Ming Timpson	440	–	–	–	440
Kenneth Patrick Chung (Note (ii))	70	–	–	–	70
Murray Horn	470	–	–	–	470
Supervisors					
Wu Jianhang (Note (vi))	–	330	29	70	429
Fang Qiuyue (Note (vi))	–	330	29	74	433
Lu Kegui (Note (iv))	29	–	–	–	29
Cheng Yuanguo (Note (iv))	29	–	–	–	29
Wang Yi (Note (iv))	29	–	–	–	29
Bai Jianjun	250	–	–	–	250
Former executive director					
Pang Xiusheng (Note (ii) & (vi))	–	369	41	76	486
Former non-executive director					
Hao Aiqun (Note (ii) & (iii))	–	–	–	–	–
Former supervisors					
Guo You (Note (vi))	–	182	18	31	231
Liu Jin (Note (vi))	–	330	26	66	422
Li Xiaoling (Note (vi))	–	268	–	49	317
Li Xiukun (Note (iv))	21	–	–	–	21
Jin Yanmin (Note (iv))	21	–	–	–	21
Li Zhenyu (Note (iv))	21	–	–	–	21
	2,643	3,392	308	693	7,036

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

15 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2017			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Term incentive income during 2015-2017 RMB'000
Executive directors				
Tian Guoli	311	61	–	86
Wang Zuji	746	141	–	502
Pang Xiusheng (Note (ii))	671	139	–	518
Zhang Gengsheng	671	139	–	518
Non-executive directors				
Li Jun (Note (iii))	–	–	–	–
Hao Aiqun (Note (ii) & (iii))	–	–	–	–
Feng Bing (Note (iii))	–	–	–	–
Zhu Hailin (Note (iii))	–	–	–	–
Wu Min (Note (iii))	–	–	–	–
Zhang Qi (Note (iii))	–	–	–	–
Independent non-executive directors				
Anita Fung Yuen Mei	390	–	–	–
Carl Walter	440	–	–	–
Chung Shui Ming Timpson	440	–	–	–
Murray Horn	470	–	–	–
Malcolm Christopher McCarthy	171	–	–	–
Supervisors				
Guo You	746	141	–	576
Liu Jin	1,759	175	–	–
Li Xiaoling	1,759	168	–	–
Li Xiukun	50	–	–	–
Jin Yanmin	50	–	–	–
Li Zhenyu	50	–	–	–
Bai Jianjun	250	–	–	–
Former executive director				
Wang Hongzhang	497	75	–	508
Former non-executive directors				
Guo Yanpeng	–	–	–	–
Dong Shi	–	–	–	–
Former independent non-executive directors				
Wim Kok	190	–	–	–
Zhang Long	137	–	–	–
	9,798	1,039	–	2,708

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

15 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

(i) The amounts of emoluments for the year ended 31 December 2018 in respect of the services rendered by the directors and supervisors are subject to the approval of the Annual General Meeting.

(ii) As disclosed in the Bank's announcement on 29 June 2018, Ms. Hao Aiqun ceased to serve as non-executive director of the Bank due to expiry of term.

As disclosed in the Bank's announcement on 3 September 2018, Mr. Pang Xiusheng ceased to serve as executive director and executive vice president of the Bank due to retirement.

Upon election at the 2017 Annual General Meeting of the Bank, Mr. Kenneth Patrick Chung commenced his position as independent non-executive director of the Bank from 1 November 2018.

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2018 and 2017.

(iv) The amounts only included fees for their services as supervisors.

(v) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(vi) The total compensation package for these directors and supervisors for the year ended 31 December 2018 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 a significant impact on the Group's financial statements for the year ended 31 December 2018. The final compensation will be disclosed in a separate announcement when determined.

(vii) The total compensation package for certain directors and supervisors for the year ended 31 December 2017 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2017 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2017 was the final amount.

(viii) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities are paid in accordance with relevant policies relating to the central remuneration reform.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2018 and 2017.

16 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 15. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowance	**15,861**	15,589
Variable compensation	**34,352**	31,914
Contributions to defined contribution retirement schemes	**1,144**	1,056
Other benefit in kind	**627**	554
	51,984	49,113

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2018	2017
RMB8,000,001 – RMB8,500,000	–	1
RMB8,500,001 – RMB9,000,000	–	1
RMB9,000,001 – RMB9,500,000	–	–
RMB9,500,001 – RMB10,000,000	**1**	1
RMB10,000,001 – RMB10,500,000	**3**	1
RMB10,500,001 – RMB11,000,000	–	–
RMB11,000,001 – RMB11,500,000	**1**	–
RMB11,500,001 – RMB12,000,000	–	1

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the year ended 31 December 2018 and 2017.

17 INCOME TAX EXPENSE

(1) Income tax expense

	2018	2017
Current tax	72,531	63,737
– Mainland China	69,949	60,753
– Hong Kong	1,444	1,377
– Other countries and regions	1,138	1,607
Adjustments for prior years	(1,928)	(352)
Deferred tax	(18,069)	(7,213)
Total	52,534	56,172

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the year respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Note	2018	2017
Profit before tax		308,160	299,787
Income tax calculated at 25% statutory tax rate		77,040	74,947
Effects of different applicable rates of tax prevailing in other countries/regions		(740)	(573)
Non-deductible expenses	(i)	9,212	9,340
Non-taxable income	(ii)	(31,050)	(27,190)
Adjustments on income tax for prior years which affect profit or loss		(1,928)	(352)
Income tax expense		52,534	56,172

(i) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amount under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(ii) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

18 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2018 and 2017 have been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2018 and 2017, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	2018	2017
Net profit attributable to equity shareholders of the Bank	254,655	242,264
Less: profit for the year attributable to preference shareholders of the Bank	(3,936)	(1,045)
Net profit attributable to ordinary shareholders of the Bank	250,719	241,219
Weighted average number of ordinary shares (in millions of shares)	250,011	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	1.00	0.96
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	1.00	0.96

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

19 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	2018	2017
Cash		**65,215**	73,876
Deposits with central banks			
– Statutory deposit reserves	(1)	**2,130,958**	2,665,738
– Surplus deposit reserves	(2)	**389,425**	209,080
– Fiscal deposits and others		**46,095**	39,562
Accrued interest		**1,170**	N/A
Total		**2,632,863**	2,988,256

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates in Mainland China of the Bank were as follows:

	2018	2017
Reserve rate for RMB deposits	**13.00%**	17.00%
Reserve rate for foreign currency deposits	**5.00%**	5.00%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

20 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	**468,564**	163,521
Non-bank financial institutions	**15,703**	11,541
Accrued interest	**2,912**	N/A
Gross balances	**487,179**	175,062
Allowances for impairment losses (Note 35)	**(230)**	(57)
Net balances	**486,949**	175,005

(2) Analysed by geographical sectors

	2018	2017
Mainland China	**451,606**	147,945
Overseas	**32,661**	27,117
Accrued interest	**2,912**	N/A
Gross balances	**487,179**	175,062
Allowances for impairment losses (Note 35)	**(230)**	(57)
Net balances	**486,949**	175,005

In 2018, the book value of deposits with banks and non-bank financial institutions is in the first stage. The book value and the impairment loss allowances do not involve the transfer between stages.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

21 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	**240,418**	173,762
Non-bank financial institutions	**107,285**	151,583
Accrued interest	**2,138**	N/A
Gross balances	**349,841**	325,345
Allowances for impairment losses (Note 35)	**(114)**	(112)
Net balances	**349,727**	325,233

(2) Analysed by geographical sectors

	2018	2017
Mainland China	**187,065**	276,308
Overseas	**160,638**	49,037
Accrued interest	**2,138**	N/A
Gross balances	**349,841**	325,345
Allowances for impairment losses (Note 35)	**(114)**	(112)
Net balances	**349,727**	325,233

In 2018, the book value of placements with banks and non-bank financial institutions is in stage 1. The book value and the impairment loss allowances do not involve the transfer between stages.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 DERIVATIVES AND HEDGE ACCOUNTING

(1) Analysed by type of contract

		2018			2017		
	Note	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		**302,322**	**1,998**	**1,902**	332,480	980	487
Exchange rate contracts		**4,947,440**	**47,749**	**44,772**	5,307,995	78,909	78,581
Other contracts	(a)	**89,325**	**854**	**1,851**	182,632	3,091	799
Total		**5,339,087**	**50,601**	**48,525**	5,823,107	82,980	79,867

(2) Analysed by credit risk-weighted assets

	Note	2018	2017
Counterparty credit default risk-weighted assets			
– Interest rate contracts		**1,365**	651
– Exchange rate contracts		**21,402**	47,728
– Other contracts	(a)	**2,276**	5,395
Subtotal		**25,043**	53,774
Credit value adjustment		**12,493**	20,545
Total		**37,536**	74,319

The notional amounts of derivatives only represent the unsettled transactions volume as at the end of the reporting period, instead of the amount of risk assets. Since 1 January 2013, the Group has adopted Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and other related policies. According to the rules set out by the CBRC, the credit risk-weighted assets included credit valuation adjustments, with the considerations of counterparty status and maturity characteristic, and back-to-back client-driven transactions.

(a) Other contracts mainly consist of precious metals contracts.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

(3) Hedge accounting

The following designated hedging instruments are included in the derivatives financial instruments disclosed above.

	2018			2017		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	46,452	559	(88)	49,087	469	(98)
Foreign exchange swaps	–	–	–	325	12	–
Cross currency swaps	344	17	–	–	–	–
Cash flow hedges						
Foreign exchange swaps	45,146	324	(330)	33,193	1,051	(418)
Foreign exchange forwards	–	–	–	51,684	918	(69)
Cross currency swaps	4,007	238	(6)	–	–	–
Interest rate swaps	17,156	37	(79)	–	–	–
Total	113,105	1,175	(503)	134,289	2,450	(585)

(a) Fair value hedge

The Group uses interest rate swaps and cross currency swaps to hedge against changes in fair value of financial assets measured at FVOCI, certificates of deposit issued, deposits from customers and non-bank financial institutions, and loans and advances to customers arising from changes in interest rates and exchange rates.

Net gains/(losses) on fair value hedges are as follows:

	2018	2017
Net gains/(losses) on		
– hedging instruments	72	(77)
– hedged items	(69)	71

The gain and loss arising from ineffective portion of fair value hedge was immaterial for the year ended 31 December 2018 and 2017.

(b) Cash flow hedge

The Group uses foreign exchange swaps, cross currency swaps and interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate and foreign exchange risks of deposits from customers and non-bank financial institutions, loans and advances to customers, certificates of deposit issued, placement from banks and non-bank financial institutions and placements with banks and non-bank financial institutions. The maturities of hedging instruments and hedged items are both within five years.

For the year ended 31 December 2018, the Group's net loss from the cash flow hedge of RMB267 million were recognised in other comprehensive income (2017: net gain from the cash flow hedge of RMB470 million) and the gain and loss arising from ineffective portion of cash flow hedge was immaterial.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	2018	2017
Debt securities		
– Government bonds	**62,775**	106,541
– Debt securities issued by policy banks, banks and non-bank financial institutions	**77,639**	94,461
– Corporate bonds	**28**	2,618
– Others	–	1,051
Subtotal	**140,442**	204,671
Discounted bills	**61,302**	3,689
Accrued interest	**145**	N/A
Total	**201,889**	208,360
Allowances for impairment losses (Note 35)	**(44)**	–
Net balances	**201,845**	208,360

In 2018, the book value of financial assets held under resale agreements is in stage 1. The book value and the impairment loss allowances do not involve the transfer between stages.

24 INTEREST RECEIVABLE

	2017
Deposits with central banks	1,354
Deposits with banks and non-bank financial institutions	680
Financial assets held under resale agreements	145
Loans and advances to customers	39,583
Debt securities	69,550
Others	5,681
Gross and net balances	116,993

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by measurement

	Note	2018	2017
Loans and advances to customers measured at amortised cost		**13,405,030**	12,903,441
Less: Allowances for impairment losses		**(417,623)**	(328,968)
The carrying amount of loans and advances to customers measured at amortised cost	(a)	**12,987,407**	12,574,473
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	(b)	**308,368**	N/A
The carrying amount of loans and advances to customers measured at fair value through profit or loss	(c)	**32,857**	N/A
Accrued interest		**36,798**	N/A
The carrying amount of loans and advances to customers		**13,365,430**	12,574,473

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(1) Analysed by measurement (continued)

(a) Loans and advances to customers as measured at amortised cost

	2018	2017
Corporate loans and advances		
– Loans	7,309,538	7,365,095
– Finance leases	136,071	122,737
	7,445,609	7,487,832
Personal loans and advances		
– Residential mortgages	4,844,440	4,252,698
– Personal consumer loans	214,783	203,218
– Personal business loans	37,287	41,417
– Credit cards	655,190	567,683
– Others	205,845	214,878
	5,957,545	5,279,894
Discounted bills	1,876	135,715
Gross loans and advances to customers measured at amortised cost	13,405,030	12,903,441
Stage 1	(183,615)	N/A
Stage 2	(93,624)	N/A
Stage 3	(140,384)	N/A
Individual assessment	N/A	(113,820)
Collective assessment	N/A	(215,148)
Allowances for impairment losses (Note 35)	(417,623)	(328,968)
Net loans and advances to customers measured at amortised cost	12,987,407	12,574,473

(b) Loans and advances to customers measured at fair value through other comprehensive income

	2018	2017
Discounted bills	308,368	N/A

(c) Loans and advances to customers at fair value through profit or loss

	2018	2017
Corporate loans and advances	32,857	N/A

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of expected credit losses

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances to customers measured at amortised cost	**12,808,032**	**396,117**	**200,881**	**13,405,030**
Less: allowances for impairment losses	**(183,615)**	**(93,624)**	**(140,384)**	**(417,623)**
The carrying amount of loans and advances to customers measured at amortised cost	**12,624,417**	**302,493**	**60,497**	**12,987,407**
The carrying amount of loans and advances measured at fair value through other comprehensive income	**308,346**	**22**	**–**	**308,368**
The impairment losses of loans and advances measured at fair value through other comprehensive income	**(944)**	**(2)**	**–**	**(946)**

	2017			
		Impaired loans and advances		
	Loans and advances for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Total
Gross loans and advances to customers	12,711,150	22,493	169,798	12,903,441
Allowances for impairment losses	(201,346)	(13,802)	(113,820)	(328,968)
Net loans and advances to customers	12,509,804	8,691	55,978	12,574,473

For loans and advances to customers at Stage 1 and 2 and personal loans and advances at Stage 3, ECL model is used to calculate the ECL amount while for corporate loans and advances at Stage 3, discounted cash flow model is used.

The segmentation of the loans mentioned above is defined in Note 62(1).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

		2018				
	Note	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018		**149,249**	**65,887**	**128,666**	**–**	**343,802**
Transfers:						
Transfers in (out) to Stage 1		**3,153**	**(2,578)**	**(575)**	**–**	**–**
Transfers in (out) to Stage 2		**(4,241)**	**5,041**	**(800)**	**–**	**–**
Transfers in (out) to Stage 3		**(1,476)**	**(16,077)**	**17,553**	**–**	**–**
Newly originated or purchased financial assets		**88,574**	**–**	**–**	**–**	**88,574**
Transfer out/repayment	(i)	**(60,428)**	**(9,578)**	**(40,718)**	**–**	**(110,724)**
Remeasurements	(ii)	**8,784**	**50,929**	**73,514**	**–**	**133,227**
Write-off		**–**	**–**	**(43,879)**	**–**	**(43,879)**
Recoveries of loans and advances previously written off		**–**	**–**	**6,623**	**–**	**6,623**
As at 31 December 2018		**183,615**	**93,624**	**140,384**	**–**	**417,623**

		2017			
		Allowances for loans and advances	Allowances for impaired loans and advances		
	Note	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January 2017		155,949	13,275	99,453	268,677
Charge for the year		45,602	7,524	88,831	141,957
Release during the year		–	–	(18,568)	(18,568)
Unwinding of discount		–	–	(3,143)	(3,143)
Transfers out	(i)	(205)	(2,919)	(24,352)	(27,476)
Write-offs		–	(5,270)	(31,721)	(36,991)
Recoveries		–	1,192	3,320	4,512
As at 31 December 2017		201,346	13,802	113,820	328,968

(i) Transfers out/repayment refers to transfer of allowance of non-performing loans through package sale, securitisation of assets, and as a result of foreclosures, as well as repayment of allowance of returns of the loans.

(ii) Remeasurements comprise the impact of changes in PD (Probability of Default), LGD (Loss Given Default) or EAD (Exposure at Default); changes in model assumptions and methodology; credit loss changes due to stage-transfer; unwinding of the time value; and the impact of exchange rate changes.

The allowances for impairment losses disclosed above are for loans and advances to customers measured at amortised cost.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period

	2018				
	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	**13,719**	**12,734**	**4,547**	**825**	**31,825**
Guaranteed loans	**13,461**	**27,875**	**21,495**	**3,206**	**66,037**
Loans secured by tangible assets other than monetary assets	**25,407**	**22,671**	**19,243**	**5,188**	**72,509**
Loans secured by monetary assets	**2,458**	**1,983**	**685**	**224**	**5,350**
Total	**55,045**	**65,263**	**45,970**	**9,443**	**175,721**
As a percentage of gross loans and advances to customers	**0.40%**	**0.47%**	**0.33%**	**0.07%**	**1.27%**

	2017				
	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	8,701	6,594	5,640	1,138	22,073
Guaranteed loans	15,569	20,668	24,730	3,047	64,014
Loans secured by tangible assets other than monetary assets	28,556	22,547	22,715	2,658	76,476
Loans secured by monetary assets	564	1,072	1,458	215	3,309
Total	53,390	50,881	54,543	7,058	165,872
As a percentage of gross loans and advances to customers	0.42%	0.40%	0.42%	0.05%	1.29%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

(5) Package sale of non-performing loans

During the year ended 31 December 2018, the total amount of non-performing loans sold through packaged sales to external asset management companies was RMB36,136 million (2017: RMB45,522 million).

(6) Write off

According to the Group's write-off policy, it is required to continue recover the bad debts that are written off. In 2018, the amount of the financial assets that Group has written off but still under enforcement is RMB16,910 million.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS

(1) Analysed by measurement

	Note	2018	2017
Financial assets measured at fair value through profit or loss	(a)	**731,217**	578,436
Financial assets measured at amortised cost	(b)	**3,272,514**	N/A
Financial assets measured at fair value through other comprehensive income	(c)	**1,711,178**	N/A
Available-for-sale financial assets		**N/A**	1,550,680
Held-to-maturity investments		**N/A**	2,586,722
Investments classified as receivables		**N/A**	465,810
Total		**5,714,909**	5,181,648

(a) Financial assets measured at fair value through profit or loss

Analysed by nature

	Note	2018	2017
Held for trading purposes			
– Debt securities	(i)	**218,757**	189,447
– Equity instruments and funds	(ii)	**1,706**	1,312
		220,463	190,759
Financial assets designated as measured at fair value through profit or loss			
– Debt securities	(iii)	**14,909**	10,211
– Equity instruments and funds		**–**	23,076
– Other debt instruments	(iv)	**350,578**	354,390
		365,487	387,677

	Note	2018	2017
Others			
– Credit investments	(v)	**14,257**	N/A
– Debt securities	(vi)	**31,740**	N/A
– Funds and others	(vii)	**99,270**	N/A
		145,267	N/A
Total		**731,217**	578,436

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (Continued)

(a) Financial assets measured at fair value through profit or loss (Continued)

Analysed by type of issuers

Held for trading purpose

(i) Debt securities

	2018	2017
Government	8,361	10,812
Central banks	–	543
Policy banks	41,068	22,395
Banks and non-bank financial institutions	52,288	58,485
Enterprises	117,040	97,212
Total	218,757	189,447
Listed (Note)	218,757	189,447
– of which in Hong Kong	1,091	26
Total	218,757	189,447

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified in the listed category.

(ii) Equity instruments and funds

	2018	2017
Banks and non-bank financial institutions	453	152
Enterprises	1,253	1,160
Total	1,706	1,312
Listed	1,677	1,171
– of which in Hong Kong	1,150	1,067
Unlisted	29	141
Total	1,706	1,312

Financial assets designated as measured at fair value through profit or loss

(iii) Debt securities

	2018	2017
Enterprises, unlisted	14,909	10,211

(iv) Other debt instruments

	2018	2017
Banks and non-bank financial institutions	257,813	218,322
Enterprises	92,765	136,068
Total	350,578	354,390

Other debt instruments were mainly the deposits with banks, bonds and credit assets invested by principal guaranteed wealth management products and bonds (Note 28(2)).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(a) Financial assets measured at fair value through profit or loss (continued)

Analysed by type of issuers (continued)

Others

(v) Credit investments

	2018	2017
Banks and non-bank financial institutions, unlisted	14,257	N/A

(vi) Debt securities

	2018	2017
Policy banks	4,094	N/A
Banks and non-bank financial institutions	27,646	N/A
Total	31,740	N/A
Listed	31,279	N/A
Unlisted	461	N/A
Total	31,740	N/A

(vii) Funds and others

	2018	2017
Banks and non-bank financial institutions	62,156	N/A
Enterprises	37,114	N/A
Total	99,270	N/A
Listed	44,027	N/A
– of which in Hong Kong	1,143	N/A
Unlisted	55,243	N/A
Total	99,270	N/A

There was no significant limitation on the ability of the Group to dispose of financial assets measured at FVPL.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(b) Financial assets measured at amortised cost

Analysed by type of issuers

	2018
Government	2,623,081
Central banks	447
Policy banks	372,422
Banks and non-bank financial institutions	33,972
Enterprises	152,404
Special government bond	49,200
Subtotal	3,231,526
Accrued interest	47,823
Gross balances	3,279,349
– Stage 1	(5,171)
– Stage 2	(509)
– Stage 3	(1,155)
Allowances for impairment losses	(6,835)
Net balances	3,272,514
Listed (Note)	3,121,678
– of which in Hong Kong	5,903
Unlisted	150,836
Total	3,272,514
Market value of listed bonds	3,124,407

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

On 1 January 2018, net carrying value of RMB364,158 million debt securities held by the Group were reclassified from available-for-sale financial assets to financial assets measured at amortised cost. On 31 December 2018, the net value of above-mentioned debt securities was RMB377,065 million and the fair value was RMB371,316 million. Assuming that these debt securities were not reclassified on 1 January 2018, the amount charged to other comprehensive income for this year as a result of fair value changes would be RMB7,158 million under IAS 39.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(c) Financial assets measured at fair value through other comprehensive income

Analysed by nature

	Note	2018
Debt securities	(i)	1,707,884
Equity instruments	(ii)	3,294
Total		1,711,178

Analysed by type of issuers

(i) Debt securities

	2018
Government	1,015,579
Central banks	38,483
Policy banks	351,329
Banks and non-bank financial institutions	112,860
Enterprises	145,290
Accumulated change of fair value charged in OCI	19,900
Subtotal	1,683,441
Accrued interest	24,443
Carrying value	1,707,884
Listed (Note)	1,681,048
– of which in Hong Kong	65,938
Unlisted	26,836
Total	1,707,884

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

(ii) Equity instruments designated at fair value through other comprehensive income

	2018	
	Fair value	Dividend income
State Financing Guarantee Fund Co., Ltd.	750	–
China Citic Bank Co., Ltd.	696	44
VISA Int..	569	1
Ping An Bank Co., Ltd.	290	4
Bank VTB OAO Co., Ltd.	258	25
China UnionPay Co., Ltd.	221	16
Others	510	7
Total	3,294	97
Cost	2,495	
Cumulative changes in fair value	799	

The Group neither sold any investments above nor transferred any cumulative profit or losses among the equity.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(2) Movement of financial investments

(a) Financial assets measured at amortised cost

	2018				
	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018	3,237,512	786	650	–	3,238,948
Transfers:					
Transfers in (out) to Stage 1	–	–	–	–	–
Transfers in (out) to Stage 2	(3,896)	3,896	–	–	–
Transfers in (out) to Stage 3	(1,979)	–	1,979	–	–
Newly originated or purchased financial assets	380,371	–	–	–	380,371
Financial assets derecognised during the year	(388,976)	(1,053)	(153)	–	(390,182)
FX and other movements	2,346	12	31	–	2,389
As at 31 December 2018	3,225,378	3,641	2,507	–	3,231,526

(b) Financial assets measured at fair value through other comprehensive income

	2018				
	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018	1,280,486	–	–	–	1,280,486
Transfers:					
Transfers in (out) to Stage 1	–	–	–	–	–
Transfers in (out) to Stage 2	–	–	–	–	–
Transfers in (out) to Stage 3	–	–	–	–	–
Newly originated or purchased financial assets	829,334	–	–	–	829,334
Financial assets derecognised during the year	(433,457)	–	–	–	(433,457)
FX and other movements	7,078	–	–	–	7,078
As at 31 December 2018	1,683,441	–	–	–	1,683,441

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(3) Movements of allowances for impairment losses

(a) Financial assets measured at amortised cost

	Note	2018				
		Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018		4,049	83	523	–	4,655
Transfers:						
Transfers in (out) to Stage 1		–	–	–	–	–
Transfers in (out) to Stage 2		(342)	342	–	–	–
Transfers in (out) to Stage 3		(345)	–	345	–	–
Newly originated or purchased financial assets		1,166	–	–	–	1,166
Financial assets derecognised during the year		(691)	(64)	(27)	–	(782)
Remeasurements	(i)	359	77	252	–	688
FX and other movements		975	71	62	–	1,108
As at 31 December 2018		5,171	509	1,155	–	6,835

(b) Financial assets measured at fair value through other comprehensive income

	Note	2018				
		Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018		2,139	–	–	–	2,139
Transfers:						
Transfers in (out) to Stage 1		–	–	–	–	–
Transfers in (out) to Stage 2		–	–	–	–	–
Transfers in (out) to Stage 3		–	–	–	–	–
Newly originated or purchased financial assets		501	–	–	–	501
Financial assets derecognised during the year		(182)	–	–	–	(182)
Remeasurements	(i)	(303)	–	–	–	(303)
FX and other movements		(65)	–	–	–	(65)
As at 31 December 2018		2,090	–	–	–	2,090

(i) Remeasurements mainly comprise the impact of changes in probability of default, loss given default and exposure at default, credit loss changes due to stage-transfer.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(4) Available-for-sale financial assets

Analysed by type of nature

	2017
Debt securities	1,461,824
Equity instruments	31,723
Funds	57,133
Total	1,550,680

Debt securities

Analysed by type of issuers

	2017
Government	985,559
Central banks	36,742
Policy banks	228,104
Banks and non-bank financial institutions	89,327
Enterprises	122,092
Total	1,461,824
Listed (Note)	1,428,927
– of which in Hong Kong	22,662
Unlisted	32,897
Total	1,461,824

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified in the listed category.

Equity instruments and funds

	2017
Debt-to-equity swap	913
Other equity instruments	30,810
Funds	57,133
Total	88,856
Listed	54,172
– of which in Hong Kong	1,957
Unlisted	34,684
Total	88,856

Mainly pursuant to the debt-to-equity swap arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to the relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control, joint control or significant influence over these entities.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(5) Held-to-maturity investments

Analysed by type of issuers

	2017
Government	1,908,032
Central banks	434
Policy banks	552,057
Banks and non-bank financial institutions	27,045
Enterprises	102,564
Gross balances	2,590,132
Allowances for impairment losses (Note 35)	(3,410)
Net balances	2,586,722
Listed (Note)	2,575,216
– of which in Hong Kong	4,000
Unlisted	11,506
Total	2,586,722
Market value of listed securities	2,522,112

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified in the listed category.

(6) Investments classified as receivables

	Note	2017
Government		
– Special government bond	(a)	49,200
– Others		304,554
Policy banks		20,000
Banks and non-bank financial institutions		13,462
Enterprises		29,096
Others	(b)	51,612
Gross balances		467,924
Allowances for impairment losses (Note 35)		(2,114)
Net balances		465,810
Listed		406,864
– of which in Hong Kong		1,181
Unlisted		58,946
Total		465,810

(a) This represents a non-transferable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance ("MOF") in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum. The PBOC approved the Bank's use of the special government bond as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(b) Others include asset management plans and capital trust plans with fixed or determined payments. They mature from January 2017 to November 2026 and bear interest rates ranging from 2.95% to 9.50% per annum. During the reporting period, matured plans have been repaid without overdue.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS

(1) Investments in subsidiaries

(a) Investment cost

	Note	**2018**	2017
CCB Financial Asset Investment Corporation Limited ("CCBFI")		**12,000**	12,000
CCB Brasil Financial Holding – Investimentos e Participações Ltda		**9,542**	9,542
CCB Financial Leasing Corporation Limited ("CCBFLCL")		**8,163**	8,163
CCB Life Insurance Company Limited ("CCB Life")		**3,902**	3,902
CCB Trust Corporation Limited ("CCB Trust")		**3,409**	3,409
China Construction Bank (London) Limited ("CCB London")		**2,861**	2,861
CCB Pension Management Corporation Limited ("CCB Pension")		**1,955**	1,955
China Construction Bank (Europe) S.A. ("CCB Europe")		**1,629**	1,629
Sino-German Bausparkasse Corporation Limited ("Sino-German Bausparkasse")		**1,502**	1,502
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")		**1,340**	1,352
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")		**1,334**	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")		**976**	976
China Construction Bank (Russia) Limited Liability Company ("CCB Russia")		**851**	851
Golden Fountain Finance Limited ("Golden Fountain")		**676**	676
CCB Principal Asset Management Corporation Limited ("CCB Principal")		**130**	130
CCB International Group Holdings Limited ("CCBIG")		**–**	–
Rural Banks	(i)	**–**	1,378
Total		**50,270**	51,660

(i) On 25 December 2018, the Bank sold all the interest in the 27 rural banks to Bank of China Limited and Fullerton Financial Holdings Pte. Ltd. for a consideration of RMB1.606 billion. Upon completion of the transaction, the above-mentioned rural banks were no longer subsidiaries of the Bank.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(1) Investments in subsidiaries (continued)

(b) Except for CCB Indonesia, major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCBFI	Beijing, the PRC	RMB12,000 million	Investment	100%	–	100%	Establishment
CCB Brasil Financial Holding – Investimentos e Participações Ltda	Sao Paulo, Brasil	R$4,281 million	Investment	99.99%	0.01%	100%	Acquisition
CCBFLCL	Beijing, the PRC	RMB8,000 million	Financial Leasing	100%	–	100%	Establishment
CCB Life	Shanghai, the PRC	RMB4,496 million	Insurance	51%	–	51%	Acquisition
CCB Trust	Anhui, the PRC	RMB1,527 million	Trust business	67%	–	67%	Acquisition
CCB London	London, United Kingdom	US$200 million RMB1,500 million	Commercial Banking	100%	–	100%	Establishment
CCB Pension	Beijing, the PRC	RMB2,300 million	Pension Management	85%	–	85%	Establishment
CCB Europe	Luxembourg	EUR200 million	Commercial Banking	100%	–	100%	Establishment
Sino-German Bausparkasse	Tianjin, the PRC	RMB2,000 million	House savings	75.10%	–	75.10%	Establishment
CCB Indonesia	Jakarta, Indonesia	IDR1,663,146 million	Commercial Banking	60%	–	60%	Acquisition
CCB Malaysia	Kuala Lumpur, Malaysia	MYR823 million	Commercial Banking	100%	–	100%	Establishment
CCB New Zealand	Auckland, New Zealand	NZD199 million	Commercial Banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB4,200 million	Commercial Banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$50,000	Investment	100%	–	100%	Acquisition
CCB Principal	Beijing, the PRC	RMB200 million	Fund management services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US$601 million	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$6,511 million RMB17,600 million	Commercial Banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Multiplo S/A. ("CCB Brasil")	Sao Paulo, Brasil	R$2,957 million	Commercial Banking	–	100%	100%	Acquisition

(c) As at 31 December 2018, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(2) Interests in associates and joint ventures

(a) The movement of the Group's interests in associates and joint ventures is as follows:

	2018	2017
As at 1 January	**7,067**	7,318
Acquisition during the year	**1,352**	1,544
Disposal during the year	**(252)**	(1,549)
Share of profits	**140**	161
Cash dividend receivable	**(202)**	(42)
Effect of exchange difference and others	**(103)**	(365)
As at 31 December	**8,002**	7,067

(b) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership held	% of voting held	Total assets at period end	Total liabilities at period end	Revenue for the period	Net profit for the year
Diamond String Limited	Hong Kong, the PRC	HK $10,000	Property investment	50.00%	50.00%	2,029	1,805	277	121
Minmetals Yuanding Equity Investment Fund (Ningbo) Partnership (Limited Partnership)	Ningbo, the PRC	RMB1,080 million	Investment management and consulting	43.48%	16.67%	1,079	3	–	(4)
Maotai CCBT Private Equity Fund (Limited Partnership)	Guizhou, the PRC	RMB900 million	Investment management and consultancy	37.50%	40.00%	947	26	34	21
Guangdong SOE Reorganization Development Fund (Limited Partnership)	Zhuhai, the PRC	RMB720 million	Investment management and consultancy	49.67%	33.00%	716	–	17	10

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

28 STRUCTURED ENTITIES

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-backed securities and wealth management products held for investment purpose, and non-principal guaranteed wealth management products, trust plans and funds, etc. which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 31 December 2018 and 2017, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amount and the maximum exposure were as follows:

	2018	2017
Financial investments		
Financial assets measured at fair value through profit or loss	**68,499**	17,405
Financial assets measured at amortised cost	**54,884**	N/A
Financial assets measured at fair value through other comprehensive income	**896**	N/A
Available-for-sale financial assets	**N/A**	79,231
Investments classified as receivables	**N/A**	48,356
Interests in associates and joint ventures	**4,196**	3,430
Interest receivables	**N/A**	178
Other assets	**3,510**	3,398
Total	**131,985**	151,998

For the year ended 31 December 2018 and 2017, the income from these unconsolidated structured entities held by the Group was as follows:

	2018	2017
Interest income	**3,356**	2,661
Fee and commission income	**12,326**	19,760
Net trading gain	**–**	471
Dividend income	**309**	1,486
Net gain/(loss) arising from investment securities	**1,932**	(3,623)
Share of profit of associates and joint ventures	**21**	55
Total	**17,944**	20,810

As at 31 December 2018, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,841,018 million (as at 31 December 2017: RMB1,730,820 million), and the balance of trust plans, funds and asset management plans issued or established by the Group amounted to RMB3,334,455 million (including the Group's non-principal guaranteed wealth management products issued by the subsidiaries) (as at 31 December 2017: RMB3,006,555 million). For the year ended 31 December 2018, there were debt securities purchased and sold between the Group and the non-principal guaranteed wealth management products mentioned above. These transactions were based on market prices or general commercial terms. The profit and loss from these transactions was not material to the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 26(1)(a)(iv)) and certain asset management plans and trust plans etc.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

29 FIXED ASSETS

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2018	122,870	26,646	54,989	22,855	43,636	270,996
Additions	1,205	6,651	5,104	2,502	2,476	17,938
Transfer in/(out)	9,745	(12,386)	82	–	2,559	–
Other movements	(342)	(1,197)	(5,057)	204	(2,820)	(9,212)
As at 31 December 2018	133,478	19,714	55,118	25,561	45,851	279,722
Accumulated depreciation						
As at 1 January 2018	(34,156)	–	(36,351)	(2,250)	(28,141)	(100,898)
Charge for the year	(4,964)	–	(5,904)	(1,271)	(4,579)	(16,718)
Other movements	172	–	4,893	113	2,714	7,892
As at 31 December 2018	(38,948)	–	(37,362)	(3,408)	(30,006)	(109,724)
Allowances for impairment losses (Note 35)						
As at 1 January 2018	(415)	–	–	(1)	(3)	(419)
Charge for the year	–	(1)	–	(13)	–	(14)
Other movements	9	–	–	–	–	9
As at 31 December 2018	(406)	(1)	–	(14)	(3)	(424)
Net carrying value						
As at 1 January 2018	88,299	26,646	18,638	20,604	15,492	169,679
As at 31 December 2018	94,124	19,713	17,756	22,139	15,842	169,574

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

29 FIXED ASSETS (CONTINUED)

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2017	119,972	25,543	54,987	20,501	42,193	263,196
Additions	1,082	6,305	4,109	6,229	2,309	20,034
Transfer in/(out)	3,111	(4,568)	59	–	1,398	–
Other movements	(1,295)	(634)	(4,166)	(3,875)	(2,264)	(12,234)
As at 31 December 2017	122,870	26,646	54,989	22,855	43,636	270,996
Accumulated depreciation						
As at 1 January 2017	(30,328)	–	(34,598)	(1,478)	(26,201)	(92,605)
Charge for the year	(4,192)	–	(5,791)	(1,058)	(4,066)	(15,107)
Other movements	364	–	4,038	286	2,126	6,814
As at 31 December 2017	(34,156)	–	(36,351)	(2,250)	(28,141)	(100,898)
Allowances for impairment losses (Note 35)						
As at 1 January 2017	(418)	–	–	(75)	(3)	(496)
Charge for the year	–	–	–	(1)	–	(1)
Other movements	3	–	–	75	–	78
As at 31 December 2017	(415)	–	–	(1)	(3)	(419)
Net carrying value						
As at 1 January 2017	89,226	25,543	20,389	18,948	15,989	170,095
As at 31 December 2017	88,299	26,646	18,638	20,604	15,492	169,679

Notes:

(1) Other movements include disposals, retirements and exchange gains or losses of fixed assets.

(2) As at 31 December 2018, the ownership documentation for the Group's bank premises with a net carrying value of RMB18,645 million (as at 31 December 2017: RMB19,512 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

30 LAND USE RIGHTS

	2018	2017
Cost/Deemed cost		
As at 1 January	21,495	21,206
Additions	444	499
Disposals	(79)	(210)
As at 31 December	21,860	21,495
Amortisation		
As at 1 January	(6,810)	(6,322)
Charge for the year	(565)	(535)
Disposals	26	47
As at 31 December	(7,349)	(6,810)
Allowances for impairment losses (Note 35)		
As at 1 January	(140)	(142)
Disposals	2	2
As at 31 December	(138)	(140)
Net carrying value		
As at 1 January	14,545	14,742
As at 31 December	14,373	14,545

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

31 INTANGIBLE ASSETS

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2018	8,424	1,211	9,635
Additions	1,519	214	1,733
Disposals	(29)	(153)	(182)
As at 31 December 2018	9,914	1,272	11,186
Amortisation			
As at 1 January 2018	(6,429)	(446)	(6,875)
Charge for the year	(754)	(57)	(811)
Disposals	29	101	130
As at 31 December 2018	(7,154)	(402)	(7,556)
Allowances for impairment losses (Note 35)			
As at 1 January 2018	–	(8)	(8)
Additions	–	–	–
Disposals	–	–	–
As at 31 December 2018	–	(8)	(8)
Net carrying value			
As at 1 January 2018	1,995	757	2,752
As at 31 December 2018	2,760	862	3,622

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

31 INTANGIBLE ASSETS (CONTINUED)

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2017	7,688	1,128	8,816
Additions	851	121	972
Disposals	(115)	(38)	(153)
As at 31 December 2017	8,424	1,211	9,635
Amortisation			
As at 1 January 2017	(5,851)	(358)	(6,209)
Charge for the year	(628)	(107)	(735)
Disposals	50	19	69
As at 31 December 2017	(6,429)	(446)	(6,875)
Allowances for impairment losses (Note 35)			
As at 1 January 2017	(1)	(7)	(8)
Additions	–	(1)	(1)
Disposals	1	–	1
As at 31 December 2017	–	(8)	(8)
Net carrying value			
As at 1 January 2017	1,836	763	2,599
As at 31 December 2017	1,995	757	2,752

32 GOODWILL

(1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movement of the goodwill is listed as follows:

	2018	2017
As at 1 January	**2,751**	2,947
Effect of exchange difference	**15**	(196)
As at 31 December	**2,766**	2,751

(2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amount of CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

No impairment losses on goodwill of the Group were recognised as at 31 December 2018 (as at 31 December 2017: nil).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

33 DEFERRED TAX

	2018	2017
Deferred tax assets	**58,730**	46,189
Deferred tax liabilities	**(485)**	(389)
Total	**58,245**	45,800

(1) Analysed by nature

	2018		2017	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(25,347)**	**(6,464)**	31,341	8,162
– Allowances for impairment losses	**260,308**	**64,823**	153,278	38,023
– Early retirement benefits and accrued salaries	**21,265**	**5,276**	23,511	5,814
–Others	**(20,363)**	**(4,905)**	(26,160)	(5,810)
Total	**235,863**	**58,730**	181,970	46,189
Deferred tax liabilities				
– Fair value adjustments	**(1,271)**	**(193)**	(1,446)	(343)
– Others	**(1,751)**	**(292)**	(556)	(46)
Total	**(3,022)**	**(485)**	(2,002)	(389)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

33 DEFERRED TAX (CONTINUED)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Early retirement benefits and accrued salaries	Others	Total
As at 1 January 2018 (Note)	**5,332**	**46,906**	**5,814**	**(5,856)**	**52,196**
Recognised in profit or loss	**31**	**17,917**	**(538)**	**659**	**18,069**
Recognised in other comprehensive income	**(12,020)**	**–**	**–**	**–**	**(12,020)**
As at 31 December 2018	**(6,657)**	**64,823**	**5,276**	**(5,197)**	**58,245**
As at 1 January 2017	(43)	27,959	6,188	(3,612)	30,492
Recognised in profit or loss	(233)	10,064	(374)	(2,244)	7,213
Recognised in other comprehensive income	8,095	–	–	–	8,095
As at 31 December 2017	7,819	38,023	5,814	(5,856)	45,800

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

Note: The differences between the opening balances of deferred tax of this year and the balances at 31 December 2017 were due to the adoption of IFRS 9.

34 OTHER ASSETS

	Note	2018	2017
Repossessed assets	(1)		
– Buildings		**1,721**	1,589
– Land use rights		**624**	624
– Others		**765**	953
		3,110	3,166
Clearing and settlement accounts		**18,517**	6,095
Fee and commission receivables		**11,305**	9,463
Policyholder account assets and accounts receivable of insurance business		**6,318**	3,194
Deferred expenses		**3,232**	3,254
Leasehold improvements		**3,196**	3,401
Others		**87,633**	46,865
Gross balance		**133,311**	75,438
Allowances for impairment losses (Note 35)			
– Repossessed assets		**(1,165)**	(1,035)
– Others		**(2,772)**	(2,987)
Total		**129,374**	71,416

(1) For the year ended 31 December 2018, the original cost of repossessed assets disposed of by the Group amounted to RMB550 million (for the year ended 31 December 2017: RMB606 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

35 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

		2018				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	20	129	107	–	(6)	230
Precious metals		41	31	–	–	72
Placements with banks and non-bank financial institutions	21	115	13	(14)	–	114
Financial assets held under resale agreements	23	15	29	–	–	44
Loans and advances to customers	25(3)	343,802	142,595	(24,895)	(43,879)	417,623
Financial assets measured at amortised cost	26(3)(a)	4,655	1,072	1,108	–	6,835
Long-term equity investments		–	41	–	–	41
Fixed assets	29	419	14	–	(9)	424
Land use rights	30	140	–	–	(2)	138
Intangible assets	31	8	–	–	–	8
Other assets	34	4,022	1,509	–	(1,594)	3,937
Total		353,346	145,411	(23,801)	(45,490)	429,466

		2017				
	Note	As at 1 January	(Write-back)/ Charge for the year	Transfer (out)/in	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	20	66	(9)	–	–	57
Precious metals		27	14	–	–	41
Placements with banks and non-bank financial institutions	21	123	(11)	–	–	112
Loans and advances to customers	25(4)	268,677	123,389	(26,107)	(36,991)	328,968
Available for sale debt securities		1,309	457	57	–	1,823
Available for sale equity instrument		4,076	307	119	(30)	4,472
Held-to-maturity investments	26(5)	3,049	413	(52)	–	3,410
Investment classified as receivables	26(6)	1,351	796	(33)	–	2,114
Fixed assets	29	496	1	–	(78)	419
Land use rights	30	142	–	–	(2)	140
Intangible assets	31	8	1	–	(1)	8
Other assets	34	4,340	1,613	–	(1,931)	4,022
Total		283,664	126,971	(26,016)	(39,033)	345,586

Transfer (out)/in includes exchange differences.

36 BORROWINGS FROM CENTRAL BANKS

	2018	2017
Mainland China	495,004	484,657
Overseas	50,441	62,630
Accrued interest	8,947	N/A
Total	554,392	547,287

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

37 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	**161,393**	149,749
Non-bank financial institutions	**1,257,303**	1,187,246
Accrued interest	**8,780**	N/A
Total	**1,427,476**	1,336,995

(2) Analysed by geographical sectors

	2018	2017
Mainland China	**1,277,120**	1,181,374
Overseas	**141,576**	155,621
Accrued interest	**8,780**	N/A
Total	**1,427,476**	1,336,995

38 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2018	2017
Banks	**379,785**	353,317
Non-bank financial institutions	**38,259**	30,322
Accrued interest	**2,177**	N/A
Total	**420,221**	383,639

(2) Analysed by geographical sectors

	2018	2017
Mainland China	**130,596**	148,424
Overseas	**287,448**	235,215
Accrued interest	**2,177**	N/A
Total	**420,221**	383,639

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

39 FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
Principal guaranteed wealth management products	**351,369**	354,382
Financial liabilities related to precious metals	**37,832**	39,927
Structured financial instruments	**42,133**	19,839
Total	**431,334**	414,148

The Group's financial liabilities measured at FVPL are those designated as measured at FVPL. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2018 and 31 December 2017.

40 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	2018	2017
Debt securities		
– Government bonds	**20,473**	63,322
– Debt securities issued by policy banks, banks and non-bank financial institutions	**3,569**	3,632
– Corporate bonds	**29**	–
Subtotal	**24,071**	66,954
Discounted bills	**765**	401
Others	**5,774**	6,924
Accrued interest	**155**	N/A
Total	**30,765**	74,279

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

41 DEPOSITS FROM CUSTOMERS

	2018	2017
Demand deposits		
– Corporate customers	**5,922,676**	5,767,595
– Personal customers	**3,313,664**	3,204,950
Subtotal	**9,236,340**	8,972,545
Time deposits (including call deposits)		
– Corporate customers	**3,037,130**	3,312,456
– Personal customers	**4,657,959**	4,078,753
Subtotal	**7,695,089**	7,391,209
Accrued interest	**177,249**	N/A
Total	**17,108,678**	16,363,754

Deposits from customers include:

		2018	2017
(1)	Pledged deposits		
	– Deposits for acceptance	**63,385**	83,365
	– Deposits for guarantee	**76,609**	97,050
	– Deposits for letter of credit	**19,260**	22,491
	– Others	**170,860**	290,235
	Total	**330,114**	493,141
(2)	Outward remittance and remittance payables	**15,341**	29,635

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS

	Note	2018			
		As at 1 January	**Increased**	**Decreased**	**As at 31 December**
Salaries, bonuses, allowances and subsidies		**23,628**	**66,788**	**(66,643)**	**23,773**
Other social insurance and welfare		**3,973**	**11,187**	**(10,478)**	**4,682**
Housing funds		**163**	**6,390**	**(6,371)**	**182**
Union running costs and employee education costs		**2,738**	**2,820**	**(2,027)**	**3,531**
Post-employment benefits	(1)				
– Defined contribution plans		**893**	**14,850**	**(13,062)**	**2,681**
– Defined benefit plans		**(440)**	**326**	**(44)**	**(158)**
Early retirement benefits		**1,674**	**52**	**(206)**	**1,520**
Compensation to employees for termination of employment relationship		**3**	**2**	**(3)**	**2**
Total		**32,632**	**102,415**	**(98,834)**	**36,213**

	Note	2017			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		24,813	64,274	(65,459)	23,628
Other social insurance and welfare		2,735	10,213	(8,975)	3,973
Housing funds		193	6,214	(6,244)	163
Union running costs and employee education costs		2,252	2,609	(2,123)	2,738
Post-employment benefits	(1)				
– Defined contribution plans		964	12,923	(12,994)	893
– Defined benefit plans		970	25	(1,435)	(440)
Early retirement benefits		1,940	76	(342)	1,674
Compensation to employees for termination of employment relationship		3	4	(4)	3
Total		33,870	96,338	(97,576)	32,632

The Group has no overdue balance of accrued staff costs as at the end of the reporting period.

(1) Post-employment benefits

(a) Defined contribution plans

	2018			
	As at 1 January	**Increased**	**Decreased**	**As at 31 December**
Basic pension insurance	**589**	**9,896**	**(9,724)**	**761**
Unemployment insurance	**37**	**298**	**(296)**	**39**
Annuity contribution	**267**	**4,656**	**(3,042)**	**1,881**
Total	**893**	**14,850**	**(13,062)**	**2,681**

	2017			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	664	9,622	(9,697)	589
Unemployment insurance	42	312	(317)	37
Annuity contribution	258	2,989	(2,980)	267
Total	964	12,923	(12,994)	893

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers Watson Management Consulting (Shenzhen) Co., Ltd..

	Present value of defined benefit plan obligations		Fair value of plan assets		Net liabilities of defined benefit plans	
	2018	2017	**2018**	2017	**2018**	2017
As at 1 January	**6,197**	7,131	**6,637**	6,161	**(440)**	970
Cost of the net defined benefit liability in profit or loss						
– Interest costs	**221**	212	**235**	187	**(14)**	25
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial losses/(gain)	**326**	(519)	**–**	–	**326**	(519)
– Returns on plan assets	**–**	–	**30**	74	**(30)**	(74)
Other changes						
– Benefits paid	**(605)**	(627)	**(605)**	(627)	**–**	–
– Contribution to plan assets	**–**	–	**–**	842	**–**	(842)
As at 31 December	**6,139**	6,197	**6,297**	6,637	**(158)**	(440)

Interest cost was recognised in other general and administrative expenses.

(i) Principal actuarial assumptions of the Group as at the end of reporting period are as follows:

	2018	2017
Discount rate	**3.25%**	4.00%
Health care cost increase rate	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**12.0 years**	12.4 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table published historical statistics in China.

(ii) The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	**Decrease in assumption by 0.25%**
Discount rate	**(123)**	**128**
Health care cost increase rate	**48**	**(46)**

(iii) As at 31 December 2018, the weighted average duration of supplementary retirement benefit obligations of the Group is 8.2 years (As at 31 December 2017: 7.9 years).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits (continued)

(iv) Plan assets of the Group are as follows:

	2018	2017
Cash and cash equivalents	232	411
Equity instruments	261	532
Debt instruments	5,675	5,557
Others	129	137
Total	6,297	6,637

43 TAXES PAYABLE

	2018	2017
Income tax	66,670	44,359
Value added tax	8,986	7,549
Others	2,227	2,198
Total	77,883	54,106

44 INTEREST PAYABLE

	2017
Deposits from customers	175,126
Deposits from banks and non-bank financial institutions	7,550
Debts securities issued	2,307
Others	14,605
Total	199,588

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 PROVISIONS

	2018	2017
Expected credit losses on off-balance sheet activities	31,224	2,402
Litigation provisions and others	6,704	8,179
Total	37,928	10,581

Movement of the provision – expected credit losses on off-balance sheet activities

		2018				
	Note	Stage 1	Stage 2	Stage 3	Purchased impaired financial assets	Total
As at 1 January 2018		19,523	4,228	1,984	–	25,735
Transfers:						
Transfers in (out) to Stage 1		260	(260)	–	–	–
Transfers in (out) to Stage 2		(147)	147	–	–	–
Transfers in (out) to Stage 3		(3)	(215)	218	–	–
Newly originated		18,361	–	–	–	18,361
Matured		(11,770)	(2,009)	(215)	–	(13,994)
Remeasurements	(a)	(3,880)	4,080	922	–	1,122
As at 31 December 2018		22,344	5,971	2,909	–	31,224

(a) Remeasurements comprise the impact of changes in PD, LGD or EAD; changes in model assumptions and methodology; credit loss due to transfer between different stages.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED

	Note	2018	2017
Certificates of deposit issued	(1)	**371,583**	321,366
Bonds issued	(2)	**111,447**	71,331
Subordinated bonds issued	(3)	**145,169**	144,898
Eligible Tier 2 capital bonds issued	(4)	**142,681**	58,931
Accrued interest		**4,905**	N/A
Total		**775,785**	596,526

(1) Certificates of deposit were mainly issued by head office and overseas branches.

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	2018	2017
28/05/2014	28/05/2019	1.375%	Switzerland	CHF	**2,093**	2,002
02/07/2014	02/07/2019	3.25%	Hong Kong	USD	**4,123**	3,904
05/09/2014	05/09/2019	3.75%	Taiwan	RMB	**600**	600
05/09/2014	05/09/2021	4.00%	Taiwan	RMB	**600**	600
18/11/2014	18/11/2019	3.75%	Taiwan	RMB	**1,000**	1,000
18/11/2014	18/11/2021	3.95%	Taiwan	RMB	**1,000**	1,000
18/11/2014	18/11/2024	4.08%	Taiwan	RMB	**600**	600
20/01/2015	20/01/2020	3.125%	Hong Kong	USD	**4,810**	4,555
11/02/2015	11/02/2020	1.50%	Luxembourg	EUR	**3,929**	3,902
18/06/2015	18/06/2018	4.317%	Auckland	NZD	**–**	231
18/06/2015	18/06/2019	4.30%	Auckland	NZD	**7**	7
18/06/2015	18/06/2020	3 month New Zealand benchmark interest rate+1.2%	Auckland	NZD	**115**	115
16/07/2015	18/06/2018	3.935%	Auckland	NZD	**–**	69
28/07/2015	28/07/2020	3.25%	Hong Kong	USD	**3,437**	3,253
10/09/2015	10/09/2019	3.945%	Auckland	NZD	**57**	57
18/09/2015	18/09/2018	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	**–**	2,031
07/12/2015	18/09/2018	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	**–**	15
29/12/2015	27/01/2020	3.80%	Auckland	NZD	**92**	92
30/03/2016	30/03/2026	4.08%	Mainland China	RMB	**3,500**	3,500
16/05/2016	16/05/2019	3.10%	Auckland	NZD	**46**	47
31/05/2016	31/05/2019	2.38%	Hong Kong	USD	**1,513**	1,434
31/05/2016	31/05/2021	2.75%	Hong Kong	USD	**2,075**	1,967
18/08/2016	18/09/2020	2.95%	Auckland	NZD	**476**	475
18/10/2016	18/10/2020	3.05%	Auckland	NZD	**7**	7
21/10/2016	21/10/2021	2.25%	Hong Kong	USD	**4,483**	1,757
09/11/2016	09/11/2019	3.05%	Mainland China	RMB	**3,200**	3,200
09/11/2016	09/11/2021	3.05%	Mainland China	RMB	**800**	800
22/12/2016	22/12/2019	3.35%	Auckland	NZD	**46**	46
17/02/2017	17/02/2020	0.63%	Luxembourg	EUR	**3,928**	3,902
05/05/2017	26/07/2022	Senior Tranche A: CNLR1Y+0.18% Senior Tranche B: CNLR1Y+0.64%	Mainland China	RMB	**–**	1,012

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED (CONTINUED)

(2) Bonds issued (continued)

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	2018	2017
31/05/2017	29/05/2020	3MLIBOR+0.77%	Hong Kong	USD	**8,246**	7,808
13/06/2017	13/06/2022	2.75%	Hong Kong	USD	**4,123**	3,904
04/08/2017	05/02/2018	1.87%	Hong Kong	USD	**–**	163
27/09/2017	27/09/2019	2.37%	Hong Kong	USD	**515**	488
25/10/2017	25/10/2022	3.15%	Hong Kong	USD	**687**	651
25/10/2017	27/10/2020	2.20%	Hong Kong	USD	**82**	78
26/10/2017	26/10/2020	2.08%	Singapore	SGD	**2,522**	2,432
09/11/2017	09/11/2022	3.93%	Auckland	NZD	**693**	692
04/12/2017	04/12/2020	2.29%	Hong Kong	USD	**5,497**	5,205
04/12/2017	04/12/2020	2.75%	Hong Kong	USD	**3,436**	3,253
04/12/2017	04/12/2022	3.00%	Hong Kong	USD	**2,749**	2,603
22/12/2017	21/12/2018	3.25%	Hong Kong	USD	**–**	2,798
13/03/2018	13/03/2021	3.20%	Auckland	NZD	**46**	–
17/04/2018	17/04/2019	2.97%	Hong Kong	USD	**69**	–
17/04/2018	26/03/2021	3M LIBOR+0.75%	Hong Kong	USD	**550**	–
18/04/2018	18/04/2021	4.88%	Mainland China	RMB	**6,000**	–
19/04/2018	26/04/2019	3MLIBOR+0.45%	Hong Kong	USD	**275**	–
30/04/2018	30/04/2021	3MLIBOR+0.75%	Hong Kong	USD	**137**	–
04/05/2018	04/05/2021	3MLIBOR+0.80%	Hong Kong	USD	**172**	–
08/06/2018	08/06/2021	3MLIBOR+0.73%	Hong Kong	USD	**6,184**	–
08/06/2018	08/06/2023	3MLIBOR+0.83%	Hong Kong	USD	**4,123**	–
19/06/2018	19/06/2023	4.01%	Auckland	NZD	**462**	–
12/07/2018	12/07/2023	3MLIBOR+1.25%	Hong Kong	USD	**2,749**	–
20/07/2018	20/07/2021	4.48%	Mainland China	RMB	**3,000**	–
21/08/2018	19/06/2023	4.005%	Auckland	NZD	**162**	–
23/08/2018	23/08/2021	4.25%	Mainland China	RMB	**2,500**	–
21/09/2018	21/09/2020	2.643%	Singapore	SGD	**1,513**	–
24/09/2018	24/09/2021	3MLIBOR+0.75%	Hong Kong	USD	**6,871**	–
24/09/2018	24/09/2021	3MEURIBOR +0.60%	Luxembourg	EUR	**3,924**	–
20/12/2018	20/12/2021	3MLIBOR+0.75%	Auckland	USD	**688**	–
24/12/2018	24/12/2020	3MLIBOR+0.70%	Hong Kong	USD	**1,099**	–
Total nominal value					**111,611**	72,255
Less: unamortised issuance costs					**(164)**	(924)
Carrying value as at 31 December					**111,447**	71,331

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED (CONTINUED)

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC, the CBRC, the HKMA and Brasil Central Bank is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	2018	2017
24/02/2009	26/02/2024	4.00%	RMB	(a)	**28,000**	28,000
07/08/2009	11/08/2024	4.04%	RMB	(b)	**10,000**	10,000
03/11/2009	04/11/2019	Benchmark rate released by Brasil Central Bank	BRL	(c)	**354**	393
18/12/2009	22/12/2024	4.80%	RMB	(d)	**20,000**	20,000
27/04/2010	27/04/2020	8.50%	USD	(c)	**1,728**	1,713
03/11/2011	07/11/2026	5.70%	RMB	(e)	**40,000**	40,000
20/11/2012	22/11/2027	4.99%	RMB	(f)	**40,000**	40,000
20/08/2014	20/08/2024	4.25%	USD	(g)	**5,154**	4,880
Total nominal value					**145,236**	144,986
Less: Unamortised issuance cost					**(67)**	(88)
Carrying value as at 31 December					**145,169**	144,898

(a) CCB has chosen to exercise the option to redeem all the bonds on 26 February 2019.

(b) The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(c) The subordinated bonds were issued by BIC.

(d) The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(e) The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

(f) The Group has an option to redeem the bonds on 22 November 2022, subject to an approval from relevant authority.

(g) The Group has an option to redeem the bonds on 20 August 2019, subject to an approval from relevant authority.

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	2018	2017
15/08/2014	18/08/2029	5.98%	RMB	(a)	**20,000**	20,000
12/11/2014	12/11/2024	4.90%	RMB	(b)	**2,000**	2,000
13/05/2015	13/05/2025	3.88%	USD	(c)	**13,746**	13,014
18/12/2015	21/12/2025	4.00%	RMB	(d)	**24,000**	24,000
25/09/2018	24/09/2028	4.86%	RMB	(e)	**43,000**	–
29/10/2018	28/10/2028	4.70%	RMB	(f)	**40,000**	–
Total nominal value					**142,746**	59,014
Less: Unamortised issuance cost					**(65)**	(83)
Carrying value as at 31 December					**142,681**	58,931

(a) The Group has an option to redeem the bonds on 18 August 2024, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(b) The Group has an option to redeem the bonds on 12 November 2019, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate per annum will increase by 1.538% on the basis of the twelve months CNH HIBOR applicable on the interest reset date from 12 November 2019 for the next five years. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(c) The Group has an option to redeem the bonds on 13 May 2020, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 13 May 2020 and increase by 2.425% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 DEBT SECURITIES ISSUED (CONTINUED)

(4) Eligible Tier 2 capital bonds issued (continued)

(d) The Group has an option to redeem the bonds on 21 December 2020, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(e) The Group has an option to redeem the bonds on 25 September 2023, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

(f) The Group has an option to redeem the bonds on 29 October 2023, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid, either.

47 OTHER LIABILITIES

	2018	2017
Insurance related liabilities	**116,463**	112,914
Payment and collection clearance accounts	**21,696**	13,986
Deferred income	**14,548**	11,731
Cash pledged and rental income received in advance	**9,486**	8,887
Capital expenditure payable	**9,248**	9,552
Clearing and settlement accounts	**7,630**	16,136
Dormant accounts	**6,973**	5,032
Accrued expenses	**3,728**	3,382
Others	**91,642**	53,145
Total	**281,414**	234,765

48 SHARE CAPITAL

	2018	2017
Listed in Hong Kong (H share)	**240,417**	240,417
Listed in Mainland China (A share)	**9,594**	9,594
Total	**250,011**	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

49 OTHER EQUITY INSTRUMENTS

(1) Preference shares outstanding as at the end of the reporting period

						Total amount			
Preference shares	**Issue date**	**Classification**	**Initial interest rate**	**Issue price**	**Quantity (million)**	**Original Currency (USD)**	**(RMB)**	**Maturity date**	**Conversion conditions**
2015 Offshore Preference Shares	16-Dec-15	Equity instruments	4.65%	$20 per share	152.5	3,050	19,711	No maturity date	None
2017 Domestic Preference Shares	21-Dec-17	Equity instruments	4.75%	RMB100 per share	600		60,000	No maturity date	None
Less: Issuance fee							(75)		
Carrying amount							79,636		

49 OTHER EQUITY INSTRUMENTS

(2) The key terms

(a) Offshore Preference Shares

(i) Dividend

The initial annual dividend rate is 4.65% and is subsequently subject to reset per agreement, but in no case shall exceed 20.4850%. The dividend is measured and paid in dollars. After such dividend being paid at the agreed dividend payout ratio, the holders of the above offshore preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends for offshore preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend for the offshore preference shares, and such cancellation shall not be deemed a default. However, until the Bank fully pays the dividends for the current dividend period, the Bank shall not make any dividend distribution to ordinary shareholders.

(ii) Redemption

Subject to receiving the prior approval of CBIRC and satisfaction of the redemption conditions precedent, all or some only of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 16 December 2020 or on any dividend payment date thereafter at the redemption price which is equal to issue price plus dividends payable but not yet distributed in current period.

(iii) Compulsory conversion of preference shares

When an Additional Tier 1 Capital Instrument Trigger Event occurs, that is when Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% (or below), the Bank shall (without the need for the consent of offshore preference shareholders) convert all or some only of the preference shares in issue into such number of H shares which will be sufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125% according to the contract; when a Tier 2 Capital Instrument Trigger Event occurs, the Bank shall (without the need for the consent of offshore preference shareholders) convert all of the offshore preference shares in issue into such number of H shares according to contract. Tier 2 Capital Instrument Trigger Event is defined as the earlier of: (i) the CBIRC having decided that without a conversion or write-off the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Once a preference share has been converted, it will not be restored in any circumstances. When the compulsory conversion of offshore preference shares occurs, the Bank shall report to the CBIRC for approval and decision.

(b) Domestic Preference Shares

(i) Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

(ii) Redemption

The Bank may, subject to CBIRC approval and compliance with the Redemption Preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

49 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) The key terms (continued)

(b) Domestic Preference Shares (continued)

(iii) Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (1) the CBIRC having decided that without a conversion or write-off of the Bank's capital the Bank would become non-viable; and (2) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBIRC for approval and decision, and perform the announcement obligation according to the regulations of the Securities Law and CSRC.

The Bank classifies preference shares issued as an equity instrument and presented as an equity item on statements of financial position. Capital raised from the issuance of the above preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(3) Changes in Preference shares outstanding

	1 January 2018		Increase		31 December 2018	
Preference Shares	**Amount (million shares)**	**Carrying value**	**Amount (million shares)**	**Carrying value**	**Amount (million shares)**	**Carrying value**
2015 Offshore Preference Shares	**152.5**	**19,659**	–	–	**152.5**	**19,659**
2017 Domestic Preference Shares	**600**	**59,977**	–	–	**600**	**59,977**
Total	**752.5**	**79,636**	–	–	**752.5**	**79,636**

(4) Interests attributable to the holders of equity instruments

Items	**2018**	2017
1. Total equity attributable to equity holders of the Bank	**1,976,463**	1,779,760
(1) Equity attributable to ordinary equity holders of the Bank	**1,896,827**	1,700,124
(2) Equity attributable to other equity holders of the Bank	**79,636**	79,636
Of which: net profit	**3,936**	1,045
dividends received	**3,936**	1,045
2. Total equity attributable to non-controlling interests	**15,131**	16,067
(1) Equity attributable to non-controlling interests of ordinary shares	**11,678**	12,645
(2) Equity attributable to non-controlling interests of other equity instruments	**3,453**	3,422

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

50 CAPITAL RESERVE

	2018	2017
Share premium	**134,537**	134,537
Cash flow hedge reserve	–	320
Others	–	368
Total	**134,537**	135,225

51 OTHER COMPREHENSIVE INCOME

	Other comprehensive income of statement of financial position			Other comprehensive income of 2018				
	1 January 2018 (Note 4(25))	Net-of-tax amount attributable to equity shareholders	31 December 2018	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: income taxes	Net-of-tax amount attributable to equity shareholders	Net-of-tax amount attributable to non-controlling interests
(1) Other comprehensive income that will not be reclassified to profit or loss								
Remeasurements of post-employment benefit obligations	(110)	(296)	(406)	(296)	–	–	(296)	–
Changes of equity instruments designated as measured at fair value through other comprehensive income	479	120	599	160	–	(40)	120	–
Others	478	43	521	43	–	–	43	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss								
Fair value changes of debt instruments measured at fair value through other comprehensive income	(18,420)	35,585	17,165	47,816	(199)	(11,879)	35,585	153
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	1,976	301	2,277	404	–	(101)	301	2
Net gains/(losses) on cash flow hedges	320	(267)	53	(267)	–	–	(267)	–
Exchange difference on translating foreign	(4,322)	2,564	(1,758)	2,573	–	–	2,564	9
Total	(19,599)	38,050	18,451	50,433	(199)	(12,020)	38,050	164

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

51 OTHER COMPREHENSIVE INCOME (CONTINUED)

The changes in fair value of available-for-sale financial assets were recognised in "investment revaluation reserve" in 2017. Movements of investment revaluation reserve are as follows:

	2017		
	Before-tax amount	Tax impact	Net-of-tax amount
As at 1 January	(1,381)	405	(976)
(Losses)/Gains during the year			
– Debt securities	(39,394)	9,541	(29,853)
– Equity instruments and funds	1,896	(474)	1,422
	(37,498)	9,067	(28,431)
Reclassification adjustments			
– Impairment	764	(191)	573
– Disposals	4,048	(1,012)	3,036
– Others	(274)	68	(206)
	4,538	(1,135)	3,403
As at 31 December	(34,341)	8,337	(26,004)

52 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in annual general meetings.

53 GENERAL RESERVE

The general reserve of the Group as at the end of the reporting period is set up based upon the requirements of:

	Note	2018	2017
MOF	(1)	**272,001**	254,104
Hong Kong Banking Ordinance	(2)	**2,124**	2,124
Other regulatory bodies in Mainland China	(3)	**4,908**	2,866
Other overseas regulatory bodies		**692**	586
Total		**279,725**	259,680

(1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the 'Regulation on Management of Financial Institutions for Reserves' (Cai Jin [2012] No. 20), issued by the MOF on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

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54 PROFIT DISTRIBUTION

In the Annual General Meeting held on 29 June 2018, the shareholders approved the profit distribution for the year ended 31 December 2017. The Bank appropriated cash dividend for the year ended 31 December 2017 in an aggregate amount of RMB72,753 million.

In the Board of Directors' Meeting, held on 23 October 2018, the directors approved the payment of dividends to offshore preference shareholders and domestic preference shareholders. The dividends for the offshore preference shares distributed were US$157,583,333.33 (including taxes), calculated using the initial dividend rate of 4.65% (after taxes) as set in the terms and conditions, and equaled RMB1,086 million (including taxes), at the exchange rate on 17 December 2018, the dividend payout date. The dividends for domestic preference shares distributed were RMB2,850 million, calculated using the nominal dividend rate of 4.75% (including taxes) as set in the terms and conditions, and the dividend payout date was 26 December 2018.

On 27 March 2019, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2018:

(1) Appropriate statutory surplus reserve amounted to RMB24,618 million, based on 10% of the net profit of the Bank amounted to RMB246,184 million for the year 2018 (2017: RMB23,168 million). It has been recorded in "Surplus reserve" as at the end of the reporting period.

(2) Appropriate general reserve amounted to RMB17,897 million, pursuant to relevant regulations issued by MOF (2017: RMB13,943 million).

(3) Declare cash dividend RMB0.306 per share before tax (2017: RMB0.291 per share) and in aggregation amount of RMB76,503 million to all shareholders. Proposed dividends as at the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of the shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

55 NOTES TO CASH FLOW STATEMENT

Cash and cash equivalents

	2018	2017
Cash	**65,215**	73,876
Surplus deposit reserves with central banks	**389,425**	209,080
Demand deposits with banks and non-bank financial institutions	**60,531**	60,910
Deposits with banks and non-bank financial institutions with original maturity with or within three months	**211,186**	59,220
Placements with banks and non-bank financial institutions with original maturity with or within three months	**134,345**	168,253
Total	**860,702**	571,339

56 TRANSFERRED FINANCIAL ASSETS

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

Securities Lending Transactions

Transferred financial assets that do not qualify for derecognition 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 derecognized them. As at 31 December 2018, the transactions of debt securities lent to counterparties have all matured and with no carrying value (as at 31 December 2017: RMB35,938 million).

56 TRANSFERRED FINANCIAL ASSETS (CONTINUED)

Credit Assets Securitisation Transactions

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group retains interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement.

As at 31 December 2018, loans with an original carrying amount of RMB447,278 million (as at 31 December 2017: RMB153,397 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2018, the carrying amount of assets that the Group continued to recognise was RMB49,017 million (as at 31 December 2017: RMB13,175 million). The carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB47,515 million as at 31 December 2018 (as at 31 December 2017: RMB13,352 million).

57 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile, Auckland and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- "Pearl River Delta" refers to the following areas where the tier-1 branches of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the "Central" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;
- the "Western" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the "Northeastern" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2018								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	56,645	52,140	41,781	59,244	56,944	14,066	188,612	16,846	486,278
Internal net interest income/(expense)	19,917	15,545	32,295	26,350	24,542	10,289	(123,248)	(5,690)	–
Net interest income	76,562	67,685	74,076	85,594	81,486	24,355	65,364	11,156	486,278
Net fee and commission income	16,983	17,338	17,995	15,775	10,535	4,178	36,987	3,244	123,035
Net trading gain/(loss)	369	608	408	336	257	58	11,250	(672)	12,614
Dividend income	112	7	1	52	10	–	60	531	773
Net (loss)/gain arising from investment securities	(1,367)	(571)	(504)	29	(103)	(37)	4,157	1,840	3,444
Net gain/(loss) on derecognition of financial assets measured at amortised cost	13	–	–	1	–	–	(2,391)	136	(2,241)
Other operating (expense)/income, net	(410)	574	2,138	516	2,245	107	(17)	4,716	9,869
Operating income	92,262	85,641	94,114	102,303	94,430	28,661	115,410	20,951	633,772
Operating expenses	(27,709)	(22,399)	(26,989)	(30,949)	(29,138)	(11,302)	(18,254)	(8,024)	(174,764)
Impairment losses	(14,799)	(14,364)	(33,980)	(30,650)	(22,661)	(16,577)	(15,584)	(2,373)	(150,988)
Share of profit/(loss) of associates and joint ventures	–	–	1	427	–	–	–	(288)	140
Profit before tax	49,754	48,878	33,146	41,131	42,631	782	81,572	10,266	308,160
Capital expenditure	1,530	1,874	3,917	2,987	2,240	1,261	2,112	2,944	18,865
Depreciation and amortisation	2,594	1,819	2,583	3,536	2,837	1,495	2,522	488	17,874

	2018								
Segment assets	4,552,907	3,568,920	5,294,858	4,200,214	3,448,750	1,179,534	9,090,812	1,693,490	33,029,485
Long-term equity investments	1	–	6	6,966	–	–	–	1,029	8,002
	4,552,908	3,568,920	5,294,864	4,207,180	3,448,750	1,179,534	9,090,812	1,694,519	33,037,487
Deferred tax assets									58,730
Elimination									(9,873,524)
Total assets									23,222,693
Segment liabilities	4,545,367	3,572,390	5,280,416	4,208,014	3,453,631	1,189,598	7,280,378	1,574,344	31,104,138
Deferred tax liabilities									485
Elimination									(9,873,524)
Total liabilities									21,231,099
Off-balance sheet credit commitments	512,137	461,552	653,558	495,996	378,075	143,531	100	203,775	2,848,724

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2017								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	48,813	44,573	38,519	52,282	53,586	12,290	186,954	15,439	452,456
Internal net interest income/(expense)	23,973	19,223	33,632	28,890	25,935	11,576	(136,706)	(6,523)	–
Net interest income	72,786	63,796	72,151	81,172	79,521	23,866	50,248	8,916	452,456
Net fee and commission income	17,095	15,584	18,332	16,872	11,383	3,813	31,780	2,939	117,798
Net trading gain/(loss)	1,022	1,567	637	362	407	189	(1,392)	2,066	4,858
Dividend income	1,288	5	–	189	11	–	245	457	2,195
Net gain/(loss) arising from investment securities	481	–	35	658	199	–	(2,846)	638	(835)
Other operating income, net	58	790	1,569	561	2,625	149	3,394	8,413	17,559
Operating income	92,730	81,742	92,724	99,814	94,146	28,017	81,429	23,429	594,031
Operating expenses	(25,727)	(21,426)	(26,204)	(30,140)	(27,754)	(11,324)	(16,748)	(7,720)	(167,043)
Impairment losses	(13,724)	(16,877)	(31,377)	(21,669)	(20,555)	(14,243)	(5,324)	(3,593)	(127,362)
Share of profit of associates and joint ventures	–	–	–	100	–	–	–	61	161
Profit before tax	53,279	43,439	35,143	48,105	45,837	2,450	59,357	12,177	299,787
Capital expenditure	1,932	1,916	7,655	2,666	2,006	1,054	1,687	6,209	25,125
Depreciation and amortisation	2,581	1,750	3,166	3,343	2,704	1,417	1,624	829	17,414

	2017								
Segment assets	4,687,992	3,479,166	4,916,680	4,058,155	3,294,459	1,100,318	8,672,547	1,723,881	31,933,198
Long-term equity investments	1	–	–	4,904	–	–	–	2,162	7,067
	4,687,993	3,479,166	4,916,680	4,063,059	3,294,459	1,100,318	8,672,547	1,726,043	31,940,265
Deferred tax assets									46,189
Elimination									(9,862,071)
Total assets									22,124,383
Segment liabilities	4,675,179	3,479,313	4,887,516	4,058,490	3,303,501	1,110,903	7,050,551	1,624,785	30,190,238
Deferred tax liabilities									389
Elimination									(9,862,071)
Total liabilities									20,328,556
Off-balance sheet credit commitments	600,582	422,504	767,363	492,226	348,508	155,452	–	242,537	3,029,172

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2018				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	171,838	123,046	170,952	20,442	486,278
Internal net interest income/(expense)	65,135	59,385	(116,334)	(8,186)	–
Net interest income	236,973	182,431	54,618	12,256	486,278
Net fee and commission income	28,713	72,303	12,251	9,768	123,035
Net trading (loss)/gain	(285)	(91)	4,652	8,338	12,614
Dividend income	–	–	–	773	773
Net (loss)/gain arising from investment securities	(3,929)	(4,373)	15,220	(3,474)	3,444
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(2,691)	184	116	150	(2,241)
Other operating income, net	13	619	8,511	726	9,869
Operating income	258,794	251,073	95,368	28,537	633,772
Operating expenses	(64,005)	(85,083)	(11,014)	(14,662)	(174,764)
Impairment losses	(120,621)	(26,256)	381	(4,492)	(150,988)
Share of profit of associates and joint ventures	–	–	–	140	140
Profit before tax	74,168	139,734	84,735	9,523	308,160
Capital expenditure	5,616	8,076	955	4,218	18,865
Depreciation and amortisation	6,535	9,399	1,111	829	17,874

	2018				
Segment assets	7,555,369	6,043,043	8,252,601	1,526,264	23,377,277
Long-term equity investments	–	–	–	8,002	8,002
	7,555,369	6,043,043	8,252,601	1,534,266	23,385,279
Deferred tax assets					58,730
Elimination					(221,316)
Total assets					23,222,693
Segment liabilities	10,098,929	8,256,278	1,058,771	2,037,952	21,451,930
Deferred tax liabilities					485
Elimination					(221,316)
Total liabilities					21,231,099
Off-balance sheet credit commitments	1,771,513	873,436	–	203,775	2,848,724

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2017				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	150,924	101,139	173,958	26,435	452,456
Internal net interest income/(expense)	73,083	74,348	(139,552)	(7,879)	–
Net interest income	224,007	175,487	34,406	18,556	452,456
Net fee and commission income	30,739	61,298	19,850	5,911	117,798
Net trading (loss)/gain	(6,128)	(1,357)	11,687	656	4,858
Dividend income	–	–	–	2,195	2,195
Net gain/(loss) arising from investment securities	–	–	681	(1,516)	(835)
Other operating (expense)/income, net	(556)	526	(700)	18,289	17,559
Operating income	248,062	235,954	65,924	44,091	594,031
Operating expenses	(59,291)	(83,839)	(9,582)	(14,331)	(167,043)
Impairment losses	(106,047)	(14,379)	(1,725)	(5,211)	(127,362)
Share of profit of associates and joint ventures	–	–	–	161	161
Profit before tax	82,724	137,736	54,617	24,710	299,787
Capital expenditure	5,110	7,974	849	11,192	25,125
Depreciation and amortisation	5,701	8,897	947	1,869	17,414

	2017				
Segment assets	6,837,261	5,377,252	8,475,693	1,648,535	22,338,741
Long-term equity investments	–	–	–	7,067	7,067
	6,837,261	5,377,252	8,475,693	1,655,602	22,345,808
Deferred tax assets					46,189
Elimination					(267,614)
Total assets					22,124,383
Segment liabilities	10,072,832	7,502,694	900,534	2,119,721	20,595,781
Deferred tax liabilities					389
Elimination					(267,614)
Total liabilities					20,328,556
Off-balance sheet credit commitments	2,016,432	761,613	–	251,127	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

58 ENTRUSTED LENDING BUSINESS

At the end of the reporting period, the amounts of the entrusted loans and funds were as follows:

	2018	2017
Entrusted loans	**2,922,226**	2,736,842
Entrusted funds	**2,922,226**	2,736,842

59 PLEDGED ASSETS

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	2018	2017
Cash deposit	**948**	–
Discounted bills	**765**	401
Bonds	**639,922**	628,172
Others	**5,773**	6,924
Total	**647,408**	635,497

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2018 and 2017, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default for the transactions.

60 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	2018	2017
Loan commitments		
– with an original maturity within one year	**150,257**	192,768
– with an original maturity of one year or over	**306,838**	396,467
Credit card commitments	**923,508**	801,618
	1,380,603	1,390,853
Bank acceptances	**230,756**	276,629
Financing guarantees	**51,422**	60,821
Non-financing guarantees	**1,006,748**	898,422
Sight letters of credit	**34,159**	41,216
Usance letters of credit	**130,195**	266,865
Others	**14,841**	94,366
Total	**2,848,724**	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

	2018	2017
Credit risk-weighted amount of contingent liabilities and commitments	**985,503**	1,110,481

(3) Operating lease commitments

The Group leases certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	2018	2017
Within one year	**6,353**	5,720
After one year but within two years	**4,876**	4,289
After two years but within three years	**3,571**	3,024
After three years but within five years	**4,175**	3,350
After five years	**3,376**	2,423
Total	**22,351**	18,806

(4) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	2018	2017
Contracted for	**11,792**	5,882

(5) Underwriting obligations

As at 31 December 2018, there was no unexpired underwriting commitment of the Group (as at 31 December 2017: nil).

(6) Government bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 31 December 2018, were RMB81,331 million (as at 31 December 2017: RMB79,431 million).

(7) Outstanding litigation and disputes

As at 31 December 2018, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB9,070 million (as at 31 December 2017: RMB10,499 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 45). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies (Note 4(14)).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of the PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company. It was registered in Beijing with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2018, Huijin directly held 57.11% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB145,236 million (as at 31 December 2017: RMB144,986 million). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) *Transactions with parent companies*

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows:

Amounts

	2018		2017	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,980**	**0.24%**	1,096	0.15%
Interest expense	**95**	**0.03%**	128	0.04%

Balances outstanding as at balance sheet date

	2018		2017	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Interest receivable	**N/A**	**N/A**	140	0.12%
Loans and advances to customers	**28,000**	**0.21%**	28,000	0.22%
Financial investments				
Financial assets measured at amortised cost	**8,097**	**0.25%**	N/A	N/A
Financial assets measured at fair value through other comprehensive income	**11,563**	**0.68%**	N/A	N/A
Available-for-sale financial assets	**N/A**	**N/A**	2,199	0.14%
Held-to-maturity investments	**N/A**	**N/A**	9,140	0.35%
Deposits from banks and non-bank financial institutions	**1,627**	**0.11%**	6,114	0.46%
Deposits from customers	**3,675**	**0.02%**	55	0.00%
Interest payable	**N/A**	**N/A**	–	0.00%
Credit commitments	**288**	**0.01%**	288	0.01%

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies

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

Amounts

		2018		2017	
	Note	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income		22,526	2.78%	32,102	4.28%
Interest expense		4,748	1.46%	10,237	3.44%
Fee and commission income		171	0.12%	667	0.51%
Fee and commission expense		208	1.39%	198	1.46%
Operating expenses	(i)	884	0.53%	724	0.46%

Balances outstanding as at balance sheet date

		2018		2017	
	Note	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		40,591	8.34%	36,672	20.95%
Placements with banks and non-bank financial institutions		96,352	27.55%	71,066	21.85%
Positive fair value of derivatives		4,811	9.51%	7,522	9.06%
Financial assets held under resale agreements		10,110	5.01%	62,500	30.00%
Interest receivable		N/A	N/A	21,747	18.59%
Loans and advances to customers		68,382	0.51%	30,553	0.24%
Financial investments					
Financial assets measured at fair value through profit or loss		17,067	2.33%	22,323	3.86%
Financial assets measured at amortised cost		294,975	9.01%	N/A	N/A
Financial assets measured at fair value through other comprehensive income		229,510	13.41%	N/A	N/A
Available-for-sale financial assets		N/A	N/A	215,607	13.90%
Held-to-maturity investments		N/A	N/A	458,789	17.74%
Investment classified as receivables		N/A	N/A	28,925	6.21%
Other assets	(ii)	211	0.16%	15	0.02%
Deposits from banks and non-bank financial institutions	(iii)	60,518	4.24%	194,730	14.56%
Placements from banks and non-bank financial institutions		117,661	28.00%	109,661	28.58%
Negative fair value of derivatives		6,961	14.35%	6,739	8.44%
Financial assets sold under repurchase agreements		1,486	4.83%	1,255	1.69%
Deposits from customers		18,633	0.11%	14,455	0.09%
Interest payable		N/A	N/A	423	0.21%
Other liabilities		4,467	1.59%	1,251	0.53%
Credit commitments		8,443	0.29%	10,231	0.34%

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies (continued)

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	2018	2017
Interest income	**399**	604
Interest expense	**322**	571
Fee and commission income	**197**	27
Operating expenses	**239**	–

Balances outstanding as at balance sheet date

	2018	2017
Loans and advances to customers	**8,634**	7,497
Other assets	**16**	–
Placements from banks and non-bank financial institutions	**–**	98
Negative fair value of derivatives	**35**	–
Deposits from customers	**1,669**	2,223
Interest payable	**N/A**	2
Other liabilities	**419**	264
Credit commitments	**10**	82

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2018	2017
Interest income	1,002	1,320
Interest expense	739	577
Fee and commission income	1,769	1,820
Fee and commission expense	575	542
Dividend income	311	65
Net gain arising from investment securities	–	399
Other operating expense, net	(192)	(94)
Operating expenses	990	811

Balances outstanding as at balance sheet date

	2018	2017
Deposits with banks and non-bank financial institutions	3,640	4,871
Placements with banks and non-bank financial institutions	77,992	90,481
Positive fair value of derivatives	327	1,424
Financial assets held under resale agreements	2,130	–
Interest receivable	N/A	120
Loans and advances to customers	10,918	10,653
Financial investments		
Financial assets measured at amortised cost	2,127	N/A
Financial assets measured at fair value through other comprehensive income	10,336	N/A
Available-for-sale financial assets	N/A	9,074
Held-to-maturity investments	N/A	656
Investment classified as receivables	N/A	455
Other assets	39,105	38,480

	2018	2017
Deposits from banks and non-bank financial institutions	6,688	19,547
Placements from banks and non-bank financial institutions	38,999	58,017
Financial liabilities measured at fair value through profit or loss	45	–
Negative fair value of derivatives	344	1,288
Financial assets sold under repurchase agreements	1,334	–
Deposits from customers	7,233	3,821
Interest payable	N/A	94
Debt securities issued	824	840
Other liabilities	281	1,033

As at 31 December 2018, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB38,733 million (as at 31 December 2017: RMB53,726 million).

For the year ended 31 December 2018, the transactions between subsidiaries of the Group are mainly deposits with banks and non-bank financial institutions and deposits from banks and non-bank financial institutions. As at 31 December 2018, the balances of the above transactions were RMB2,509 million (as at 31 December 2017: RMB4,613 million) and RMB2,509 million (as at 31 December 2017: RMB10,721 million) respectively.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; purchase, sale, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(5) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme for the years ended 31 December 2018 and 2017.

As at 31 December 2018, RMB3,760 million of the Group's supplementary retirement benefit plan assets (as at 31 December 2017: RMB3,183 million) were managed by CCB Principal and management fees from the Bank was RMB15.63 million (as at 31 December 2017: RMB10.59 million).

(6) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the years ended 31 December 2018 and 2017, there were no material transactions and balances with key management personnel.

The compensation of directors and supervisors is disclosed in Note 15. The senior executives' annual compensation before individual income tax during the year is as follows:

	2018			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (i)) RMB'000	Total (Note (ii)) RMB'000
Executive Vice President				
Huang Yi	491	55	107	653
Zhang Lilin	491	50	95	636
Executive Vice President and Chief Risk Officer				
Liao Lin	665	55	149	869
Chief Financial Officer				
Xu Yiming	788	55	149	992
Secretary to the Board				
Huang Zhiling	657	47	122	826
Former Executive Vice President				
Yang Wensheng	205	22	38	265
Yu Jingbo	205	22	38	265
Former Secretary to the Board				
Chen Caihong	113	–	18	131
	3,615	306	716	4,637

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2017			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Term incentive income during 2015-2017 RMB'000
Executive Vice President				
Yang Wensheng	671	139	–	518
Huang Yi	671	139	–	518
Yu Jingbo	671	139	–	518
Zhang Lilin	392	74	–	109
Chief Disciplinary Officer				
Zhu Kepeng	671	139	–	411
Chief Risk Officer				
Liao Lin	1,759	157	–	–
Chief Financial Officer				
Xu Yiming	2,110	187	–	–
Secretary to the Board				
Huang Zhiling	–	–	–	–
Former Chief Risk Officer				
Zeng Jianhua	352	30	–	–
Former Secretary to the Board				
Chen Caihong	2,110	131	–	–
	9,407	1,135	–	2,074

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) The total compensation package for these key management personnel for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation to be adjusted for is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2018. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2017 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2017 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2017 was the final amount.

(iv) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities has been paid in accordance with relevant policies relating to the central remuneration reform.

(7) Loans, quasi-loans and other credit transactions to directors, supervisors and senior executives

The Group had no material balance of loans, quasi-loans and other credit transactions to directors, supervisors and senior executives as at the end of reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

62 RISK MANAGEMENT

The Group has exposure to the following risks:

- credit risk
- market risk
- liquidity risk
- operational risk
- insurance risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors carry out their responsibilities according to Articles of Association and other related regulatory requirements. The Board of Directors of the Bank has established the Risk Management Committee, responsible for making risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. The Board of Supervisors has oversight of the establishment of the overall risk management system and how well the Board of Directors and senior management carry out risk management responsibilities. Senior management is responsible for carrying out the risk strategy established by the Board of Directors and the implementation of the overall risk management of the Group. Senior management appoints Chief Risk Officer who assisted the president with the corresponding risk management work.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training system, standardised management and process management, aims at developing a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk Management Department is the overall business risk management department. Credit Management Department is the overall credit risk management department. Credit Approval Department is the overall credit business approval department. Internal Control and Compliance Department is the coordination department for operating risk management, information technology risk management, compliance risk management and money laundering risk management. Other departments are responsible for various corresponding risks.

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core business sectors and their management procedures. Internal Control and Compliance Department assists the Audit Committee to execute the above mentioned responsibilities and reports to the Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Special Assets Resolution Center is responsible for the special assets resolutions. The Credit Approval Department is responsible for the Group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the SME Business Department, the Institutional Banking Department, the International Business Department, the Strategic Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to improve the overall asset quality. The Group manages credit risks throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually carries out post-lending monitoring, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (Continued)

Credit risk management (Continued)

Credit business (Continued)

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A refined management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Treasury business

For risk management purposes, credit risk arising from debt securities and derivatives exposures is managed independently and information thereon is disclosed in Notes (1)(i) and (1)(j) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

Measurement of Expected Credit Loss (ECL)

(A) Segmentation of Financial Instruments

The Group adopts a "three-stage" model for impairment based on changes in credit quality since initial recognition, to estimate the expected credit losses.

The key definition of the three stages are summarised below:

Stage 1: For financial instruments with no significant increase in credit risk after initial recognition, expected credit losses in the next 12 months are recognised.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, but there are no objective evidence of impairment, lifetime expected credit losses are recognised.

Stage 3: For financial assets show objective evidence of impairment at the end of the reporting period, lifetime expected credit losses are recognised.

(B) Significant Increase in Credit Risk (SICR)

The Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition on a quarterly basis. The Group sufficiently considers all reasonable and supportable information, including forward-looking information, which reflects the significant increase in credit risk. The major factors considered include regulatory and business environment, internal and external credit grading, repayment ability, operation capacity, contract terms of the loan, assets price, market interest rate, repayment behaviors, etc. The Group compares the risk of a default occurring as at the reporting date with that as at the date of initial recognition of one financial instrument or a portfolio of financial instruments that shares the similar credit risk characteristics. The key factors are as follows: 1. The change in probability of default (PD), for example, in principle, the internal credit rating of corporate loans and advances is 15 or below, and the internal credit rating of debt securities has dropped by 2 or more notches. 2. Other factors which cause significant increase in credit risk. Usually, it should be regarded as a significant increase in credit risk if the overdue exceeds 30 days.

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (Continued)

Measurement of Expected Credit Loss (ECL) (Continued)

(C) Definition of default and credit-impaired assets

The Group considers a financial instrument is default, when it is credit-impaired. Generally, overdue for more than 90 days on contractual payment terms is considered default.

In order to evaluate whether a financial asset is impaired, the Group considers the following criteria:

- Significant financial difficulty of the borrower or issuer;
- Breach of contract term, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for financial assets because of financial difficulties;
- A substantial discount on purchasing or generating a financial asset may reflects the fact that credit losses occur;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group;
- Other objective evidence indicating there is an impairment of the financial asset.

The Group's definition of default has been consistently applied to the modelling process of PD, EAD and LGD during the ECL calculation.

(D) Measuring ECL – Explanation of Inputs, Assumptions and Estimation Techniques

The ECL is recognised on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether a financial instrument is considered to be credit-impaired. Expected credit losses are the discounted product of the weighted average of PD, LGD, and EAD under the three scenarios, defined as follows:

– PD represents after consideration of forward-looking information the likelihood of a borrower defaulting on its financial obligation in the future. Please refer to earlier disclosure in this note for the definition of default.

– LGD represents after consideration of forward-looking information the Group's expectation on the ratio of extent of loss and a defaulted exposure.

– EAD is the total amount of risk exposure on and off balances sheet at the time of default. The exposure is determined by the repayment plan according to different types of products.

– The discount rate used in the ECL calculation is the effective interest rate.

Please refer to further disclosure in this note for forward looking information which is incorporated in the calculation of expected credit losses.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how the collateral values change etc. – are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (Continued)

Measurement of Expected Credit Loss (ECL) (Continued)

(E) *Forward-looking information incorporated in the ECL*

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables related to expected credit losses and made forward-looking adjustments, such as GDP, CPI, M2, PPI, RMB deposit reserve rate, London spot gold price, average exchange rate of US Dollar to RMB and so on. Taking GDP as an example, the predicted value in neutral scenario accords with the development goals issued by the Central People's Government, the predicted value in positive and negative scenarios will fluctuate up and down on the basis of the predicted value in neutral scenario. The forecasts of macroeconomic variables in the variables pool are provided periodically by the Group. The Group constructs empirical models to obtain the relationship between historical macroeconomic variables and PD and LGD, and the PD and LGD in a given future horizon are projected based on the forecasted macroeconomic variables.

The Group constructs empirical models to determine the weightings in positive, neutral and negative. In 2018, the positive, neutral and negative scenarios are of comparable weighting. Following this assessment, the Group measures ECL as a weighted average probability of ECL in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

(F) *Grouping of instruments for losses measured on a collective basis*

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

(a) *Maximum credit risk exposure*

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance.

	2018	2017
Deposits with central banks	**2,567,648**	2,914,380
Deposits with banks and non-bank financial institutions	**486,949**	175,005
Placements with banks and non-bank financial institutions	**349,727**	325,233
Positive fair value of derivatives	**50,601**	82,980
Financial assets held under resale agreements	**201,845**	208,360
Interest receivable	**N/A**	116,993
Loans and advances to customers	**13,365,430**	12,574,473
Financial investments		
Financial assets measured at fair value through profit or loss	**630,241**	554,048
Financial assets measured at amortised cost	**3,272,514**	N/A
Debt securities measured at fair value through other comprehensive income	**1,707,884**	N/A
Available-for-sale debt securities	**N/A**	1,461,824
Held-to-maturity investments	**N/A**	2,586,722
Investments classified as receivables	**N/A**	465,810
Other financial assets	**123,629**	65,238
Total	**22,756,468**	21,531,066
Off-balance sheet credit commitments	**2,848,724**	3,029,172
Maximum credit risk exposure	**25,605,192**	24,560,238

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows

	Note	2017
Gross impaired loss		
– Individually assessed and impaired gross amount		169,798
– Allowances for impairment losses		(113,820)
Subtotal		55,978
– Collectively assessed and impaired gross amount		22,493
– Allowances for impairment losses		(13,802)
Subtotal		8,691
Overdue but not impaired		
– between 1 day and 90 days		30,483
– between 91 days and 180 days		–
– more than 180 days		–
Gross amount		30,483
Allowances for impairment losses	(i)	(3,164)
Subtotal		27,319
Neither overdue nor impaired		
– Unsecured loans		3,856,502
– Guaranteed loans		2,035,372
– Loans secured by tangible assets other than monetary assets		5,441,687
– Loans secured by monetary assets		1,347,106
Gross amount		12,680,667
Allowances for impairment losses	(i)	(198,182)
Subtotal		12,482,485
Total		12,574,473

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued)

Within overdue but not credit impaired loans and advances and credit impaired loans and advances, the portion covered or not covered by collateral held are shown as follows:

	2018		
	Overdue but not credit impaired loans and advances		**Credit impaired loans and advances**
	Corporate	**Personal**	**Corporate**
Portion covered	**1,737**	**15,239**	**22,581**
Portion not covered	**1,482**	**10,757**	**150,459**
Total	**3,219**	**25,996**	**173,040**

	2017		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	4,112	14,678	29,810
Portion not covered	3,523	8,170	139,988
Total	7,635	22,848	169,798

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

	2018			2017		
	Gross Loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	**1,435,520**	**10.42%**	**497,172**	1,429,583	11.08%	516,193
– Manufacturing	**1,260,179**	**9.14%**	**338,453**	1,318,827	10.22%	410,706
– Leasing and commercial services	**1,048,235**	**7.61%**	**367,530**	981,704	7.61%	347,367
– Production and supply of electric power, heat, gas and water	**840,381**	**6.10%**	**201,091**	867,818	6.73%	199,689
– Real estate	**630,192**	**4.57%**	**312,305**	522,242	4.05%	284,698
– Wholesale and retail trade	**426,948**	**3.10%**	**188,993**	477,404	3.70%	266,890
– Water, environment and public utility management	**409,137**	**2.97%**	**203,576**	395,163	3.06%	193,538
– Construction	**311,157**	**2.26%**	**75,368**	280,721	2.18%	70,228
– Mining	**254,241**	**1.84%**	**21,878**	250,698	1.94%	28,685
– Public management, social securities and social organisation	**70,578**	**0.51%**	**9,406**	107,297	0.83%	18,035
– Agriculture, forestry, farming, fishing	**67,256**	**0.49%**	**21,355**	74,831	0.58%	24,972
– Education	**66,476**	**0.48%**	**15,071**	70,981	0.55%	16,912
– Others	**658,166**	**4.77%**	**163,219**	710,563	5.50%	87,281
Total corporate loans and advances	**7,478,466**	**54.26%**	**2,415,417**	7,487,832	58.03%	2,465,194
Personal loans and advances	**5,957,545**	**43.22%**	**5,004,794**	5,279,894	40.92%	4,429,426
Discounted bills	**310,244**	**2.25%**	**–**	135,715	1.05%	–
Accrued interest	**36,798**	**0.27%**	**–**	N/A	N/A	N/A
Total loans and advances to customers	**13,783,053**	**100.00%**	**7,420,211**	12,903,441	100.00%	6,894,620

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations (continued)

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2018					
		Allowances for expected credit losses				
	Stage 3 Gross loans	**Stage 1**	**Stage 2**	**Stage 3**	**Charged to income statement during the year**	**Written off during the year**
Transportation, storage and postal services	**16,500**	**(17,555)**	**(8,509)**	**(10,339)**	**(13,930)**	**545**

	2017				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to income statement during the year	Written off during the year
Manufacturing	76,557	(51,220)	(39,504)	(47,638)	15,896
Transportation, storage and postal services	13,844	(8,651)	(26,573)	(10,184)	549

(d) Loans and advances to customers analysed by geographical sector concentrations

	2018			2017		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**2,386,931**	**17.31%**	**1,491,555**	2,288,830	17.74%	1,476,742
Central	**2,418,013**	**17.54%**	**1,505,629**	2,176,159	16.86%	1,346,200
Western	**2,277,666**	**16.53%**	**1,299,688**	2,117,740	16.41%	1,206,486
Bohai Rim	**2,292,606**	**16.63%**	**1,109,429**	2,131,045	16.52%	1,024,363
Pearl River Delta	**2,085,684**	**15.13%**	**1,454,487**	1,941,337	15.05%	1,370,326
Northeastern	**712,310**	**5.17%**	**357,228**	672,309	5.21%	341,388
Head office	**685,733**	**4.98%**	**–**	574,506	4.45%	–
Overseas	**887,312**	**6.44%**	**202,195**	1,001,515	7.76%	129,115
Accrued interest	**36,798**	**0.27%**	**–**	N/A	N/A	N/A
Gross loans and advances to customers	**13,783,053**	**100.00%**	**7,420,211**	12,903,441	100.00%	6,894,620

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations (continued)

Details of Stage 3 loans and expected credit losses in respect of geographical sectors are as follows:

	2018			
	Stage 3	Allowances for expected credit losses		
	Gross loans	Stage 1	Stage 2	Stage 3
Bohai Rim	**42,331**	**(28,558)**	**(19,930)**	**(29,548)**
Western	**36,092**	**(31,323)**	**(15,091)**	**(24,688)**
Central	**34,087**	**(33,900)**	**(14,904)**	**(25,313)**
Yangtze River Delta	**26,234**	**(34,526)**	**(18,960)**	**(18,543)**
Pearl River Delta	**24,077**	**(29,859)**	**(10,630)**	**(14,627)**
Northeastern	**25,850**	**(9,996)**	**(11,195)**	**(19,095)**
Head office	**8,123**	**(11,317)**	**(2,112)**	**(6,395)**
Overseas	**4,087**	**(4,136)**	**(802)**	**(2,175)**
Total	**200,881**	**(183,615)**	**(93,624)**	**(140,384)**

	2017		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	38,302	(22,645)	(39,339)
Western	34,973	(19,205)	(37,230)
Central	32,154	(19,135)	(35,432)
Yangtze River Delta	31,460	(21,038)	(40,866)
Pearl River Delta	27,777	(18,022)	(31,612)
Northeastern	18,920	(11,925)	(15,798)
Head Office	5,867	(394)	(10,640)
Overseas	2,838	(1,456)	(4,231)
Total	192,291	(113,820)	(215,148)

The definitions of geographical segments are set out in Note 57(1).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by types of collateral

	2018	2017
Unsecured loans	**4,301,972**	3,885,329
Guaranteed loans	**2,024,072**	2,123,492
Loans secured by tangible assets other than monetary assets	**6,218,435**	5,539,863
Loans secured by monetary assets	**1,201,776**	1,354,757
Accrued interest	**36,798**	N/A
Gross loans and advances to customers	**13,783,053**	12,903,441

(f) Rescheduled loans and advances to customers

	2018		2017	
	Total	**Percentage of gross loans and advances to customers**	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	**5,818**	**0.04%**	4,001	0.03%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	**1,866**	**0.01%**	998	0.01%

(g) Credit exposure

Loans and advances to customers

	2018				
	Stage 1 12 months ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased financial assets that have already been impaired**	**Total**
Low risk	**13,112,857**	**12,230**	–	–	**13,125,087**
Medium risk	**3,521**	**383,909**	–	–	**387,430**
High risk	–	–	**200,881**	–	**200,881**
Total carrying amount	**13,116,378**	**396,139**	**200,881**	–	**13,713,398**
Allowance for impairment	**(183,615)**	**(93,624)**	**(140,384)**	–	**(417,623)**

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfill the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower's repayment ability has obvious problems and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Off Balance Sheet Items

	2018				
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased financial assets that have already been impaired	Total
Low risk	2,759,992	–	–	–	2,759,992
Medium risk	–	84,082	–	–	84,082
High risk	–	–	4,650	–	4,650
Total carrying amount	2,759,992	84,082	4,650	–	2,848,724
Allowance for impairment	(22,344)	(5,971)	(2,909)	–	(31,224)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfill the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower's repayment ability has obvious problems and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

Financial investments

	2018				
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased financial assets that have already been impaired	Total
Credit rating					
Low risk	4,915,168	–	–	–	4,915,168
Medium risk	65,689	222	–	–	63,920
High risk	–	3,564	2,590	–	8,145
Total carrying amount	4,980,857	3,786	2,590	–	4,987,233
Allowance for impairment	(7,261)	(509)	(1,155)	–	(8,925)

The Group classifies financial investment risk characteristics based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, there are no reasons to suspect that the financial investment is expected to default; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to default; "high risk" means that there are obvious problems may cause a default, or the financial investment indeed is defaulted.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Amount due from banks and non-bank financial institutions

	2018				
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased financial assets that have already been impaired	Total
Credit rating					
Low risk	1,038,909	–	–	–	1,038,909
Medium risk	–	–	–	–	–
High risk	–	–	–	–	–
Total carrying amount	1,038,909	–	–	–	1,038,909
Allowance for impairment	(388)	–	–	–	(388)

The Group classifies amount due from banks and non-bank financial institutions risk characteristics based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, there are no reasons to suspect that the amount due from banks and non-bank financial institutions is expected to default; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the amount due from banks and non-bank financial institutions is expected to default; "high risk" means that there are obvious problems may cause a default, or the amount due from banks and non-bank financial institutions indeed is defaulted.

(h) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	2018
Credit impaired	1
Allowances for impairment losses	(1)
Subtotal	–
Neither overdue nor impaired	
– grade A to AAA	958,266
– grade B to BBB	14,103
– unrated	61,345
Accrued interest	5,195
Total	1,038,909
Allowances for impairment losses	(388)
Subtotal	1,038,521
Total	1,038,521

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows (continued):

	2017
Impaired	
– Individually assessed and impaired gross amount	25
– Allowances for impairment losses	(25)
Subtotal	–
Neither overdue nor impaired	
– grade A to AAA	646,592
– grade B to BBB	489
– unrated	61,661
Total	708,742
Allowances for impairment losses	(144)
Subtotal	708,598
Total	708,598

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group has not assigned internal credit ratings.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt investments portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	2018					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	344	–	–	–	–	344
– Enterprises	2,246	–	–	–	–	2,246
Total	2,590	–	–	–	–	2,590
Allowances for impairment losses						(1,155)
Subtotal						1,435
Neither overdue nor impaired						
– Government	1,512,484	2,186,322	13,049	20,556	25,719	3,758,130
– Central banks	16,362	4,549	16,735	853	400	38,899
– Policy banks	764,358	3,160	2,901	21,313	–	791,732
– Banks and non-bank financial institutions	291,519	135,189	10,795	40,327	7,729	485,559
– Enterprises	238,441	262,728	14,652	19,278	5,465	540,564
Total	2,823,164	2,591,948	58,132	102,327	39,313	5,614,884
Allowances for impairment losses						(5,680)
Subtotal						5,609,204
Total						5,610,639

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating (continued)

	Note	2017 Unrated	AAA	AA	A	Lower than A	Total
Impaired							
Individually assessed and impaired gross amount							
– Enterprises		632	–	–	–	–	632
– Others		200	–	–	–	–	200
Total		832	–	–	–	–	832
Allowances for impairment losses							(434)
Subtotal							398
Neither overdue nor impaired							
– Government		2,042,536	1,158,184	8,698	24,490	25,461	3,259,369
– Central banks		6,891	5,837	25,089	–	–	37,817
– Policy banks		803,872	3,665	1,545	13,491	–	822,573
– Banks and non-bank financial institutions		253,410	100,733	12,765	31,369	8,443	406,720
– Enterprises		164,026	282,420	29,681	15,708	5,319	497,154
– Others		8,278	22,641	19,218	695	454	51,286
Total		3,279,013	1,573,480	96,996	85,753	39,677	5,074,919
Allowances for impairment losses	(i)						(6,913)
Subtotal							5,068,006
Total							5,068,404

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(j) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(k) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(l) Sensitivity analysis

The allowance for impairment losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, and other factors considered when applying expert credit judgment. Changes in these inputs, assumptions, models, and judgments would have an impact on the recognition of significant increase in credit risk and the measurement of ECLs.

(i) Sensitivity analysis of segmentation

The allowance for credit losses of performing financial assets consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECL which are twelve-month ECLs and lifetime ECLs respectively. A significant increase in credit risk since initial recognition will result in financial assets transferring from Stage 1 to Stage 2. The following table presents the impact of ECLs from the second year to the end of the lifetime for financial assets in stage 2.

	2018		
	12 months credit loss of all performing financial assets	Impact of lifetime	Current ECL
Performing loans	267,782	9,457	277,239
Performing financial investments	7,266	504	7,770

(ii) Sensitivity analysis of macroeconomic variables

The Group has carried out sensitivity analysis of benchmark core economic factors such as GDP. As at 31 December 2018, when the core economic factors in the neutral scenario are up or down by 10%, the ECLs of financial assets will not change by more than 5%.

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department manages the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc. to monitor the interest rate risk periodically.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors it regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

		2018			
	Note	**As at 31 December**	**Average**	**Maximum**	**Minimum**
Risk valuation of trading portfolio		**327**	**179**	**336**	**92**
Of which:					
– Interest rate risk		**85**	**59**	**104**	**32**
– Foreign exchange risk	(i)	**323**	**176**	**332**	**77**
– Commodity risk		**–**	**6**	**39**	**–**

		2017			
		As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio		112	167	252	105
Of which:					
– Interest rate risk		59	84	148	50
– Foreign exchange risk	(i)	90	117	226	70
– Commodity risk		1	8	21	–

(i) The VaR in relation to bullion is included in foreign exchange risk above.

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

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group for the year by RMB32,453 million (as at 31 December 2017: RMB46,727 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group for the year would decrease or increase by RMB69,138 million (as at 31 December 2017: RMB50,694 million).

The above interest rate sensitivity is for illustration purpose only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the department who manages the interest related risk or related business departments to mitigate interest rate risk have not been taken into account. In practice, the department who manage the interest related risk strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate repricing gap. The main reason for measuring the interest rate repricing gap is to assist in analysing the impact of interest rate changes on net interest income.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

The following tables indicate the average interest rate ("AIR") for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

		2018						
	Note	Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.53%	119,043	2,513,820	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions		3.34%	5,050	664,234	159,581	7,811	–	836,676
Financial assets held under resale agreements		2.85%	126	201,719	–	–	–	201,845
Loans and advances to customers	(ii)	4.34%	36,798	8,324,410	4,827,130	118,889	58,203	13,365,430
Investments	(iii)	3.75%	193,041	644,118	815,599	2,428,596	1,641,557	5,722,911
Other assets			462,968	–	–	–	–	462,968
Total assets		3.82%	817,026	12,348,301	5,802,310	2,555,296	1,699,760	23,222,693
Liabilities								
Borrowings from central banks		3.21%	8,947	205,692	338,978	775	–	554,392
Deposits and placements from banks and non-bank financial institutions		2.72%	10,970	1,325,178	424,822	80,644	6,083	1,847,697
Financial liabilities measured at fair value through profit or loss		3.42%	22,977	233,450	165,395	9,512	–	431,334
Financial assets sold under repurchase agreements		2.87%	154	24,045	1,268	4,611	687	30,765
Deposits from customers		1.39%	233,879	11,289,878	3,365,791	2,210,178	8,952	17,108,678
Debt securities issued		3.62%	4,905	289,858	197,857	259,087	24,078	775,785
Other liabilities			482,448	–	–	–	–	482,448
Total liabilities		1.64%	764,280	13,368,101	4,494,111	2,564,807	39,800	21,231,099
Asset-liability gap		2.18%	52,746	(1,019,800)	1,308,199	(9,511)	1,659,960	1,991,594

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

		2017						
	Note	Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.51%	122,593	2,865,663	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions		2.64%	–	364,272	128,267	7,699	–	500,238
Financial assets held under resale agreements		2.99%	–	208,360	–	–	–	208,360
Loans and advances to customers	(ii)	4.18%	–	7,514,939	4,660,444	336,579	62,511	12,574,473
Investments	(iii)	3.74%	120,309	460,631	522,564	2,362,479	1,722,732	5,188,715
Other assets			664,341	–	–	–	–	664,341
Total assets		3.66%	907,243	11,413,865	5,311,275	2,706,757	1,785,243	22,124,383
Liabilities								
Borrowings from central banks		2.99%	–	204,808	341,709	770	–	547,287
Deposits and placements from banks and non-bank financial institutions		2.49%	–	1,462,200	202,473	51,471	4,490	1,720,634
Financial liabilities at fair value through profit or loss		3.37%	19,854	234,157	153,549	6,588	–	414,148
Financial assets sold under repurchase agreements		3.33%	–	67,469	1,892	4,632	286	74,279
Deposits from customers		1.33%	121,264	11,569,194	2,987,851	1,674,005	11,440	16,363,754
Debt securities issued		3.69%	–	251,877	79,399	210,334	54,916	596,526
Other liabilities			611,928	–	–	–	–	611,928
Total liabilities		1.56%	753,046	13,789,705	3,766,873	1,947,800	71,132	20,328,556
Asset-liability gap		2.10%	154,197	(2,375,840)	1,544,402	758,957	1,714,111	1,795,827

(i) Average interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB59,455 million as at 31 December 2018 (as at 31 December 2017: RMB64,750 million).

(iii) Investments include financial assets measured at FVPL, financial assets measured at amortised cost, financial assets measured at FVOCI and investments in associates and joint ventures, etc. (as at 31 December 2017: Investments include financial assets measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, investments classified as receivables and investments in associates and joint ventures, etc.).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the Treasury Department's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposure risk, and minimizes foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact to the pre-tax profits and other comprehensive income of the Group is not material.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

		2018			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,412,254	116,273	104,336	2,632,863
Deposits and placements with banks and non-bank financial institutions	(i)	800,852	198,616	39,053	1,038,521
Loans and advances to customers		12,390,275	545,594	429,561	13,365,430
Investments	(ii)	5,452,573	174,263	96,075	5,722,911
Other assets		395,762	48,020	19,186	462,968
Total assets		21,451,716	1,082,766	688,211	23,222,693
Liabilities					
Borrowings from central banks		503,669	33,184	17,539	554,392
Deposits and placements from banks and non-bank financial institutions	(iii)	1,433,725	309,123	135,614	1,878,462
Financial liabilities measured at fair value through profit or loss		408,623	20,972	1,739	431,334
Deposits from customers		16,347,860	442,304	318,514	17,108,678
Debt securities issued		438,158	230,548	107,079	775,785
Other liabilities		463,483	14,590	4,375	482,448
Total liabilities		19,595,518	1,050,721	584,860	21,231,099
Net position		1,856,198	32,045	103,351	1,991,594
Net notional amount of derivatives		(244,071)	270,379	(14,750)	11,558
Credit commitments		2,538,090	188,121	122,513	2,848,724

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

	Note	2017 RMB	2017 USD (RMB equivalent)	2017 Others (RMB equivalent)	2017 Total
Assets					
Cash and deposits with central banks		2,796,711	102,635	88,910	2,988,256
Deposits and placements with banks and non-bank financial institutions	(i)	538,969	151,775	17,854	708,598
Loans and advances to customers		11,304,255	832,693	437,525	12,574,473
Investments	(ii)	4,927,815	167,193	93,707	5,188,715
Other assets		589,623	31,493	43,225	664,341
Total assets		20,157,373	1,285,789	681,221	22,124,383
Liabilities					
Borrowings from central banks		484,657	35,805	26,825	547,287
Deposits and placements from banks and non-bank financial institutions	(iii)	1,378,896	277,483	138,534	1,794,913
Financial liabilities measured at fair value through profit or loss		392,984	20,628	536	414,148
Deposits from customers		15,453,722	593,332	316,700	16,363,754
Debt securities issued		269,389	226,549	100,588	596,526
Other liabilities		511,113	77,123	23,692	611,928
Total liabilities		18,490,761	1,230,920	606,875	20,328,556
Net position		1,666,612	54,869	74,346	1,795,827
Net notional amount of derivatives		268,286	(294,407)	55,765	29,644
Credit commitments		2,673,845	153,622	201,705	3,029,172

(i) Including financial assets held under resale agreements.

(ii) Please refer to Note 62(2)(c)(iii) for the scope of investments.

(iii) Including financial assets sold under repurchase agreements.

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk

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 the other funding needs in regular business development. Major factors and events affecting liquidity risks include: massive outflow of wholesale or retail deposits, increase in wholesale or retail financing cost, debtor defaults, decrease in the liquidity of assets, and decrease in the financing ability etc.

In managing liquidity risks, the decision-making system consists of the Bank's Board of Directors and its sub-committee, and the senior management. The Head Office's Asset and Liability Management Department takes the lead in the daily management of the Bank's liquidity risks, and works along with the Financial Market Department, Channel and Operation Management Department, Data Management Department, Public Relations & Corporate Culture Department, Board of Directors' Office, management arms of business lines, and relevant divisions of the branches and subsidiaries to ensure proper execution of liquidity risk management actions. The Board of Supervisors and Audit Department constitute as the supervisory component. These three units perform decision-making, execution and supervisory functions respectively in the Bank's liquidity risk management as per their roles and responsibilities.

The Group's objective for liquidity risk management is to guarantee the Group's payment and settlement security, and maintain an optimal balance between the Bank's liquidity position and profitability. Liquidity risks are managed on a consolidated basis, where the Head Office centrally manages the Bank's overall liquidity risks, and in light of regulatory requirements, external macro environment and the Bank's business development status, formulates liquidity risk management policies, including limit management, intraday liquidity risk management, stress testing and contingency planning. Subsidiaries are the primary owners of their own liquidity risk management.

The Group conducts stress testing on its liquidity risk position on a quarterly basis in order to gauge its risk tolerance in adverse situations, including improbable extreme scenarios. The results have shown that under stress scenarios, the Bank's liquidity risk increases but remains manageable.

The Group uses a variety of methods to measure its liquidity risks, including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	2018							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,177,053	454,640	–	1,170	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions	–	82,941	492,206	93,405	160,187	7,937	–	836,676
Financial assets held under resale agreements	–	–	201,103	742	–	–	–	201,845
Loans and advances to customers	70,252	717,226	475,109	567,815	2,799,488	3,203,135	5,532,405	13,365,430
Investments								
– Financial assets measured at fair value through profit or loss	85,036	31,322	76,537	104,992	227,632	144,658	61,040	731,217
– Financial assets measured at amortised cost	–	–	82,489	57,223	274,510	1,704,067	1,154,225	3,272,514
– Financial assets measured at fair value through other comprehensive income	3,294	–	18,383	48,472	246,776	888,772	505,481	1,711,178
– Long-term equity investments	8,002	–	–	–	–	–	–	8,002
Other assets	252,935	50,974	14,966	27,156	52,093	16,831	48,013	462,968
Total assets	2,596,572	1,337,103	1,360,793	900,975	3,760,686	5,965,400	7,301,164	23,222,693
Liabilities								
Borrowings from central banks	–	–	99,813	109,258	344,546	775	–	554,392
Deposits and placements from banks and non-bank financial institutions	–	929,855	246,048	152,645	427,102	83,943	8,104	1,847,697
Financial liabilities measured at fair value through profit or loss	–	18,839	148,784	87,018	167,065	9,628	–	431,334
Financial assets sold under repurchase agreements	–	–	23,189	918	1,274	4,694	690	30,765
Deposits from customers	–	10,372,640	873,288	926,854	2,545,389	2,368,005	22,502	17,108,678
Debt securities issued								
– Certificates of deposit issued	–	–	66,392	133,875	155,634	16,458	–	372,359
– Bonds issued	–	–	–	16	13,669	94,526	4,095	112,306
– Subordinated bonds issued	–	–	–	28,952	35,742	82,278	–	146,972
– Eligible Tier 2 capital bonds issued	–	–	–	–	2,011	121,709	20,428	144,148
Other liabilities	485	162,924	47,670	47,416	174,763	1,389	47,801	482,448
Total liabilities	485	11,484,258	1,505,184	1,486,952	3,867,195	2,783,405	103,620	21,231,099
Net gaps	2,596,087	(10,147,155)	(144,391)	(585,977)	(106,509)	3,181,995	7,197,544	1,991,594
Notional amount of derivatives								
– Interest rate contracts	–	–	64,199	47,984	96,775	82,458	10,906	302,322
– Exchange rate contracts	–	–	1,203,631	872,879	2,738,985	127,182	4,763	4,947,440
– Other contracts	–	–	33,130	31,688	22,014	2,493	–	89,325
Total	–	–	1,300,960	952,551	2,857,774	212,133	15,669	5,339,087

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2017							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,705,300	282,956	–	–	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions	–	85,221	194,429	80,625	128,814	11,149	–	500,238
Financial assets held under resale agreements	–	–	203,910	4,450	–	–	–	208,360
Loans and advances to customers	72,933	631,065	445,807	581,601	2,641,172	2,881,396	5,320,499	12,574,473
Investments								
– Financial assets measured at fair value through profit or loss	24,386	–	150,934	103,563	150,580	128,825	20,148	578,436
– Available-for-sale financial assets	88,855	–	37,644	31,627	127,903	931,628	333,023	1,550,680
– Held-to-maturity investments	–	–	13,953	36,360	220,316	1,186,295	1,129,798	2,586,722
– Investment classified as receivables	–	–	2,841	11,479	23,610	207,401	220,479	465,810
– Long-term equity investments	7,067	–	–	–	–	–	–	7,067
Other assets	244,725	76,990	42,548	85,403	127,317	48,817	38,541	664,341
Total assets	3,143,266	1,076,232	1,092,066	935,108	3,419,712	5,395,511	7,062,488	22,124,383
Liabilities								
Borrowings from central banks	–	–	97,125	107,684	341,708	770	–	547,287
Deposits and placements from banks and non-bank financial institutions	–	764,478	347,584	287,101	250,648	65,779	5,044	1,720,634
Financial liabilities measured at fair value through profit or loss	–	19,854	136,833	97,323	153,550	6,588	–	414,148
Financial assets sold under repurchase agreements	–	–	66,125	1,344	1,892	4,632	286	74,279
Deposits from customers	–	9,783,474	1,117,271	1,101,977	2,636,627	1,699,395	25,010	16,363,754
Debt securities issued								
– Certificates of deposit issued	–	–	60,085	150,190	91,918	19,140	33	321,366
– Bonds issued	–	–	–	162	3,715	63,355	4,099	71,331
– Subordinated bonds issued	–	–	–	–	–	140,044	4,854	144,898
– Eligible Tier 2 capital bonds issued	–	–	–	–	–	12,967	45,964	58,931
Other liabilities	4,022	135,125	74,668	78,171	255,819	49,822	14,301	611,928
Total liabilities	4,022	10,702,931	1,899,691	1,823,952	3,735,877	2,062,492	99,591	20,328,556
Net gaps	3,139,244	(9,626,699)	(807,625)	(888,844)	(316,165)	3,333,019	6,962,897	1,795,827
Notional amount of derivatives								
– Interest rate contracts	–	–	30,749	45,943	145,336	98,848	11,604	332,480
– Exchange rate contracts	–	–	870,778	893,633	3,430,481	110,477	2,626	5,307,995
– Other contracts	–	–	33,184	61,192	84,471	3,513	272	182,632
Total	–	–	934,711	1,000,768	3,660,288	212,838	14,502	5,823,107

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet credit commitments of the Group as at the end of reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	2018							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	554,392	562,405	–	100,667	110,809	350,154	775	–
Deposits and placements from banks and non-bank financial institutions	1,847,697	1,878,423	930,363	246,832	155,573	441,916	93,123	10,616
Financial liabilities at fair value through profit or loss	431,334	438,124	18,839	151,389	87,702	169,994	10,200	–
Financial assets sold under repurchase agreements	30,765	32,323	–	23,209	926	1,405	5,782	1,001
Deposits from customers	17,108,678	17,367,636	10,373,070	883,249	941,884	2,615,420	2,529,230	24,783
Debt securities issued								
– Certificates of deposit issued	372,359	378,674	–	66,811	135,146	159,820	16,897	–
– Bond issued	112,306	121,149	–	258	433	16,153	100,205	4,100
– Subordinated bonds issued	146,972	163,059	–	–	29,230	41,479	92,350	–
– Eligible Tier 2 capital bonds issued	144,148	172,588	–	–	–	8,756	142,636	21,196
Other non-derivative financial liabilities	317,810	317,810	84,604	34,266	28,583	122,706	–	47,651
Total	21,066,461	21,432,191	11,406,876	1,506,681	1,490,286	3,927,803	2,991,198	109,347
Off- balance sheet loan commitments and credit card commitments (Note)		1,380,603	1,126,654	93,138	27,583	24,320	79,865	29,043
Guarantees, acceptances and other credit commitments (Note)		1,468,121	–	226,985	176,721	442,485	591,866	30,064

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	2017							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	547,287	563,332	–	99,448	110,503	352,611	770	–
Deposits and placements from banks and non-bank financial institutions	1,720,634	1,751,770	766,491	351,816	291,385	260,618	74,705	6,755
Financial liabilities at fair value through profit or loss	414,148	418,613	19,854	138,903	98,501	154,750	6,605	–
Financial assets sold under repurchase agreements	74,279	75,774	–	66,326	1,374	2,030	5,658	386
Deposits from customers	16,363,754	16,725,423	9,785,489	1,131,863	1,138,058	2,735,162	1,905,745	29,106
Debt securities issued								
– Certificates of deposit issued	321,366	359,190	–	63,261	150,660	104,893	40,339	37
– Bond issued	71,331	82,226	–	201	1,796	8,139	67,539	4,551
– Subordinated bonds issued	144,898	204,878	–	36	1,224	5,913	175,336	22,369
– Eligible Tier 2 capital bonds issued	58,931	80,778	–	–	–	2,758	28,842	49,178
Other non-derivative financial liabilities	216,642	216,642	24,349	26,551	28,197	124,193	–	13,352
Total	19,933,270	20,478,626	10,596,183	1,878,405	1,821,698	3,751,067	2,305,539	125,734
Off- balance sheet loan commitments and credit card commitments (Note)		1,390,853	1,133,818	85,704	8,111	37,721	83,073	42,426
Guarantees, acceptances and other credit commitments (Note)		1,638,319	–	398,492	232,930	425,987	542,427	38,483

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amount to be paid.

62 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk refers to the risks that resulted from flawed or erroneous internal processes, people and systems, or external events.

In 2018, the Group strengthened statistics on violations and position management, continuously improved the level of internal operational risk management, promoted management tool applications and continued to meet operational risk management compliance standards. More measures are took to reduce losses in order to meet requirements of internal risk management and external regulatory compliance.

Strengthen statistical analysis of violations such as regulatory penalties and credit violations, and develop corresponding system functions, in an effort to reduce operational risk losses caused by violations; re-examine and adjust the incompatible post manuals to enhance the level of post checks and balances; develop a list of important positions for job rotation and mandatory vacation, and strengthen the ability of internal control; select key areas to carry out self-assessment of operational risk, especially to carry out "Fat Finger" risk identification and assessment, and improve operational risk prevention and control; continue to promote the construction and related drills of emergency plans for important business in the New Generation Core System to improve the ability to respond to emergencies like business disruptions.

(5) Fair value of financial instruments

(a) Valuation process, technique and input

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and Senior Management. According to the requirements of the Board and the Board of Supervisors, Senior Management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

The major valuation techniques and inputs used by the Group are set out in Note 4(3)(i) and Note 4(24)(c). For the year ended 31 December 2018, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2017.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

– Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	50,566	35	50,601
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	32,857	–	32,857
– Loans and advances to customers measured at fair value through other comprehensive income	–	308,368	–	308,368
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	1,711	217,046	–	218,757
– Equity instruments and funds	1,706	–	–	1,706
Financial assets designated as measured at fair value through profit or loss				
– Debt securities	595	–	14,314	14,909
– Other debt instruments	–	265,938	84,640	350,578
Other Financial assets measured at fair value through profit or loss				
– Credit investment	–	13,004	1,253	14,257
– Debt securities	–	31,553	187	31,740
– Funds and others	28,300	27,009	43,961	99,270
Financial assets measured at fair value through other comprehensive income				
– Debt securities	187,632	1,520,252	–	1,707,884
– Financial assets designated as measured at fair value through other comprehensive income	1,819	73	1,402	3,294
Total	221,763	2,,466,666	145,792	2,834,221
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	429,706	1,628	431,334
Negative fair value of derivatives	–	48,490	35	48,525
Total	–	478,196	1,663	479,859

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	2,050	187,397	–	189,447
– Equity instruments and funds	1,312	–	–	1,312
Financial assets designated as at fair value through profit or loss				
– Debt securities	–	–	10,211	10,211
– Equity instruments and funds	837	–	22,239	23,076
– Other debt instruments	–	228,995	125,395	354,390
Positive fair value of derivatives	–	82,881	99	82,980
Available-for-sale financial assets				
– Debt securities	176,791	1,282,194	2,839	1,461,824
– Equity instruments and funds	8,181	63,806	4,419	76,406
Total	189,171	1,845,273	165,202	2,199,646
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as at fair value through profit or loss	–	413,676	472	414,148
Negative fair value of derivatives	–	79,769	98	79,867
Total	–	493,445	570	494,015

A majority of the financial assets classified as level 2 is RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as at fair value through profit or loss classified as level 2 is the fund raised from principal guaranteed wealth management products, the fair value of which is determined based on the income approach. The majority of derivatives is classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial asset at fair value through profit or loss classified as level 3 is the underlying assets of principal guaranteed wealth management products. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate.

As at 31 December 2018 and 2017, there were no significant transfers within the fair value hierarchy of the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	2018										
		Financial assets designated as measured at fair value through profit or loss		Other Financial assets measured at fair value through profit or loss							
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investment	Debt securities	Funds and others	Equity instruments designated as measured at fair value through other comprehensive income	Total assets	Negative fair value of derivatives	Financial liabilities designated as measured at fair value through profit or loss	Total liabilities
As at 1 January 2018 (Note 4(25))	99	10,164	125,395	267	1,098	19,462	623	157,108	(98)	(472)	(570)
Total gains or losses:											
In profit or loss	(17)	(135)	235	(85)	(194)	(1,106)	–	(1,302)	17	146	163
In other comprehensive income	–	–	–	–	–	–	18	18	–	–	–
Purchases	–	7,263	487,445	1,073	–	34,688	761	531,230	–	(1,414)	(1,414)
Sale and settlements	(47)	(2,978)	(528,435)	(2)	(717)	(9,083)	–	(541,262)	46	112	158
As at 31 December 2018	35	14,314	84,640	1,253	187	43,961	1,402	145,792	(35)	(1,628)	(1,663)

	2017									
	Financial assets designated as at fair value through profit or loss				Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Other debt instruments	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2017	8,690	16,132	264,856	466	5,719	9,349	305,212	(708)	(545)	(1,253)
Total gains or losses:										
In profit or loss	114	162	2,398	(243)	(264)	(46)	2,121	204	242	446
In other comprehensive income	–	–	–	–	(81)	(50)	(131)	–	–	–
Purchases	3,546	19,532	396,578	–	715	5,160	425,531	(287)	–	(287)
Sale and settlements	(2,139)	(13,587)	(538,437)	(124)	(3,250)	(9,994)	(567,531)	319	205	524
As at 31 December 2017	10,211	22,239	125,395	99	2,839	4,419	165,202	(472)	(98)	(570)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy (continued)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and credit impairment losses of the statement of comprehensive income.

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

	2018			2017		
	Realised	**Unrealised**	**Total**	Realised	Unrealised	Total
Total (losses)/gains	**(741)**	**(398)**	**(1,139)**	1,964	603	2,567

(d) Financial instruments not measured at fair value

(i) Financial assets

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, held-to-maturity investments and investment classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Financial investments

The following table shows the carrying values and the fair values of financial assets measured at amortised cost of 2018 and the investment classified as receivables and held-to-maturity investments in 2017 which are not presented in the statement of financial position at their fair values.

	2018					2017				
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortised cost	**3,272,514**	**3,272,774**	**47,794**	**3,156,789**	**68,191**	N/A	N/A	N/A	N/A	N/A
Investment classified as receivables	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	465,810	480,353	–	466,521	13,832
Held-to-maturity investments	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	2,586,722	2,535,280	23,186	2,512,094	–
Total	**3,272,514**	**3,272,774**	**47,794**	**3,156,789**	**68,191**	3,052,532	3,015,633	23,186	2,978,615	13,832

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(d) Financial instruments not measured at fair value (continued)

(ii) Financial liabilities

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The fair value of subordinated bonds and the eligible Tier 2 capital bonds issued as at 31 December 2018 was RMB293,466 million (as at 31 December 2017: RMB211,511 million), and their carrying value was RMB291,104 million (as at 31 December 2017: RMB203,829 million). The carrying values of other financial liabilities approximated their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified as the level 2 of the fair value hierarchy.

(6) 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 an election, 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 IFRS.

As at 31 December 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(7) Insurance Risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

The Group makes related assumptions for the insurance risks and recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholder's behavior and decision.

62 RISK MANAGEMENT (CONTINUED)

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policies design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitoring and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with CBIRC's "Measures for Capital Management of Commercial Banks (trial)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and total capital ratio at or above a minimum of 8%. Systematically important domestic banks should also meet the 1% additional capital requirement, with their Common Equity Tier 1 capital. Meanwhile, in accordance with CBIRC's "Notice of relevant transitional arrangement for implementation of Measures for Capital Management of Commercial Banks (trial)", a capital conservation buffer will be introduced progressively during the transitional period, which will be raised through Common Equity Tier 1 capital. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

In April 2014, CBRC has officially approved the implementation of the advanced approach of capital management by the Bank. In this approach, the Bank has elected to use foundation internal rating based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Measures for Capital Management of Commercial Banks (trial)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	2018	2017
Common Equity Tier 1 ratio	(a)(b)(c)	**13.83%**	13.09%
Tier 1 ratio	(a)(b)(c)	**14.42%**	13.71%
Total capital ratio	(a)(b)(c)	**17.19%**	15.50%
Common Equity Tier 1 capital			
– Qualifying common share capital		**250,011**	250,011
– Capital reserve	(d)	**134,511**	109,968
– Surplus reserve		**223,231**	198,613
– General reserve		**279,627**	259,600
– Retained earnings		**989,113**	883,184
– Non-controlling interest recognised in Common Equity Tier 1 capital		**2,744**	3,264
– Others	(e)	**19,836**	(4,256)
Deductions for Common Equity Tier 1 capital			
– Goodwill	(f)	**2,572**	2,556
– Other intangible assets (excluding land use rights)	(f)	**3,156**	2,274
– Cash-flow hedge reserve		**53**	320
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		**3,902**	3,902
Additional Tier 1 capital			
– Other directly issued qualifying additional Tier 1 instruments including related premium		**79,636**	79,636
– Non-controlling interest recognised in Additional Tier 1 capital		**84**	152
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		**206,615**	138,848
– Provisions in Tier 2	(g)	**172,788**	92,838
– Non-controlling interest recognised in Tier 2 capital		**133**	266
Common Equity Tier 1 capital after deduction	(h)	**1,889,390**	1,691,332
Tier 1 capital after deduction	(h)	**1,969,110**	1,771,120
Total capital after deduction	(h)	**2,348,646**	2,003,072
Risk-weighted assets	(i)	**13,659,497**	12,919,980

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

Notes:

(a) Since the interim report of 2014, the Group has elected the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.

(b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after deduction by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after deduction by risk-weighted assets. Total Capital ratio is calculated by dividing the Total capital after deduction by risk-weighted assets.

(c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (excluding CCB Life).

(d) Capital reserve at 31 December 2017 includes investment revaluation reserve (excluding foreign exchange reserve).

(e) At 31 December 2018, others include other comprehensive income (include foreign exchange reserve). At 31 December 2017, others mainly include foreign exchange reserve.

(f) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(g) Since the interim report of 2014, eligible excessive loan provisions was measured based on the advanced approach and implemented parallel period rules.

(h) Common Equity Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after deduction is calculated by netting off the corresponding deduction items from the total capital.

(i) At 31 December 2018, according to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excess risk-weighted assets due to the application of capital floor.

63 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK

	2018	2017
Assets:		
Cash and deposits with central banks	**2,619,762**	2,973,506
Deposits with banks and non-bank financial institutions	**463,059**	126,766
Precious metals	**33,928**	157,036
Placements with banks and non-bank financial institutions	**354,876**	286,797
Positive fair value of derivatives	**47,470**	75,851
Financial assets held under resale agreements	**183,161**	194,850
Interest receivable	**N/A**	111,436
Loans and advances to customers	**12,869,443**	12,081,328
Financial investments		
Financial assets measured at fair value through profit or loss	**529,223**	395,536
Financial assets measured at amortised cost	**3,206,630**	N/A
Financial assets measured at fair value through other comprehensive income	**1,614,375**	N/A
Available-for-sale financial assets	**N/A**	1,402,017
Held-to-maturity investments	**N/A**	2,550,066
Investments classified as receivables	**N/A**	575,994
Long-term equity investments	**50,270**	51,660
Investment in consolidated structured entities	**161,638**	187,486
Fixed assets	**140,865**	144,042
Land use rights	**13,443**	13,657
Intangible assets	**2,690**	1,831
Deferred tax assets	**55,217**	43,821
Other assets	**147,305**	91,671
Total assets	**22,493,355**	21,465,351

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

63 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	2018	2017
Liabilities:		
Borrowings from central banks	**554,392**	546,633
Deposits from banks and non-bank financial institutions	**1,410,847**	1,323,371
Placements from banks and non-bank financial institutions	**323,535**	318,488
Financial liabilities measured at fair value through profit or loss	**429,595**	413,523
Negative fair value of derivatives	**47,024**	73,730
Financial assets sold under repurchase agreements	**8,407**	53,123
Deposits from customers	**16,795,736**	16,064,638
Accrued staff costs	**32,860**	29,908
Taxes payable	**74,110**	51,772
Interest payable	**N/A**	197,153
Provisions	**36,130**	8,543
Debt securities issued	**702,038**	538,989
Deferred tax liabilities	**6**	39
Other liabilities	**141,985**	95,324
Total liabilities	**20,556,665**	19,715,234

	2018	2017
Equity:		
Share capital	**250,011**	250,011
Other equity instruments		
Preference Shares	**79,636**	79,636
Capital reserve	**135,109**	135,791
Investment revaluation reserve	–	(24,463)
Other comprehensive income	**21,539**	–
Surplus reserve	**223,231**	198,613
General reserve	**272,867**	254,864
Retained earnings	**954,297**	856,109
Exchange reserve	–	(444)
Total equity	**1,936,690**	1,750,117
Total liabilities and equity	**22,493,355**	21,465,351

Approved and authorised for issue by the Board of Directors 27 March 2019.

Tian Guoli	**Chung Shui Ming Timpson**	**Anita Fung Yuen Mei**
Chairman (Authorised representative)	*Independent non-executive director*	*Independent non-executive director*

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

63 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	Share capital	Other equity instruments-preference shares	Capital reserve	Investment revaluation reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 31 December 2017	250,011	79,636	135,791	(24,463)	–	198,613	254,864	856,109	(444)	1,750,117
Changes in accounting policies	–	–	(682)	24,463	(14,120)	–	–	(28,686)	444	(18,581)
As at 1 January 2018	250,011	79,636	135,109	–	(14,120)	198,613	254,864	827,423	–	1,731,536
Movements during the year	–	–	–	–	35,659	24,618	18,003	126,874	–	205,154
(1) Total comprehensive income for the year	–	–	–	–	35,659	–	–	246,184	–	281,843
(2) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	–	24,618	–	(24,618)	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	18,003	(18,003)	–	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	(72,753)	–	(72,753)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	–	(3,936)	–	(3,936)
As at 31 December 2018	250,011	79,636	135,109	–	21,539	223,231	272,867	954,297	–	1,936,690

	Share capital	Other equity instruments-preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 31 December 2016	250,011	19,659	134,520	(1,213)	175,445	206,697	766,312	(188)	1,551,243
Movements during the year	–	59,977	1,271	(23,250)	23,168	48,167	89,797	(256)	198,874
(1) Total comprehensive income for the year	–	–	1,271	(23,250)	–	–	231,680	(256)	209,445
(2) Changes in share capital									
i Capital injection by other equity holders	–	59,977	–	–	–	–	–	–	59,977
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	23,168	–	(23,168)	–	–
ii Appropriation to general reserve	–	–	–	–	–	48,167	(48,167)	–	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	(69,503)	–	(69,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,045)	–	(1,045)
As at 31 December 2017	250,011	79,636	135,791	(24,463)	198,613	254,864	856,109	(444)	1,750,117

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

64 EVENTS AFTER THE REPORTING PERIOD

On 26 February 2019, the Group has exercised the option to redeem the 4.00% fixed rate subordinated bonds issued in February 2009, with the nominal value of RMB28 billion.

On 27 February 2019, the Group issued offshore Tier 2 Capital Bonds amount to US$1.85 billion. The bonds have a tenor of 10 years with fixed interest rate. The Bank has a conditional right to redeem the Bonds at the end of the fifth year.

65 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to confirm with the presentation and disclosures in the current period.

66 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

67 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the year ended 31 December 2018 and have not been adopted in the financial statements.

Standards		Effective for annual periods beginning on or after
(1)	IFRS 16, "Leases"	1 January 2019
(2)	Amendments to IFRS 9, "Prepayment Features with Negative Compensation"	1 January 2019
(3)	IFRIC 23, "Uncertainty over Income Tax Treatments"	1 January 2019
(4)	Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"	1 January 2019
(5)	Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"	1 January 2019
(6)	Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
(7)	IFRS 17, "Insurance Contracts"	1 January 2021
(8)	Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"	N/A

(1) IFRS 16, "Leases"

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The standard replaces IAS 17 "Leases", and related interpretations.

The Group anticipates that adoption of IFRS 16 will not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IFRS 9, "Prepayment Features with Negative Compensation"

The narrow-scope amendments made to IFRS 9 Financial Instruments in December 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

67 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(3) IFRIC 23, "Uncertainty over Income Tax Treatments"

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

(4) Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

(5) Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change
- any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling
- separately recognise any changes in the asset ceiling through other comprehensive income.

(6) Annual Improvements to IFRS Standards 2015-2017 Cycle

The following improvements were finalised in December 2017:

- IFRS 3 – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 – clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 – clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

67 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(7) IFRS 17, "Insurance Contracts"

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured 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 income statement 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 contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The Group is currently assessing the impact of IFRS 17 upon initial application.

(8) Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"

The narrow-scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.

7 Report on Review of Interim Financial Information

To the Board of Directors of China Construction Bank Corporation
(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the accompanying interim condensed financial information set out on pages 64 to 161, which comprises the consolidated statement of financial position of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") as at 30 June 2019 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and other condensed explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of interim condensed financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
28 August 2019

Financial Statement Contents

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Interest income		**432,446**	395,320
Interest expense		**(182,010)**	(155,834)
Net interest income	3	**250,436**	239,486
Fee and commission income		**84,167**	75,371
Fee and commission expense		**(7,472)**	(6,367)
Net fee and commission income	4	**76,695**	69,004
Net trading gain	5	**4,858**	7,912
Dividend income	6	**414**	412
Net gain arising from investment securities	7	**6,541**	3,119
Net gain/(loss) on derecognition of financial assets measured at amortised cost	8	**1,435**	(2,365)
Other operating income, net:			
– Other operating income		**21,505**	23,503
– Other operating expense		**(17,497)**	(18,342)
Other operating income, net	9	**4,008**	5,161
Operating income		**344,387**	322,729
Operating expenses	10	**(78,549)**	(74,681)
		265,838	248,048
Credit impairment losses	11	**(74,638)**	(67,029)
Other impairment losses	12	**(148)**	249
Share of profits of associates and joint ventures		**128**	152
Profit before tax		**191,180**	181,420
Income tax expense	13	**(35,472)**	(33,955)
Net profit		**155,708**	147,465
Other comprehensive income:			
(1) Other comprehensive income that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**110**	(178)
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income		**318**	(33)
Others		**(3)**	(5)
Subtotal		**425**	(216)
(2) Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income		**(168)**	14,974
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income		**1,359**	(161)
Reclassification adjustments included in profit or loss due to disposals		**(93)**	(102)
Net loss on cash flow hedges		**(174)**	(342)
Exchange difference on translating foreign operations		**(76)**	(550)
Subtotal		**848**	13,819
Other comprehensive income for the period, net of tax		**1,273**	13,603
Total comprehensive income for the period		**156,981**	161,068

The notes on pages 71 to 161 form part of these financial statements.

(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2019 (Unaudited)	2018 (Unaudited)
Net profit attributable to:			
Equity shareholders of the Bank		**154,190**	147,027
Non-controlling interests		**1,518**	438
		155,708	147,465
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**155,796**	160,572
Non-controlling interests		**1,185**	496
		156,981	161,068
Basic and diluted earnings per share (in RMB Yuan)	14	**0.62**	0.59

The notes on pages 71 to 161 form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2019
(Expressed in millions of RMB, unless otherwise stated)

	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Assets:			
Cash and deposits with central banks	15	**2,466,167**	2,632,863
Deposits with banks and non-bank financial institutions	16	**365,628**	486,949
Precious metals		**36,911**	33,928
Placements with banks and non-bank financial institutions	17	**447,872**	349,727
Positive fair value of derivatives	18	**28,962**	50,601
Financial assets held under resale agreements	19	**450,226**	201,845
Loans and advances to customers	20	**14,087,296**	13,365,430
Financial investments	21		
Financial assets measured at fair value through profit or loss		**678,147**	731,217
Financial assets measured at amortised cost		**3,575,473**	3,272,514
Financial assets measured at fair value through other comprehensive income		**1,797,431**	1,711,178
Long-term equity investments	22	**10,424**	8,002
Fixed assets	24	**165,561**	169,574
Land use rights	25	**14,123**	14,373
Intangible assets	26	**3,632**	3,622
Goodwill	27	**2,780**	2,766
Deferred tax assets	28	**63,730**	58,730
Other assets	29	**188,788**	129,374
Total assets		**24,383,151**	23,222,693
Liabilities:			
Borrowings from central banks	31	**446,769**	554,392
Deposits from banks and non-bank financial institutions	32	**1,452,410**	1,427,476
Placements from banks and non-bank financial institutions	33	**441,948**	420,221
Financial liabilities measured at fair value through profit or loss	34	**301,500**	431,334
Negative fair value of derivatives	18	**28,017**	48,525
Financial assets sold under repurchase agreements	35	**35,164**	30,765
Deposits from customers	36	**18,214,072**	17,108,678
Accrued staff costs	37	**31,581**	36,213
Taxes payable	38	**54,422**	77,883
Provisions	39	**39,652**	37,928
Debt securities issued	40	**789,358**	775,785
Deferred tax liabilities	28	**390**	485
Other liabilities	41	**475,830**	281,414
Total liabilities		**22,311,113**	21,231,099
Equity:			
Share capital	42	**250,011**	250,011
Other equity instruments			
Preference shares	43	**79,636**	79,636
Capital reserve	44	**134,537**	134,537
Other comprehensive income	45	**20,057**	18,451
Surplus reserve	46	**223,231**	223,231
General reserve	47	**280,045**	279,725
Retained earnings	48	**1,068,239**	990,872
Total equity attributable to equity shareholders of the Bank		**2,055,756**	1,976,463
Non-controlling interests		**16,282**	15,131
Total equity		**2,072,038**	1,991,594
Total liabilities and equity		**24,383,151**	23,222,693

Approved and authorised for issue by the Board of Directors on 28 August 2019.

Liu Guiping	**Kenneth Patrick Chung**	**Murray Horn**
Vice Chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 71 to 161 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019
(Expressed in millions of RMB, unless otherwise stated)

	(Unaudited)								
	Attributable to equity shareholders of the Bank								
	Share capital	Other equity instruments – preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2019	250,011	79,636	134,537	18,451	223,231	279,725	990,872	15,131	1,991,594
Movements during the period	–	–	–	1,606	–	320	77,367	1,151	80,444
(1) Total comprehensive income for the period	–	–	–	1,606	–	–	154,190	1,185	156,981
(2) Changes in share capital									
i Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	(6)	(6)
(3) Profit distribution									
i Appropriation to general reserve	–	–	–	–	–	320	(320)	–	–
ii Appropriation to ordinary shareholders	–	–	–	–	–	–	(76,503)	–	(76,503)
iii Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(28)	(28)
As at 30 June 2019	250,011	79,636	134,537	20,057	223,231	280,045	1,068,239	16,282	2,072,038

	(Unaudited)								
	Attributable to equity shareholders of the Bank								
	Share capital	Other equity instruments – preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2018	250,011	79,636	134,537	(19,599)	198,613	259,680	857,569	15,929	1,776,376
Movements during the period	–	–	–	13,545	–	518	73,756	382	88,201
(1) Total comprehensive income for the period	–	–	–	13,545	–	–	147,027	496	161,068
(2) Changes in share capital									
i Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	(85)	(85)
(3) Profit distribution									
i Appropriation to general reserve	–	–	–	–	–	518	(518)	–	–
ii Appropriation to ordinary shareholders	–	–	–	–	–	–	(72,753)	(29)	(72,782)
As at 30 June 2018	250,011	79,636	134,537	(6,054)	198,613	260,198	931,325	16,311	1,864,577

The notes on pages 71 to 161 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019
(Expressed in millions of RMB, unless otherwise stated)

	(Audited)								
	Attributable to equity shareholders of the Bank								
	Share capital	Other equity instruments – preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2018	250,011	79,636	134,537	(19,599)	198,613	259,680	857,569	15,929	1,776,376
Movements during the year	–	–	–	38,050	24,618	20,045	133,303	(798)	215,218
(1) Total comprehensive income for the year	–	–	–	38,050	–	–	254,655	1,135	293,840
(2) Changes in share capital									
i Acquisition of subsidiaries	–	–	–	–	–	–	–	(8)	(8)
ii Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	(138)	(138)
iii Disposal of subsidiaries	–	–	–	–	–	–	–	(1,667)	(1,667)
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	24,618	–	(24,618)	–	–
ii Appropriation to general reserve	–	–	–	–	–	20,045	(20,045)	–	–
iii Appropriation to ordinary shareholders	–	–	–	–	–	–	(72,753)	–	(72,753)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(3,936)	–	(3,936)
v Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(120)	(120)
As at 31 December 2018	250,011	79,636	134,537	18,451	223,231	279,725	990,872	15,131	1,991,594

The notes on pages 71 to 161 form part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2019
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2018 (Unaudited)	 2017 (Unaudited)
Cash flows from operating activities			
Profit before tax		**191,180**	181,420
Adjustments for:			
– Credit impairment losses	11	**74,638**	67,029
– Other impairment losses	11	**148**	(249)
– Depreciation and amortisation	10	**11,334**	8,323
– Interest income from impaired financial assets		**(1,558)**	(1,495)
– Revaluation gain on financial instruments at fair value through profit or loss		**(2,758)**	(1,281)
– Share of profits of associates and joint ventures		**(128)**	(152)
– Dividend income	6	**(414)**	(412)
– Unrealised foreign exchange (gain)/loss		**(1,377)**	39
– Interest expense on bonds issued		**8,450**	5,820
– Interest income from investment securities and net income from disposal	7	**(99,039)**	(3,119)
– Net loss/(gain) on disposal of fixed assets and other long-term assets		**14**	(69)
		180,490	255,854
Changes in operating assets:			
Net decrease in deposits with central banks and with banks and non-bank financial institutions		**116,955**	361,908
Net increase in placements with banks and non-bank financial institutions		**(46,175)**	(64,252)
Net increase in loans and advances to customers		**(789,557)**	(548,492)
Net increase in financial assets held under resale agreements		**(248,393)**	(186,488)
Net increase in financial assets held for trading purposes		**(29,049)**	(11,643)
Net (increase)/decrease in other operating assets		**(48,474)**	35,190
		(1,044,693)	(413,777)
Changes in operating liabilities:			
Net decrease in borrowings from central banks		**(106,020)**	(101,386)
Net increase in placements from banks and non-bank financial institutions		**21,599**	46,725
Net increase in deposits from customers and from banks and non-bank financial institutions		**1,114,318**	516,109
Net increase/(decrease) in financial assets sold under repurchase agreements		**4,513**	(26,011)
Net increase in certificates of deposit issued		**22,312**	67,489
Income tax paid		**(64,183)**	(47,651)
Net decrease in financial liabilities measured at fair value through profit or loss		**(128,525)**	(9,124)
Net increase/(decrease) in other operating liabilities		**114,367**	(14,148)
		978,381	432,003
Net cash from operating activities		**114,178**	274,080

The notes on pages 71 to 161 form part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2019
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Cash flows from investing activities			
Proceeds from sales and redemption of financial investments		**944,055**	1,030,301
Dividends received		**514**	725
Proceeds from disposal of fixed assets and other long-term assets		**533**	626
Purchase of investment securities		**(1,150,565)**	(1,035,904)
Purchase of fixed assets and other long-term assets		**(5,402)**	(4,739)
Acquisition of subsidiaries, associates and joint ventures		**(2,604)**	(745)
Net cash used in investing activities		**(213,469)**	(9,736)
Cash flows from financing activities			
Issue of bonds		**18,762**	18,585
Consideration paid for acquisition of non-controlling interests		**–**	(85)
Dividends paid		**–**	(11)
Repayment of borrowings		**(32,003)**	(3,261)
Interest paid on bonds issued		**(3,340)**	(2,718)
Cash payment for other financing activities		**(3,311)**	–
Net cash (used in)/from financing activities		**(19,892)**	12,510
Effect of exchange rate changes on cash and cash equivalents		**(293)**	4,801
Net (decrease)/increase in cash and cash equivalents		**(119,476)**	281,655
Cash and cash equivalents as at 1 January	49	**860,702**	571,339
Cash and cash equivalents as at 30 June	49	**741,226**	852,994
Cash flows from operating activities include:			
Interest received		**333,719**	387,289
Interest paid, excluding interest expense on bonds issued		**(159,796)**	(165,427)

The notes on pages 71 to 161 form part of these financial statements.

1 Company information

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H shares and A shares were listed on the Hong Kong Stock Exchange (Stock Code: 939) and the Shanghai Stock Exchange (Stock Code: 601939), respectively. As at 30 June 2019, the Bank issued the total ordinary share capital of RMB250,011 million, with a par value of RMB1.00 per share.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission ("CBRC") (In 2018, it was renamed as China Banking and Insurance Regulatory Commission, hereinafter referred to as the "CBIRC") of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Financial Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investment Ltd. ("Huijin"), a wholly-owned subsidiary of China Investment Corporation ("CIC"), exercises its rights and obligations as an investor on behalf of the PRC government.

2 Basis of preparation and significant accounting policies

(1) Basis of preparation

The interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" and all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim financial statements contain selected explanatory notes, which provide explanations of events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2018. The selected notes do not include all of the information and disclosures required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

(2) Use of estimates and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions.

(3) Consolidation

The interim financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and joint ventures.

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Necessary adjustments on the accounting period and accounting policies of subsidiaries are made to comply with those of the Bank. Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The Group's interests in associates or joint ventures are included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures.

(Expressed in millions of RMB, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

(4) Changes in significant accounting policies

The Group has adopted IFRS 16 "Leases" ("IFRS 16") as issued by the International Accounting Standards Board ("IASB") in January 2016 with a date of initial application on 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

The Group has not reassessed existing contracts before the date of initial application and adopted several specified practical expedients, including (a) applying a single discount rate to a portfolio of leases with reasonably similar characteristics; (b) accounting for leases for which the lease term ends within 12 months from the date of initial application in the same way as short-term leases; (c) excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application; and (d) using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group chose to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc. Total assets and total liabilities at the group level as at 1 January 2019 both increased by RMB19,944 million as compared to the end of 2018. In addition to land use rights, the Group recognised other right-of-use assets and lease liabilities of RMB21,752 million and RMB19,914 million at the date of initial application, respectively. The reconciliation between the operating lease commitments disclosed in the Group's financial statements for the year ended 31 December 2018, and the lease liabilities recognised in the statement of financial position at the date of initial application is as follows:

Operating lease commitments as at 31 December 2018	22,351
Less: minimum lease payments with recognition exemption	(790)
Add: minimum lease payments arising from reasonably exercising an option to extend the lease	467
Less: impact of discounting at the incremental borrowing rate as at 1 January 2019	(2,114)
Lease liabilities as at 1 January 2019	19,914

Except for those described above, the significant accounting policies adopted by the Group for the interim financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

(5) Taxation

The Group's main applicable taxes and tax rates are as follows:

Value added tax ("VAT")

Pursuant to the "Circular on the Comprehensive Plan for Levying VAT in place of Business Tax" (CaiShui [2016] No.36) jointly issued by the Ministry of Finance and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in Mainland China was replaced by VAT from 1 May 2016, and the main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% to 7% of VAT.

Education surcharge

Education surcharge is calculated as 3% of VAT.

Local education surcharge

Local education surcharge is calculated as 2% of VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC.

(6) Interim financial statements and statutory accounts

The interim financial statements have been reviewed by the Audit Committee of the Bank, and were approved by the Board of Directors of the Bank on 28 August 2019. The interim financial statements have also been reviewed by the Bank's auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial statements as previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. The preceding auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2019.

(Expressed in millions of RMB, unless otherwise stated)

3 Net interest income

	Six months ended 30 June	
	2019	2018
Interest income arising from:		
Deposits with central banks	**17,606**	19,878
Deposits with banks and non-bank financial institutions	**5,962**	6,391
Placements with banks and non-bank financial institutions	**5,511**	5,310
Financial assets held under resale agreements	**4,603**	4,656
Investment securities	**92,498**	84,312
Loans and advances to customers		
– Corporate loans and advances	**167,373**	157,782
– Personal loans and advances	**132,792**	115,063
– Discounted bills	**6,101**	1,928
Total	**432,446**	395,320
Interest expense arising from:		
Borrowings from central banks	**(7,222)**	(7,606)
Deposits from banks and non-bank financial institutions	**(17,081)**	(17,233)
Placements from banks and non-bank financial institutions	**(7,388)**	(7,233)
Financial assets sold under repurchase agreements	**(619)**	(819)
Debt securities issued	**(13,932)**	(13,091)
Deposits from customers		
– Corporate deposits	**(61,160)**	(57,384)
– Personal deposits	**(74,608)**	(52,468)
Total	**(182,010)**	(155,834)
Net interest income	**250,436**	239,486

(1) Interest income from impaired financial assets is listed as follows:

	Six months ended 30 June	
	2019	2018
Impaired loans and advances	**1,438**	1,488
Other impaired financial assets	**120**	7
Total	**1,558**	1,495

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(Expressed in millions of RMB, unless otherwise stated)

4 Net fee and commission income

	Six months ended 30 June	
	2019	2018
Fee and commission income		
Bank card fees	**26,184**	22,743
Electronic banking service fees	**12,263**	10,364
Agency service fees	**10,863**	9,214
Commission on trust and fiduciary activities	**8,617**	7,344
Wealth management service fees	**7,450**	6,552
Settlement and clearing fees	**6,998**	7,176
Consultancy and advisory fees	**6,584**	6,552
Guarantee fees	**1,818**	1,765
Credit commitment fees	**883**	836
Others	**2,507**	2,825
Total	**84,167**	75,371
Fee and commission expense		
Bank card transaction fees	**(3,477)**	(3,457)
Inter-bank transaction fees	**(559)**	(636)
Others	**(3,436)**	(2,274)
Total	**(7,472)**	(6,367)
Net fee and commission income	**76,695**	69,004

5 Net trading gain

	Six months ended 30 June	
	2019	2018
Debt securities	**4,035**	5,613
Equity investments	**497**	(42)
Derivatives	**45**	1,097
Others	**281**	1,244
Total	**4,858**	7,912

6 Dividend income

	Six months ended 30 June	
	2019	2018
Dividend income from equity investments measured at fair value through profit or loss	**406**	226
Dividend income from equity investments measured at fair value through other comprehensive income	**8**	186
Total	**414**	412

(Expressed in millions of RMB, unless otherwise stated)

7 Net gain arising from investment securities

	Six months ended 30 June	
	2019	2018
Net gain related to financial assets designated as measured at fair value through profit or loss	**5,431**	8,368
Net loss related to financial liabilities designated as measured at fair value through profit or loss	**(5,406)**	(7,582)
Net gain related to other financial assets measured at fair value through profit or loss	**5,649**	1,961
Net gain related to financial assets measured at fair value through other comprehensive income	**660**	227
Net revaluation gain reclassified from other comprehensive income on disposal	**124**	136
Others	**83**	9
Total	**6,541**	3,119

8 Net gain/(loss) on derecognition of financial assets measured at amortised cost

For the six months ended 30 June 2019, a net gain on derecognition of financial assets measured at amortised cost mainly attributes to the Group's issuance of asset-backed securities, which led to net gains of RMB1,340 million arising from the derecognition of loans and advances to customers (for the six months ended 30 June 2018: net losses of RMB2,452 million).

9 Other operating income, net

	Six months ended 30 June	
Other operating income	**2019**	2018
Insurance related income	**14,013**	16,125
Foreign exchange gains	**2,836**	3,820
Rental income	**1,344**	1,330
Others	**3,312**	2,228
Total	**21,505**	23,503

Foreign exchange gains or losses includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and currency swaps entered into in order to economically hedge positions in foreign currency assets).

	Six months ended 30 June	
Other operating expense	**2019**	2018
Insurance related costs	**13,317**	15,918
Others	**4,180**	2,424
Total	**17,497**	18,342

(Expressed in millions of RMB, unless otherwise stated)

10 Operating expenses

	Six months ended 30 June	
	2019	2018
Staff costs		
– Salaries, bonuses, allowances and subsidies	**31,660**	30,269
– Other social insurance and welfare	**4,234**	3,482
– Housing funds	**3,024**	3,071
– Union running costs and employee education costs	**1,163**	928
– Defined contribution plans	**6,299**	6,287
– Early retirement expenses	**10**	6
– Compensation to employees for termination of employment relationship	**2**	1
	46,392	44,044
Premises and equipment expenses		
– Depreciation charges	**10,114**	7,165
– Rent and property management expenses	**2,250**	4,679
– Maintenance	**1,181**	1,048
– Utilities	**826**	869
– Others	**916**	887
	15,287	14,648
Taxes and surcharges	**3,031**	3,190
Amortisation expenses	**1,220**	1,158
Audit fees	**73**	74
Other general and administrative expenses	**12,546**	11,567
Total	**78,549**	74,681

11 Credit impairment losses

	Six months ended 30 June	
	2019	2018
Loans and advances to customers	**69,787**	63,164
Financial investments		
Financial assets measured at amortised cost	**1,311**	864
Financial assets measured at fair value through other comprehensive income	**1,661**	(387)
Off-balance sheet business	**1,317**	3,092
Others	**562**	296
Total	**74,638**	67,029

12 Other impairment losses

	Six months ended 30 June	
	2019	2018
Other impairment losses	**148**	(249)

13 Income tax expense

(1) Income tax expense

	Six months ended 30 June	
	2019	2018
Current tax	**40,887**	42,148
– Mainland China	**39,621**	40,785
– Hong Kong	**721**	805
– Other countries and regions	**545**	558
Adjustments for prior years	**33**	–
Deferred tax	**(5,448)**	(8,193)
Total	**35,472**	33,955

The provisions for income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the reporting period, respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

		Six months ended 30 June	
	Note	**2019**	2018
Profit before tax		**191,180**	181,420
Income tax calculated at the 25% statutory tax rate		**47,795**	45,355
Effects of different applicable rates of tax prevailing in other countries/regions		**(380)**	(442)
Non-deductible expenses	(i)	**4,972**	3,375
Non-taxable income	(ii)	**(16,948)**	(14,333)
Adjustments on income tax for prior years which affect profit or loss		**33**	–
Income tax expense		**35,472**	33,955

(i) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amounts under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(ii) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

14 Earnings per share

Basic earnings per share for the six months ended 30 June 2019 and 2018 has been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the periods.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank. The Bank has not declared any dividend on preference shares for the six months ended 30 June 2019.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2019 and 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	Six months ended 30 June	
	2019	2018
Net profit attributable to equity shareholders of the Bank	**154,190**	147,027
Net profit attributable to ordinary shareholders of the Bank	**154,190**	147,027
Weighted average number of ordinary shares (in millions of shares)	**250,011**	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**0.62**	0.59
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**0.62**	0.59

(Expressed in millions of RMB, unless otherwise stated)

15 Cash and deposits with central banks

	Note	30 June 2019	31 December 2018
Cash		59,906	65,215
Deposits with central banks			
– Statutory deposit reserves	(1)	2,055,184	2,130,958
– Surplus deposit reserves	(2)	301,981	389,425
– Fiscal deposits and others		48,090	46,095
Accrued interest		1,006	1,170
Total		2,466,167	2,632,863

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the Bank's statutory deposit reserve rates in Mainland China were as follows:

	30 June 2019	31 December 2018
Reserve rate for RMB deposits	12.00%	13.00%
Reserve rate for foreign currency deposits	5.00%	5.00%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

16 Deposits with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2019	31 December 2018
Banks	344,012	468,564
Non-bank financial institutions	18,552	15,703
Accrued interest	3,221	2,912
Gross balances	365,785	487,179
Allowances for impairment losses (Note 30)	(157)	(230)
Net balances	365,628	486,949

(2) Analysed by geographical sectors

	30 June 2019	31 December 2018
Mainland China	328,023	451,606
Overseas	34,541	32,661
Accrued interest	3,221	2,912
Gross balances	365,785	487,179
Allowances for impairment losses (Note 30)	(157)	(230)
Net balances	365,628	486,949

For the six months ended 30 June 2019 and for the year ended 31 December 2018, the book value of deposits with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

(Expressed in millions of RMB, unless otherwise stated)

17 Placements with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2019	31 December 2018
Banks	290,276	240,418
Non-bank financial institutions	155,226	107,285
Accrued interest	2,539	2,138
Gross balances	448,041	349,841
Allowances for impairment losses (Note 30)	(169)	(114)
Net balances	447,872	349,727

(2) Analysed by geographical sectors

	30 June 2019	31 December 2018
Mainland China	312,622	187,065
Overseas	132,880	160,638
Accrued interest	2,539	2,138
Gross balances	448,041	349,841
Allowances for impairment losses (Note 30)	(169)	(114)
Net balances	447,872	349,727

For the six months ended 30 June 2019 and for the year ended 31 December 2018, the book value of placements with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

18 Derivatives and hedge accounting

(1) Analysed by type of contract

		30 June 2019			31 December 2018		
	Note	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		332,809	1,217	1,939	302,322	1,998	1,902
Exchange rate contracts		4,422,772	26,805	24,044	4,947,440	47,749	44,772
Other contracts	(a)	57,512	940	2,034	89,325	854	1,851
Total		4,813,093	28,962	28,017	5,339,087	50,601	48,525

(Expressed in millions of RMB, unless otherwise stated)

18 Derivatives and hedge accounting (continued)

(2) Analysed by counterparty credit risk-weighted assets

	Note	30 June 2019	31 December 2018
Counterparty credit default risk-weighted assets			
– Interest rate contracts		1,107	1,365
– Exchange rate contracts		18,056	21,402
– Other contracts	(a)	2,928	2,276
Subtotal		22,091	25,043
Risk-weighted assets for credit valuation adjustment		12,539	12,493
Total		34,630	37,536

The notional amounts of derivatives only represent the unsettled transaction volumes as at the end of the reporting period, instead of the amounts of risk assets. Since 1 January 2013, the Group has adopted Capital Rules for Commercial Banks (Provisional) and other related policies. According to the rules set out by the CBIRC, the counterparty credit risk-weighted assets include risk-weighted assets for credit valuation adjustments, with the considerations of the status of counterparty status and maturity characteristics, and include back-to-back client-driven transactions.

(a) Other contracts mainly consist of precious metals and commodity contracts.

(3) Hedge accounting

The following designated hedging instruments are included in the derivative financial instruments disclosed above.

	30 June 2019			31 December 2018		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	45,458	170	(358)	46,452	559	(88)
Cross currency swaps	374	3	–	344	17	–
Cash flow hedges						
Foreign exchange swaps	95,275	840	(152)	45,146	324	(330)
Cross currency swaps	4,003	249	(4)	4,007	238	(6)
Interest rate swaps	17,536	22	(209)	17,156	37	(79)
Total	162,646	1,284	(723)	113,105	1,175	(503)

(a) *Fair value hedge*

The Group uses interest rate swaps and cross currency swaps to hedge against changes in fair value of financial assets measured at fair value through other comprehensive income, debt securities issued, deposits from customers, and loans and advances to customers arising from changes in interest rates and exchange rates.

Net (losses)/gains on fair value hedges are as follows:

	Six months ended 30 June	
	2019	2018
Net (losses)/gains on		
– hedging instruments	(630)	340
– hedged items	645	(349)

The gain and loss arising from the ineffective portion of fair value hedges were immaterial for the six months ended 30 June 2019 and 2018.

(Expressed in millions of RMB, unless otherwise stated)

18 Derivatives and hedge accounting (continued)

(3) Hedge accounting (continued)

(b) Cash flow hedge

The Group used foreign exchange swaps, cross currency swaps and interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate and foreign exchange risks of deposits from customers, loans and advances to customers, debt securities issued, placements from banks and non-bank financial institutions and placements with banks and non-bank financial institutions. The maturities of hedging instruments and hedged items were both within five years.

For the six months ended 30 June 2019, the Group's net loss from the cash flow hedge of RMB174 million was recognised in other comprehensive income (for the six months ended 30 June 2018: net loss of RMB342 million) and the gain and loss arising from the ineffective portion of cash flow hedge were immaterial.

19 Financial assets held under resale agreements

Financial assets held under resale agreements by underlying assets are shown as follows:

	30 June 2019	31 December 2018
Debt securities		
– Government bonds	**177,643**	62,775
– Debt securities issued by policy banks, banks and non-bank financial institutions	**217,722**	77,639
– Corporate bonds	**–**	28
Subtotal	**395,365**	140,442
Discounted bills	**54,774**	61,302
Accrued interest	**122**	145
Total	**450,261**	201,889
Allowances for impairment losses (Note 30)	**(35)**	(44)
Net balances	**450,226**	201,845

For the six months ended 30 June 2019 and for the year ended 31 December 2018, the book value of financial assets held under resale agreements was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

20 Loans and advances to customers

(1) Analysed by measurement

	Note	**30 June 2019**	31 December 2018
Loans and advances to customers measured at amortised cost		**14,035,449**	13,405,030
Less: allowances for impairment losses		**(452,543)**	(417,623)
The carrying amount of loans and advances to customers measured at amortised cost	(a)	**13,582,906**	12,987,407
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	(b)	**454,457**	308,368
The carrying amount of loans and advances to customers measured at fair value through profit or loss	(c)	**12,029**	32,857
Accrued interest		**37,904**	36,798
The carrying amount of loans and advances to customers		**14,087,296**	13,365,430

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(1) Analysed by measurement (continued)

(a) Loans and advances to customers measured at amortised cost

	30 June 2019	31 December 2018
Corporate loans and advances		
– Loans	7,698,731	7,309,538
– Finance leases	133,242	136,071
	7,831,973	7,445,609
Personal loans and advances		
– Residential mortgages	5,101,715	4,844,440
– Personal consumer loans	178,105	214,783
– Personal business loans	40,112	37,287
– Credit cards	675,766	655,190
– Others	207,715	205,845
	6,203,413	5,957,545
Discounted bills	63	1,876
Gross loans and advances to customers measured at amortised cost	14,035,449	13,405,030
Stage 1	(211,912)	(183,615)
Stage 2	(96,485)	(93,624)
Stage 3	(144,146)	(140,384)
Allowances for impairment losses (Note 30)	(452,543)	(417,623)
Net loans and advances to customers measured at amortised cost	13,582,906	12,987,407

(b) Loans and advances to customers measured at fair value through other comprehensive income

	30 June 2019	31 December 2018
Discounted bills	454,457	308,368

(c) Loans and advances to customers measured at fair value through profit or loss

	30 June 2019	31 December 2018
Corporate loans and advances	12,029	32,857

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(2) Analysed by assessment method of expected credit losses

	30 June 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances to customers measured at amortised cost	**13,408,832**	**418,548**	**208,069**	**14,035,449**
Less: allowances for impairment losses	**(211,912)**	**(96,485)**	**(144,146)**	**(452,543)**
The carrying amount of loans and advances to customers measured at amortised cost	**13,196,920**	**322,063**	**63,923**	**13,582,906**
The carrying amount of loans and advances measured at fair value through other comprehensive income	**454,168**	**289**	**–**	**454,457**
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	**(1,083)**	**(30)**	**–**	**(1,113)**

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers measured at amortised cost	12,808,032	396,117	200,881	13,405,030
Less: allowances for impairment losses	(183,615)	(93,624)	(140,384)	(417,623)
The carrying amount of loans and advances to customers measured at amortised cost	12,624,417	302,493	60,497	12,987,407
The carrying amount of loans and advances measured at fair value through other comprehensive income	308,346	22	–	308,368
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	(944)	(2)	–	(946)

For loans and advances to customers at Stages 1 and 2 and personal loans and advances at Stage 3, the expected credit loss ("ECL") model is used to calculate the ECL amount, while for corporate loans and advances at Stage 3, the discounted cash flow model is used.

The segmentation of the loans mentioned above is defined in Note 56(1).

(3) Movements of allowances for impairment losses

		Six months ended 30 June 2019			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019		**183,615**	**93,624**	**140,384**	**417,623**
Transfers:					
Transfers in/(out) to Stage 1		**4,498**	**(4,203)**	**(295)**	**–**
Transfers in/(out) to Stage 2		**(3,888)**	**5,220**	**(1,332)**	**–**
Transfers in/(out) to Stage 3		**(754)**	**(13,121)**	**13,875**	**–**
Newly originated or purchased financial assets		**58,484**	**–**	**–**	**58,484**
Transfer out/repayment	(i)	**(41,706)**	**(6,189)**	**(17,026)**	**(64,921)**
Remeasurements	(ii)	**11,663**	**21,154**	**30,177**	**62,994**
Write-off		**–**	**–**	**(25,341)**	**(25,341)**
Recoveries of loans and advances written off		**–**	**–**	**3,704**	**3,704**
As at 30 June 2019		**211,912**	**96,485**	**144,146**	**452,543**

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(3) Movements of allowances for impairment losses (continued)

		2018			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		149,249	65,887	128,666	343,802
Transfers:					
Transfers in/(out) to Stage 1		3,153	(2,578)	(575)	–
Transfers in/(out) to Stage 2		(4,241)	5,041	(800)	–
Transfers in/(out) to Stage 3		(1,476)	(16,077)	17,553	–
Newly originated or purchased financial assets		88,574	–	–	88,574
Transfer out/repayment	(i)	(60,428)	(9,578)	(40,718)	(110,724)
Remeasurements	(ii)	8,784	50,929	73,514	133,227
Write-off		–	–	(43,879)	(43,879)
Recoveries of loans and advances written off		–	–	6,623	6,623
As at 31 December 2018		183,615	93,624	140,384	417,623

(i) Transfer out/repayment refers to packaged disposal, securitisation of assets, debt-to-equity swap and as a result of foreclosures, as well as repayment of the loans.

(ii) Remeasurements comprise the impact of changes in Probability of Default ("PD"), Loss Given Default ("LGD") or Exposure at Default ("EAD"); changes in model assumptions and methodology; credit loss changes due to stage-transfer; unwinding of discount; and the impact of exchange rate changes.

The allowances for impairment losses disclosed above are for loans and advances to customers measured at amortised cost.

(4) Overdue loans analysed by overdue period

	30 June 2019				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**12,849**	**13,810**	**5,456**	**694**	**32,809**
Guaranteed loans	**17,781**	**29,045**	**24,414**	**3,970**	**75,210**
Loans secured by property and other immovable assets	**33,131**	**32,220**	**18,776**	**5,244**	**89,371**
Other pledged loans	**4,229**	**5,136**	**690**	**325**	**10,380**
Total	**67,990**	**80,211**	**49,336**	**10,233**	**207,770**
As a percentage of gross loans and advances to customers	**0.47%**	**0.55%**	**0.34%**	**0.07%**	**1.43%**

	31 December 2018				
	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	13,719	12,734	4,547	825	31,825
Guaranteed loans	13,461	27,875	21,495	3,206	66,037
Loans secured by property and other immovable assets	25,407	22,671	19,243	5,188	72,509
Other pledged loans	2,458	1,983	685	224	5,350
Total	55,045	65,263	45,970	9,443	175,721
As a percentage of gross loans and advances to customers	0.40%	0.47%	0.33%	0.07%	1.27%

Overdue loans represent loans of which the whole or part of the principal or interest is overdue for 1 day or more.

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(5) Packaged disposal of non-performing loans

For the six months ended 30 June 2019, the total amount of non-performing loans sold through packaged disposal to external asset management companies was RMB9,608 million (for the six months ended 30 June 2018: RMB9,327 million).

(6) Write-off

According to the Group's write-off policy, it is required to continue to recover the bad debts that are written off. For the six months ended 30 June 2019, the amount of the loans and advances to customers that the Group has written off but still under enforcement was RMB9,032 million (for the six month ended 30 June 2018: RMB7,853 million).

21 Financial investments

(1) Analysed by measurement

	Note	**30 June 2019**	31 December 2018
Financial assets measured at fair value through profit or loss	(a)	**678,147**	731,217
Financial assets measured at amortised cost	(b)	**3,575,473**	3,272,514
Financial assets measured at fair value through other comprehensive income	(c)	**1,797,431**	1,711,178
Total		**6,051,051**	5,714,909

(a) Financial assets measured at fair value through profit or loss

Analysed by nature

	Note	**30 June 2019**	31 December 2018
Held-for-trading purposes			
– Debt securities	(i)	**254,174**	218,757
– Equity instruments and funds	(ii)	**1,151**	1,706
		255,325	220,463
Financial assets designated as measured at fair value through profit or loss			
– Debt securities	(iii)	**11,152**	14,909
– Other debt instruments	(iv)	**223,304**	350,578
		234,456	365,487
Others			
– Credit investments	(v)	**17,431**	14,257
– Debt securities	(vi)	**54,625**	31,740
– Funds and others	(vii)	**116,310**	99,270
		188,366	145,267
Total		**678,147**	731,217

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(a) *Financial assets measured at fair value through profit or loss (continued)*

Analysed by type of issuers

Held-for-trading purposes

(i) *Debt securities*

	30 June 2019	31 December 2018
Government	11,095	8,361
Policy banks	37,737	41,068
Banks and non-bank financial institutions	65,342	52,288
Enterprises	140,000	117,040
Total	254,174	218,757
Listed (Note)	254,174	218,757
– of which in Hong Kong	1,114	1,091
Total	254,174	218,757

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(ii) *Equity instruments and funds*

	30 June 2019	31 December 2018
Banks and non-bank financial institutions	89	453
Enterprises	1,062	1,253
Total	1,151	1,706
Listed	1,112	1,677
– of which in Hong Kong	987	1,150
Unlisted	39	29
Total	1,151	1,706

Financial assets designated as measured at fair value through profit or loss

(iii) *Debt securities*

	30 June 2019	31 December 2018
Enterprises, unlisted	11,152	14,909

(iv) *Other debt instruments*

	30 June 2019	31 December 2018
Banks and non-bank financial institutions	142,344	257,813
Enterprises	80,960	92,765
Total	223,304	350,578

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(a) Financial assets measured at fair value through profit or loss (continued)

Analysed by type of issuers (continued)

Financial assets designated as measured at fair value through profit or loss (continued)

(iv) Other debt instruments (continued)

Other debt instruments were mainly the deposits with banks and non-bank financial institutions, debt securities and credit assets invested by principal guaranteed wealth management products (Note 23(2)).

The amounts of changes in the fair value of these financial assets that are attributable to changes in credit risk are considered not significant during the period and the year presented and cumulatively as at 30 June 2019 and 31 December 2018.

Others

(v) Credit investments

	30 June 2019	31 December 2018
Banks and non-bank financial institutions, unlisted	17,431	14,257

(vi) Debt securities

	30 June 2019	31 December 2018
Policy banks	4,223	4,094
Banks and non-bank financial institutions	50,402	27,646
Total	54,625	31,740
Listed (Note)	54,166	31,279
Unlisted	459	461
Total	54,625	31,740

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(vii) Funds and others

	30 June 2019	31 December 2018
Banks and non-bank financial institutions	75,535	62,156
Enterprises	40,775	37,114
Total	116,310	99,270
Listed	55,103	44,027
– of which in Hong Kong	1,097	1,143
Unlisted	61,207	55,243
Total	116,310	99,270

There was no significant limitation on the ability of the Group to dispose of financial assets measured at fair value through profit or loss.

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(b) *Financial assets measured at amortised cost*

Analysed by type of issuers

	30 June 2019	31 December 2018
Government	**2,825,086**	2,623,081
Central banks	**5,391**	447
Policy banks	**385,689**	372,422
Banks and non-bank financial institutions	**105,289**	33,972
Enterprises	**161,375**	152,404
Special government bond	**49,200**	49,200
Subtotal	**3,532,030**	3,231,526
Accrued interest	**51,606**	47,823
Gross balances	**3,583,636**	3,279,349
Allowances for impairment losses		
– Stage 1	**(5,681)**	(5,171)
– Stage 2	**(218)**	(509)
– Stage 3	**(2,264)**	(1,155)
Subtotal	**(8,163)**	(6,835)
Net balances	**3,575,473**	3,272,514
Listed (Note)	**3,358,572**	3,121,678
– of which in Hong Kong	**3,941**	5,903
Unlisted	**216,901**	150,836
Total	**3,575,473**	3,272,514
Market value of listed bonds	**3,396,060**	3,124,407

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(c) *Financial assets measured at fair value through other comprehensive income*

Analysed by nature

	Note	30 June 2019	31 December 2018
Debt securities	(i)	**1,792,989**	1,707,884
Equity instruments	(ii)	**4,442**	3,294
Total		**1,797,431**	1,711,178

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(c) Financial assets measured at fair value through other comprehensive income (continued)

Analysed by type of issuers

(i) Debt securities

	30 June 2019	31 December 2018
Government	**1,069,338**	1,015,579
Central banks	**36,743**	38,483
Policy banks	**364,233**	351,329
Banks and non-bank financial institutions	**141,411**	112,860
Enterprises	**133,458**	145,290
Accumulated changes of fair value charged in other comprehensive income	**19,686**	19,900
Subtotal	**1,764,869**	1,683,441
Accrued interest	**28,120**	24,443
Carrying value	**1,792,989**	1,707,884
Listed (Note)	**1,759,495**	1,681,048
– of which in Hong Kong	**73,131**	65,938
Unlisted	**33,494**	26,836
Total	**1,792,989**	1,707,884

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(ii) Equity instruments designated at fair value through other comprehensive income

	30 June 2019		31 December 2018	
	Fair value	Dividend income	Fair value	Dividend income
Equity instruments	**4,442**	**8**	3,294	97

For the six months ended 30 June 2019 and for the year ended 31 December 2018, the Group neither sold any investments above nor transferred any cumulative profit or loss in the equity.

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(2) Movements of financial investments

(a) Financial assets measured at amortised cost

	Six months ended 30 June 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**3,225,378**	**3,641**	**2,507**	**3,231,526**
Transfers:				
Transfers in/(out) to Stage 1	**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2	**(3,107)**	**3,107**	**–**	**–**
Transfers in/(out) to Stage 3	**(851)**	**(1,963)**	**2,814**	**–**
Newly originated or purchased financial assets	**1,041,011**	**–**	**–**	**1,041,011**
Financial assets derecognised during the period	**(740,115)**	**(346)**	**–**	**(740,461)**
Foreign exchange and other movements	**38**	**(72)**	**(12)**	**(46)**
As at 30 June 2019	**3,522,354**	**4,367**	**5,309**	**3,532,030**

	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	3,237,512	786	650	3,238,948
Transfers:				
Transfers in/(out) to Stage 1	–	–	–	–
Transfers in/(out) to Stage 2	(3,896)	3,896	–	–
Transfers in/(out) to Stage 3	(1,979)	–	1,979	–
Newly originated or purchased financial assets	380,371	–	–	380,371
Financial assets derecognised during the year	(388,976)	(1,053)	(153)	(390,182)
Foreign exchange and other movements	2,346	12	31	2,389
As at 31 December 2018	3,225,378	3,641	2,507	3,231,526

(b) Financial assets measured at fair value through other comprehensive income

	Six months ended 30 June 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**1,683,441**	**–**	**–**	**1,683,441**
Transfers:				
Transfers in/(out) to Stage 1	**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2	**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 3	**–**	**–**	**–**	**–**
Newly originated or purchased financial assets	**288,371**	**–**	**–**	**288,371**
Financial assets derecognised during the period	**(205,227)**	**–**	**–**	**(205,227)**
Foreign exchange and other movements	**(1,716)**	**–**	**–**	**(1,716)**
As at 30 June 2019	**1,764,869**	**–**	**–**	**1,764,869**

	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	1,280,486	–	–	1,280,486
Transfers:				
Transfers in/(out) to Stage 1	–	–	–	–
Transfers in/(out) to Stage 2	–	–	–	–
Transfers in/(out) to Stage 3	–	–	–	–
Newly originated or purchased financial assets	829,334	–	–	829,334
Financial assets derecognised during the year	(433,457)	–	–	(433,457)
Foreign exchange and other movements	7,078	–	–	7,078
As at 31 December 2018	1,683,441	–	–	1,683,441

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(3) Movements of allowances for impairment losses

(a) Financial assets measured at amortised cost

	Note	Six months ended 30 June 2019			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019		**5,171**	**509**	**1,155**	**6,835**
Transfers:					
Transfers in/(out) to Stage 1		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2		**(19)**	**19**	**–**	**–**
Transfers in/(out) to Stage 3		**(11)**	**(298)**	**309**	**–**
Newly originated or purchased financial assets		**1,467**	**–**	**–**	**1,467**
Financial assets derecognised during the period		**(911)**	**(6)**	**–**	**(917)**
Remeasurements	(i)	**(34)**	**(6)**	**801**	**761**
Foreign exchange and other movements		**18**	**–**	**(1)**	**17**
As at 30 June 2019		**5,681**	**218**	**2,264**	**8,163**

	Note	2018			
		Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		4,049	83	523	4,655
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		(342)	342	–	–
Transfers in/(out) to Stage 3		(345)	–	345	–
Newly originated or purchased financial assets		1,166	–	–	1,166
Financial assets derecognised during the year		(691)	(64)	(27)	(782)
Remeasurements	(i)	359	77	252	688
Foreign exchange and other movements		975	71	62	1,108
As at 31 December 2018		5,171	509	1,155	6,835

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(3) Movements of allowances for impairment losses (continued)

(b) Financial assets measured at fair value through other comprehensive income

	Note	Six months ended 30 June 2019			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019		**2,090**	**–**	**–**	**2,090**
Transfers:					
Transfers in/(out) to Stage 1		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 3		**–**	**–**	**–**	**–**
Newly originated or purchased financial assets		**2,027**	**–**	**–**	**2,027**
Financial assets derecognised during the period		**(314)**	**–**	**–**	**(314)**
Remeasurements	(i)	**(52)**	**–**	**–**	**(52)**
Foreign exchange and other movements		**(7)**	**–**	**–**	**(7)**
As at 30 June 2019		**3,744**	**–**	**–**	**3,744**

	Note	2018			
		Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		2,139	–	–	2,139
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		–	–	–	–
Transfers in/(out) to Stage 3		–	–	–	–
Newly originated or purchased financial assets		501	–	–	501
Financial assets derecognised during the year		(182)	–	–	(182)
Remeasurements	(i)	(303)	–	–	(303)
Foreign exchange and other movements		(65)	–	–	(65)
As at 31 December 2018		2,090	–	–	2,090

(i) Remeasurements mainly comprise the impact of changes in probability of default, loss given default and exposure at default, credit loss changes due to stage-transfer.

(Expressed in millions of RMB, unless otherwise stated)

22 Long-term equity investments

(1) Investments in subsidiaries

(a) Investment cost

	30 June 2019	31 December 2018
CCB Wealth Management Co., Ltd. ("CCB Wealth Management")	**15,000**	–
CCB Financial Asset Investment Co., Ltd. ("CCBFI")	**12,000**	12,000
CCB Brasil Financial Holding – Investimentos e Participações Ltda.	**9,542**	9,542
CCB Financial Leasing Co., Ltd. ("CCBFLCL")	**8,163**	8,163
CCB Life Insurance Company Limited ("CCB Life")	**3,902**	3,902
CCB Trust Co., Ltd. ("CCB Trust")	**3,409**	3,409
China Construction Bank (London) Limited ("CCB London")	**2,861**	2,861
CCB Pension Management Co., Ltd. ("CCB Pension")	**1,955**	1,955
China Construction Bank (Europe) S.A. ("CCB Europe")	**1,629**	1,629
Sino-German Bausparkasse Co., Ltd. ("Sino-German Bausparkasse")	**1,502**	1,502
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")	**1,340**	1,340
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")	**1,334**	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")	**976**	976
China Construction Bank (Russia) Limited ("CCB Russia")	**851**	851
Golden Fountain Finance Limited ("Golden Fountain")	**676**	676
CCB Principal Asset Management Co., Ltd. ("CCB Principal")	**130**	130
CCB International Group Holdings Limited ("CCBIG")	**–**	–
Total	**65,270**	50,270

(b) Except for CCB Indonesia, the major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid-up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCB Wealth Management	Shenzhen, the PRC	RMB15,000 million	Wealth management	100%	–	100%	Establishment
CCBFI	Beijing, the PRC	RMB12,000 million	Investment	100%	–	100%	Establishment
CCB Brasil Financial Holding – Investimentos e Participações Ltda.	Sao Paulo, Brasil	R$4,281 million	Investment	99.99%	0.01%	100%	Acquisition
CCBFLCL	Beijing, the PRC	RMB8,000 million	Financial leasing	100%	–	100%	Establishment
CCB Life	Shanghai, the PRC	RMB4,496 million	Insurance	51%	–	51%	Acquisition
CCB Trust	Anhui, the PRC	RMB1,527 million	Trust business	67%	–	67%	Acquisition
CCB London	London, United Kingdom	US$200 million RMB1,500 million	Commercial banking	100%	–	100%	Establishment
CCB Pension	Beijing, the PRC	RMB2,300 million	Pension management	85%	–	85%	Establishment
CCB Europe	Luxembourg	EUR200 million	Commercial banking	100%	–	100%	Establishment

(Expressed in millions of RMB, unless otherwise stated)

22 Long-term equity investments (continued)

(1) Investments in subsidiaries (continued)

(b) Except for CCB Indonesia, the major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows: (continued)

Name of company	Principal place of business	Particulars of issued and paid-up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
Sino-German Bausparkasse	Tianjin, the PRC	RMB2,000 million	House savings	75.10%	–	75.10%	Establishment
CCB Indonesia	Jakarta, Indonesia	IDR1,663,146 million	Commercial banking	60%	–	60%	Acquisition
CCB Malaysia	Kuala Lumpur, Malaysia	MYR823 million	Commercial banking	100%	–	100%	Establishment
CCB New Zealand	Auckland, New Zealand	NZD199 million	Commercial banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB4,200 million	Commercial banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$50,000	Investment	100%	–	100%	Acquisition
CCB Principal	Beijing, the PRC	RMB200 million	Fund management services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US$601 million	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$6,511 million RMB17,600 million	Commercial banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Múltiplo S/A ("CCB Brasil")	Sao Paulo, Brasil	R$2,957 million	Commercial banking	–	100%	100%	Acquisition

(c) As at 30 June 2019, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

(Expressed in millions of RMB, unless otherwise stated)

22 Long-term equity investments (continued)

(2) Interests in associates and joint ventures

(a) The movements of the Group's interests in associates and joint ventures are as follows:

	Six months ended 30 June 2019	2018
As at 1 January	**8,002**	7,067
Acquisition during the period/year	**2,604**	1,352
Disposal during the period/year	**(186)**	(252)
Share of profits	**128**	140
Cash dividend receivable	**(113)**	(202)
Effect of exchange difference and others	**(11)**	(103)
As at 30 June/31 December	**10,424**	8,002

(b) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid-up capital	Principal activities	% of ownership held	% of voting held	Total assets at period end	Total liabilities at period end	Revenue for the period	Net profit for the period
CCB Gold Investment Infrastructure Equity Investment Fund (Tianjin) Partnership (Limited Partnership)	Tianjin, the PRC	RMB2,300 million	Equity investment	48.57%	40.00%	2,300	–	–	–
Diamond String Limited	Hong Kong, the PRC	HK $10,000	Property investment	50.00%	50.00%	1,674	1,601	121	52
Guoxin Jianxin Equity Investment Fund (Chengdu) Partnership (Limited Partnership)	Chengdu, the PRC	RMB1,614 million	Equity investment	50.00%	50.00%	1,524	–	–	(90)
Guangdong SOE Reorganization Development Fund (Limited Partnership)	Zhuhai, the PRC	RMB720 million	Investment management and consulting	49.67%	33.00%	716	–	2	–
Minmetals Yuanding Equity Investment Fund (Ningbo) Partnership (Limited Partnership)	Ningbo, the PRC	RMB1,098 million	Investment management and consulting	43.48%	16.67%	1,110	–	19	16

(Expressed in millions of RMB, unless otherwise stated)

23 Structured entities

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-backed securities and wealth management products held for investment purposes, and non-principal guaranteed wealth management products, trust plans and funds, etc. which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 30 June 2019 and 31 December 2018, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amount and the maximum exposure were as follows:

	30 June 2019	31 December 2018
Financial investments		
Financial assets measured at fair value through profit or loss	**72,882**	68,499
Financial assets measured at amortised cost	**63,254**	54,884
Financial assets measured at fair value through other comprehensive income	**828**	896
Interests in associates and joint ventures	**6,666**	4,196
Other assets	**3,126**	3,510
Total	**146,756**	131,985

For the six months ended 30 June 2019 and 2018, the income from these unconsolidated structured entities held by the Group was as follows:

	Six months ended 30 June	
	2019	2018
Interest income	**1,761**	1,758
Fee and commission income	**8,084**	6,870
Net trading loss	**(134)**	(8)
Dividend income	**1,084**	208
Net gain arising from investment securities	**1,349**	1,343
Share of profits of associates and joint ventures	**63**	44
Total	**12,207**	10,215

As at 30 June 2019, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,806,123 million (as at 31 December 2018: RMB1,841,018 million) and the balance of trust plans, funds and asset management plans issued or established by the Group amounted to RMB3,268,260 million (as at 31 December 2018: RMB3,334,455 million). For the six months ended 30 June 2019, there were financial assets held under resale agreements between the Group and non-principal guaranteed wealth management products mentioned above. These transactions were based on market prices or general commercial terms. The profit and loss from these transactions was not material to the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 21(1)(a)(iv)) and certain asset management plans and trust plans, etc.

(Expressed in millions of RMB, unless otherwise stated)

24 Fixed assets

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2019	**133,478**	**19,714**	**55,118**	**25,561**	**45,851**	**279,722**
Additions	**259**	**2,553**	**723**	**398**	**478**	**4,411**
Transfer in/(out)	**501**	**(2,082)**	**–**	**979**	**602**	**–**
Other movements	**(41)**	**(338)**	**(1,016)**	**17**	**(829)**	**(2,207)**
As at 30 June 2019	**134,197**	**19,847**	**54,825**	**26,955**	**46,102**	**281,926**
Accumulated depreciation						
As at 1 January 2019	**(38,948)**	**–**	**(37,362)**	**(3,408)**	**(30,006)**	**(109,724)**
Charge for the period	**(2,273)**	**–**	**(2,844)**	**(625)**	**(2,181)**	**(7,923)**
Other movements	**14**	**–**	**974**	**(10)**	**752**	**1,730**
As at 30 June 2019	**(41,207)**	**–**	**(39,232)**	**(4,043)**	**(31,435)**	**(115,917)**
Allowances for impairment losses (Note 30)						
As at 1 January 2019	**(406)**	**(1)**	**–**	**(14)**	**(3)**	**(424)**
Charge for the period	**–**	**–**	**–**	**(24)**	**–**	**(24)**
Other movements	**–**	**–**	**–**	**–**	**–**	**–**
As at 30 June 2019	**(406)**	**(1)**	**–**	**(38)**	**(3)**	**(448)**
Net carrying value						
As at 1 January 2019	**94,124**	**19,713**	**17,756**	**22,139**	**15,842**	**169,574**
As at 30 June 2019	**92,584**	**19,846**	**15,593**	**22,874**	**14,664**	**165,561**

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2018	122,870	26,646	54,989	22,855	43,636	270,996
Additions	1,205	6,651	5,104	2,502	2,476	17,938
Transfer in/(out)	9,745	(12,386)	82	–	2,559	–
Other movements	(342)	(1,197)	(5,057)	204	(2,820)	(9,212)
As at 31 December 2018	133,478	19,714	55,118	25,561	45,851	279,722
Accumulated depreciation						
As at 1 January 2018	(34,156)	–	(36,351)	(2,250)	(28,141)	(100,898)
Charge for the year	(4,964)	–	(5,904)	(1,271)	(4,579)	(16,718)
Other movements	172	–	4,893	113	2,714	7,892
As at 31 December 2018	(38,948)	–	(37,362)	(3,408)	(30,006)	(109,724)
Allowances for impairment losses (Note 30)						
As at 1 January 2018	(415)	–	–	(1)	(3)	(419)
Charge for the year	–	(1)	–	(13)	–	(14)
Other movements	9	–	–	–	–	9
As at 31 December 2018	(406)	(1)	–	(14)	(3)	(424)
Net carrying value						
As at 1 January 2018	88,299	26,646	18,638	20,604	15,492	169,679
As at 31 December 2018	94,124	19,713	17,756	22,139	15,842	169,574

Notes:

(1) Other movements include disposals of, retirements of and exchange differences on fixed assets.

(2) As at 30 June 2019, the ownership documentation for the Group's bank premises with a net carrying value of RMB15,758 million (as at 31 December 2018: RMB18,645 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(Expressed in millions of RMB, unless otherwise stated)

25 Land use rights

	Six months ended 30 June 2019	2018
Cost/Deemed cost		
As at 1 January	**21,860**	21,495
Additions	**19**	444
Disposals	**(26)**	(79)
As at 30 June/31 December	**21,853**	21,860
Amortisation		
As at 1 January	**(7,349)**	(6,810)
Charge for the period/year	**(250)**	(565)
Disposals	**6**	26
As at 30 June/31 December	**(7,593)**	(7,349)
Allowances for impairment losses (Note 30)		
As at 1 January	**(138)**	(140)
Disposals	**1**	2
As at 30 June/31 December	**(137)**	(138)
Net carrying value		
As at 1 January	**14,373**	14,545
As at 30 June/31 December	**14,123**	14,373

The Group's right-of-use assets include the above fully prepaid land use rights and other right-of-use assets disclosed in note 29(2).

26 Intangible assets

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2019	**9,914**	**1,272**	**11,186**
Additions	**522**	**48**	**570**
Disposals	**(5)**	**(47)**	**(52)**
As at 30 June 2019	**10,431**	**1,273**	**11,704**
Amortisation			
As at 1 January 2019	**(7,154)**	**(402)**	**(7,556)**
Charge for the period	**(440)**	**(87)**	**(527)**
Disposals	**5**	**14**	**19**
As at 30 June 2019	**(7,589)**	**(475)**	**(8,064)**
Allowances for impairment losses (Note 30)			
As at 1 January 2019	**–**	**(8)**	**(8)**
Additions	**–**	**–**	**–**
Disposals	**–**	**–**	**–**
As at 30 June 2019	**–**	**(8)**	**(8)**
Net carrying value			
As at 1 January 2019	**2,760**	**862**	**3,622**
As at 30 June 2019	**2,842**	**790**	**3,632**

(Expressed in millions of RMB, unless otherwise stated)

26 Intangible assets (continued)

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2018	8,424	1,211	9,635
Additions	1,519	214	1,733
Disposals	(29)	(153)	(182)
As at 31 December 2018	9,914	1,272	11,186
Amortisation			
As at 1 January 2018	(6,429)	(446)	(6,875)
Charge for the year	(754)	(57)	(811)
Disposals	29	101	130
As at 31 December 2018	(7,154)	(402)	(7,556)
Allowances for impairment losses (Note 30)			
As at 1 January 2018	–	(8)	(8)
Additions	–	–	–
Disposals	–	–	–
As at 31 December 2018	–	(8)	(8)
Net carrying value			
As at 1 January 2018	1,995	757	2,752
As at 31 December 2018	2,760	862	3,622

27 Goodwill

(1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movement of the goodwill is as follows:

	Six months ended 30 June 2019	2018
As at 1 January	**2,766**	2,751
Effect of exchange difference	**14**	15
As at 30 June/31 December	**2,780**	2,766

(2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amount of CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

No impairment losses on goodwill of the Group were recognised as at 30 June 2019 (as at 31 December 2018: nil).

(Expressed in millions of RMB, unless otherwise stated)

28 Deferred tax

	30 June 2019	31 December 2018
Deferred tax assets	63,730	58,730
Deferred tax liabilities	(390)	(485)
Total	63,340	58,245

(1) Analysed by nature

	30 June 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	(23,892)	(6,104)	(25,347)	(6,464)
– Allowances for impairment losses	290,205	72,276	260,308	64,823
– Accrued salaries	12,147	2,994	21,265	5,276
– Others	(21,829)	(5,436)	(20,363)	(4,905)
Total	256,631	63,730	235,863	58,730
Deferred tax liabilities				
– Fair value adjustments	(868)	(104)	(1,271)	(193)
– Others	(1,771)	(286)	(1,751)	(292)
Total	(2,639)	(390)	(3,022)	(485)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Accrued salaries	Others	Total
As at 1 January 2019	(6,657)	64,823	5,276	(5,197)	58,245
Recognised in profit or loss	802	7,453	(2,282)	(525)	5,448
Recognised in other comprehensive income	(353)	–	–	–	(353)
As at 30 June 2019	(6,208)	72,276	2,994	(5,722)	63,340
As at 1 January 2018	5,332	46,906	5,814	(5,856)	52,196
Recognised in profit or loss	31	17,917	(538)	659	18,069
Recognised in other comprehensive income	(12,020)	–	–	–	(12,020)
As at 31 December 2018	(6,657)	64,823	5,276	(5,197)	58,245

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

(Expressed in millions of RMB, unless otherwise stated)

29 Other assets

	Note	30 June 2019	31 December 2018
Repossessed assets	(1)		
– Buildings		1,710	1,721
– Land use rights		463	624
– Others		795	765
		2,968	3,110
Clearing and settlement accounts		22,307	18,517
Right-of-use assets	(2)	22,063	N/A
Fee and commission receivables		16,865	11,305
Policyholder account assets and accounts receivable of insurance business		3,819	6,318
Leasehold improvements		3,158	3,196
Deferred expenses		1,428	3,232
Others		120,087	87,633
Gross balance		192,695	133,311
Allowances for impairment losses (Note 30)			
– Repossessed assets		(1,140)	(1,165)
– Others		(2,767)	(2,772)
Net balance		188,788	129,374

(1) For the six months ended 30 June 2019, the original cost of repossessed assets disposed of by the Group amounted to RMB210 million (for the six months ended 30 June 2018: RMB240 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and transfer.

(2) Right-of-use assets

	Bank premises	Others	Total
Cost			
As at 1 January 2019	21,686	66	21,752
Additions	3,356	38	3,394
Other movements	(126)	–	(126)
As at 30 June 2019	24,916	104	25,020
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the period	(2,945)	(16)	(2,961)
Other movements	4	–	4
As at 30 June 2019	(2,941)	(16)	(2,957)
Net carrying value			
As at 1 January 2019	21,686	66	21,752
As at 30 June 2019	21,975	88	22,063

The Group's right-of-use assets include the above assets and land use rights disclosed in note 25.

(Expressed in millions of RMB, unless otherwise stated)

30 Movements of allowances for impairment losses

		Six months ended 30 June 2019				
	Note	As at 1 January	(Reversal)/ charge for the period	Transfer (out)/in	Write-off	As at 30 June
Deposits with banks and non-bank financial institutions	16	**230**	**(73)**	**–**	**–**	**157**
Precious metals		**72**	**(3)**	**–**	**–**	**69**
Placements with banks and non-bank financial institutions	17	**114**	**61**	**(6)**	**–**	**169**
Financial assets held under resale agreements	19	**44**	**(9)**	**–**	**–**	**35**
Loans and advances to customers	20	**417,623**	**69,620**	**(9,359)**	**(25,341)**	**452,543**
Financial assets measured at amortised cost	21(3)(a)	**6,835**	**1,311**	**17**	**–**	**8,163**
Long-term equity investments	22	**41**	**–**	**–**	**–**	**41**
Fixed assets	24	**424**	**24**	**–**	**–**	**448**
Land use rights	25	**138**	**–**	**–**	**(1)**	**137**
Intangible assets	26	**8**	**–**	**–**	**–**	**8**
Other assets	29	**3,937**	**604**	**–**	**(634)**	**3,907**
Total		**429,466**	**71,535**	**(9,348)**	**(25,976)**	**465,677**

		2018				
	Note	As at 1 January	Charge for the year	Transfer (out)/in	Write-off	As at 31 December
Deposits with banks and non-bank financial institutions	16	129	107	–	(6)	230
Precious metals		41	31	–	–	72
Placements with banks and non-bank financial institutions	17	115	13	(14)	–	114
Financial assets held under resale agreements	19	15	29	–	–	44
Loans and advances to customers	20	343,802	142,595	(24,895)	(43,879)	417,623
Financial assets measured at amortised cost	21(3)(a)	4,655	1,072	1,108	–	6,835
Long-term equity investments	22	–	41	–	–	41
Fixed assets	24	419	14	–	(9)	424
Land use rights	25	140	–	–	(2)	138
Intangible assets	26	8	–	–	–	8
Other assets	29	4,022	1,509	–	(1,594)	3,937
Total		353,346	145,411	(23,801)	(45,490)	429,466

Transfer in/(out) includes exchange differences.

31 Borrowings from central banks

	30 June 2019	31 December 2018
Mainland China	**375,004**	495,004
Overseas	**64,390**	50,441
Accrued interest	**7,375**	8,947
Total	**446,769**	554,392

(Expressed in millions of RMB, unless otherwise stated)

32 Deposits from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2019	31 December 2018
Banks	162,100	161,393
Non-bank financial institutions	1,279,262	1,257,303
Accrued interest	11,048	8,780
Total	1,452,410	1,427,476

(2) Analysed by geographical sectors

	30 June 2019	31 December 2018
Mainland China	1,289,454	1,277,120
Overseas	151,908	141,576
Accrued interest	11,048	8,780
Total	1,452,410	1,427,476

33 Placements from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2019	31 December 2018
Banks	417,294	379,785
Non-bank financial institutions	22,008	38,259
Accrued interest	2,646	2,177
Total	441,948	420,221

(2) Analysed by geographical sectors

	30 June 2019	31 December 2018
Mainland China	196,221	130,596
Overseas	243,081	287,448
Accrued interest	2,646	2,177
Total	441,948	420,221

(Expressed in millions of RMB, unless otherwise stated)

34 Financial liabilities measured at fair value through profit or loss

	30 June 2019	31 December 2018
Principal guaranteed wealth management products	**233,989**	351,369
Financial liabilities related to precious metals	**32,349**	37,832
Structured financial instruments	**35,162**	42,133
Total	**301,500**	431,334

The Group's financial liabilities measured at fair value through profit or loss are those designated as measured at fair value through profit or loss. As at the end of the reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the period and the year presented and cumulatively as at 30 June 2019 and 31 December 2018.

35 Financial assets sold under repurchase agreements

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	30 June 2019	31 December 2018
Debt securities		
– Government bonds	**24,036**	20,473
– Debt securities issued by policy banks, banks and non-bank financial institutions	**6,286**	3,569
– Corporate bonds	**24**	29
Subtotal	**30,346**	24,071
Discounted bills	**773**	765
Others	**3,984**	5,774
Accrued interest	**61**	155
Total	**35,164**	30,765

(Expressed in millions of RMB, unless otherwise stated)

36 Deposits from customers

	30 June 2019	31 December 2018
Demand deposits		
– Corporate customers	6,204,858	5,922,676
– Personal customers	3,472,455	3,313,664
Subtotal	9,677,313	9,236,340
Time deposits (including call deposits)		
– Corporate customers	3,115,731	3,037,130
– Personal customers	5,229,256	4,657,959
Subtotal	8,344,987	7,695,089
Accrued interest	191,772	177,249
Total	18,214,072	17,108,678

Deposits from customers include:

		30 June 2019	31 December 2018
(1)	Pledged deposits		
	– Deposits for acceptance	63,185	63,385
	– Deposits for guarantee	68,177	76,609
	– Deposits for letter of credit	12,977	19,260
	– Others	188,472	170,860
	Total	332,811	330,114
(2)	Outward remittance and remittance payables	15,138	15,341

(Expressed in millions of RMB, unless otherwise stated)

37 Accrued staff costs

	Note	Six months ended 30 June 2019			
		As at 1 January	**Increased**	**Decreased**	**As at 30 June**
Salaries, bonuses, allowances and subsidies		**23,773**	**31,660**	**(36,374)**	**19,059**
Other social insurance and welfare		**4,682**	**4,234**	**(4,946)**	**3,970**
Housing funds		**182**	**3,024**	**(3,052)**	**154**
Union running costs and employee education costs		**3,531**	**2,056**	**(761)**	**4,826**
Post-employment benefits	(1)				
– Defined contribution plans		**2,681**	**6,299**	**(6,594)**	**2,386**
– Defined benefit plans		**(158)**	**1**	**(113)**	**(270)**
Early retirement benefits		**1,520**	**22**	**(86)**	**1,456**
Compensation to employees for termination of employment relationship		**2**	**2**	**(4)**	**–**
Total		**36,213**	**47,298**	**(51,930)**	**31,581**

	Note	2018			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		23,628	66,788	(66,643)	23,773
Other social insurance and welfare		3,973	11,187	(10,478)	4,682
Housing funds		163	6,390	(6,371)	182
Union running costs and employee education costs		2,738	2,820	(2,027)	3,531
Post-employment benefits	(1)				
– Defined contribution plans		893	14,850	(13,062)	2,681
– Defined benefit plans		(440)	326	(44)	(158)
Early retirement benefits		1,674	52	(206)	1,520
Compensation to employees for termination of employment relationship		3	2	(3)	2
Total		32,632	102,415	(98,834)	36,213

The Group had no overdue balance of accrued staff costs as at the end of the reporting period.

(1) Post-employment benefits

(a) Defined contribution plans

	Six months ended 30 June 2019			
	As at 1 January	**Increased**	**Decreased**	**As at 30 June**
Basic pension insurance	**761**	**4,617**	**(4,851)**	**527**
Unemployment insurance	**39**	**147**	**(147)**	**39**
Annuity contribution	**1,881**	**1,535**	**(1,596)**	**1,820**
Total	**2,681**	**6,299**	**(6,594)**	**2,386**

	2018			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	589	9,896	(9,724)	761
Unemployment insurance	37	298	(296)	39
Annuity contribution	267	4,656	(3,042)	1,881
Total	893	14,850	(13,062)	2,681

(Expressed in millions of RMB, unless otherwise stated)

37 Accrued staff costs (continued)

(1) Post-employment benefits (continued)

(b) *Defined benefit plans – Supplementary retirement benefits*

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit method and reviewed by an external independent actuary, Towers Watson Management Consulting (Shenzhen) Co., Ltd.

	Present value of defined benefit plan obligations		Fair value of plan assets		Net liabilities/(assets) of defined benefit plans	
	Six months ended 30 June 2019	2018	**Six months ended 30 June 2019**	2018	**Six months ended 30 June 2019**	2018
As at 1 January	**6,139**	6,197	**6,297**	6,637	**(158)**	(440)
Cost of the net defined benefit liability in profit or loss						
– Interest costs	**96**	221	**98**	235	**(2)**	(14)
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial losses	**1**	326	**–**	–	**1**	326
– Returns on plan assets	**–**	–	**111**	30	**(111)**	(30)
Other changes						
– Benefits paid	**(289)**	(605)	**(289)**	(605)	**–**	–
As at 30 June/31 December	**5,947**	6,139	**6,217**	6,297	**(270)**	(158)

Interest cost was recognised in operating expenses.

(i) *Principal actuarial assumptions of the Group as at the end of the reporting period were as follows:*

	30 June 2019	31 December 2018
Discount rate	**3.25%**	3.25%
Health care cost increase rate	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**11.7 years**	12.0 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table published historical statistics in China.

(ii) *The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:*

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	Decrease in assumption by 0.25%
Discount rate	(117)	122
Health care cost increase rate	46	(44)

(iii) *As at 30 June 2019, the weighted average duration of supplementary retirement benefit obligations of the Group was 8.0 years (as at 31 December 2018: 8.2 years).*

(iv) *Plan assets of the Group are as follows:*

	30 June 2019	31 December 2018
Cash and cash equivalents	**209**	232
Equity instruments	**510**	261
Debt instruments	**5,384**	5,675
Others	**114**	129
Total	**6,217**	6,297

(Expressed in millions of RMB, unless otherwise stated)

38 Taxes payable

	30 June 2019	31 December 2018
Income tax	**42,988**	66,670
Value added tax	**9,828**	8,986
Others	**1,606**	2,227
Total	**54,422**	77,883

39 Provisions

	30 June 2019	31 December 2018
Expected credit losses on off-balance sheet business	**32,417**	31,224
Litigation provisions and others	**7,235**	6,704
Total	**39,652**	37,928

Movements of the provision – expected credit losses on off-balance sheet business

		Six months ended 30 June 2019			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		**22,344**	**5,971**	**2,909**	**31,224**
Transfers:					
Transfers in/(out) to Stage 1		**1,428**	**(1,428)**	**–**	**–**
Transfers in/(out) to Stage 2		**(364)**	**369**	**(5)**	**–**
Transfers in/(out) to Stage 3		**(43)**	**(4)**	**47**	**–**
Newly originated		**13,035**	**–**	**–**	**13,035**
Matured		**(9,431)**	**(2,568)**	**(1,214)**	**(13,213)**
Remeasurements	(a)	**(3,021)**	**2,528**	**1,864**	**1,371**
As at 30 June 2019		**23,948**	**4,868**	**3,601**	**32,417**

		2018			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		19,523	4,228	1,984	25,735
Transfers:					
Transfers in/(out) to Stage 1		260	(260)	–	–
Transfers in/(out) to Stage 2		(147)	147	–	–
Transfers in/(out) to Stage 3		(3)	(215)	218	–
Newly originated		18,361	–	–	18,361
Matured		(11,770)	(2,009)	(215)	(13,994)
Remeasurements	(a)	(3,880)	4,080	922	1,122
As at 31 December 2018		22,344	5,971	2,909	31,224

(a) Remeasurements comprise the impact of changes in PD, LGD or EAD; changes in model assumptions and methodology; credit loss changes due to stage-transfer; and the impact of exchange rate changes.

(Expressed in millions of RMB, unless otherwise stated)

40 Debt securities issued

	Note	30 June 2019	31 December 2018
Certificates of deposit issued	(1)	**392,884**	371,583
Bonds issued	(2)	**113,396**	111,447
Subordinated bonds issued	(3)	**117,127**	145,169
Eligible Tier 2 capital bonds issued	(4)	**155,339**	142,681
Accrued interest		**10,612**	4,905
Total		**789,358**	775,785

(1) Certificates of deposit issued were mainly issued by head office, overseas branches, CCB New Zealand, and Sino-German Bausparkasse.

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	30 June 2019	31 December 2018
28/05/2014	28/05/2019	1.375%	Switzerland	CHF	**–**	2,093
02/07/2014	02/07/2019	3.25%	Hong Kong	USD	**4,120**	4,123
05/09/2014	05/09/2019	3.75%	Taiwan	RMB	**600**	600
05/09/2014	05/09/2021	4.00%	Taiwan	RMB	**600**	600
18/11/2014	18/11/2019	3.75%	Taiwan	RMB	**1,000**	1,000
18/11/2014	18/11/2021	3.95%	Taiwan	RMB	**1,000**	1,000
18/11/2014	18/11/2024	4.08%	Taiwan	RMB	**600**	600
20/01/2015	20/01/2020	3.125%	Hong Kong	USD	**4,803**	4,810
11/02/2015	11/02/2020	1.50%	Luxembourg	EUR	**3,904**	3,929
18/06/2015	18/06/2019	4.30%	Auckland	NZD	**–**	7
18/06/2015	18/06/2020	3-month New Zealand benchmark interest rate+1.2%	Auckland	NZD	**115**	115
28/07/2015	28/07/2020	3.25%	Hong Kong	USD	**3,433**	3,437
10/09/2015	10/09/2019	3.945%	Auckland	NZD	**57**	57
29/12/2015	27/01/2020	3.80%	Auckland	NZD	**92**	92
30/03/2016	30/03/2026	4.08%	Mainland China	RMB	**3,500**	3,500
16/05/2016	16/05/2019	3.10%	Auckland	NZD	**–**	46
31/05/2016	31/05/2019	2.38%	Hong Kong	USD	**–**	1,513
31/05/2016	31/05/2021	2.75%	Hong Kong	USD	**2,072**	2,075
18/08/2016	18/09/2020	2.95%	Auckland	NZD	**475**	476
18/10/2016	18/10/2020	3.05%	Auckland	NZD	**7**	7
21/10/2016	21/10/2021	2.25%	Hong Kong	USD	**4,475**	4,483
09/11/2016	09/11/2019	3.05%	Mainland China	RMB	**3,200**	3,200
09/11/2016	09/11/2021	3.05%	Mainland China	RMB	**800**	800
22/12/2016	22/12/2019	3.35%	Auckland	NZD	**46**	46
17/02/2017	17/02/2020	0.63%	Luxembourg	EUR	**3,904**	3,928
31/05/2017	29/05/2020	3M LIBOR +0.77%	Hong Kong	USD	**8,240**	8,246
13/06/2017	13/06/2022	2.75%	Hong Kong	USD	**4,117**	4,123
27/09/2017	27/09/2019	2.37%	Hong Kong	USD	**515**	515
25/10/2017	25/10/2022	3.15%	Hong Kong	USD	**687**	687
25/10/2017	27/10/2020	2.20%	Hong Kong	USD	**82**	82
26/10/2017	26/10/2020	2.08%	Singapore	SGD	**2,538**	2,522
09/11/2017	09/11/2022	3.93%	Auckland	NZD	**692**	693
04/12/2017	04/12/2020	2.29%	Hong Kong	USD	**5,493**	5,497
04/12/2017	04/12/2020	2.75%	Hong Kong	USD	**3,433**	3,436
04/12/2017	04/12/2022	3.00%	Hong Kong	USD	**2,747**	2,749
13/03/2018	13/03/2021	3.20%	Auckland	NZD	**46**	46
17/04/2018	17/04/2019	2.97%	Hong Kong	USD	**–**	69
17/04/2018	26/03/2021	3M LIBOR +0.75%	Hong Kong	USD	**549**	550
18/04/2018	18/04/2021	4.88%	Mainland China	RMB	**6,000**	6,000
19/04/2018	26/04/2019	3M LIBOR +0.45%	Hong Kong	USD	**–**	275
30/04/2018	30/04/2021	3M LIBOR +0.75%	Hong Kong	USD	**137**	137
04/05/2018	04/05/2021	3M LIBOR +0.80%	Hong Kong	USD	**172**	172
08/06/2018	08/06/2021	3M LIBOR +0.73%	Hong Kong	USD	**6,180**	6,184
08/06/2018	08/06/2023	3M LIBOR +0.83%	Hong Kong	USD	**4,120**	4,123
19/06/2018	19/06/2023	4.01%	Auckland	NZD	**461**	462
12/07/2018	12/07/2023	3M LIBOR +1.25%	Hong Kong	USD	**2,747**	2,749
20/07/2018	20/07/2021	4.48%	Mainland China	RMB	**3,000**	3,000
21/08/2018	19/06/2023	4.005%	Auckland	NZD	**161**	162
23/08/2018	23/08/2021	4.25%	Mainland China	RMB	**2,500**	2,500
21/09/2018	21/09/2020	2.643%	Singapore	SGD	**1,523**	1,513
24/09/2018	24/09/2021	3M LIBOR +0.75%	Hong Kong	USD	**6,867**	6,871
24/09/2018	24/09/2021	3M EURIBOR +0.60%	Luxembourg	EUR	**3,904**	3,924
20/12/2018	20/12/2021	3M LIBOR +0.75%	Auckland	USD	**689**	688
24/12/2018	24/12/2020	3M LIBOR +0.70%	Hong Kong	USD	**1,099**	1,099
16/05/2019	16/05/2024	3.50%	Hong Kong	USD	**3,412**	–
16/05/2019	16/06/2029	3.88%	Hong Kong	USD	**1,373**	–
26/06/2019	24/06/2022	0.21%	Japan	JPY	**1,273**	–
Total nominal value					**113,560**	111,611
Less: unamortised issuance costs					**(164)**	(164)
Carrying value					**113,396**	111,447

(Expressed in millions of RMB, unless otherwise stated)

40 Debt securities issued (continued)

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC, the CBIRC, the HKMA and Brasil Central Bank is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	30 June 2019	31 December 2018
24/02/2009	26/02/2024	4.00%	RMB	(a)	**–**	28,000
07/08/2009	11/08/2024	4.04%	RMB	(b)	**10,000**	10,000
03/11/2009	04/11/2019	Benchmark rate released by Brasil Central Bank	BRL	(c)	**357**	354
18/12/2009	22/12/2024	4.80%	RMB	(d)	**20,000**	20,000
27/04/2010	27/04/2020	8.50%	USD	(c)	**1,677**	1,728
03/11/2011	07/11/2026	5.70%	RMB	(e)	**40,000**	40,000
20/11/2012	22/11/2027	4.99%	RMB	(f)	**40,000**	40,000
20/08/2014	20/08/2024	4.25%	USD	(g)	**5,150**	5,154
Total nominal value					**117,184**	145,236
Less: Unamortised issuance cost					**(57)**	(67)
Carrying value					**117,127**	145,169

(a) The Group has chosen to exercise the option to redeem all the bonds on 26 February 2019.

(b) The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(c) The subordinated bonds were issued by CCB Brasil.

(d) The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(e) The Group has an option to redeem the bonds on 7 November 2021, subject to approval from the relevant authority.

(f) The Group has an option to redeem the bonds on 22 November 2022, subject to approval from the relevant authority.

(g) The Group has an option to redeem the bonds on 20 August 2019, subject to approval from the relevant authority.

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	30 June 2019	31 December 2018
15/08/2014	18/08/2029	5.98%	RMB	(a)	**20,000**	20,000
12/11/2014	12/11/2024	4.90%	RMB	(b)	**2,000**	2,000
13/05/2015	13/05/2025	3.88%	USD	(c)	**13,734**	13,746
18/12/2015	21/12/2025	4.00%	RMB	(d)	**24,000**	24,000
25/09/2018	24/09/2028	4.86%	RMB	(e)	**43,000**	43,000
29/10/2018	28/10/2028	4.70%	RMB	(f)	**40,000**	40,000
27/02/2019	27/02/2029	4.25%	USD	(g)	**12,704**	–
Total nominal value					**155,438**	142,746
Less: Unamortised issuance cost					**(99)**	(65)
Carrying value as at period/year end					**155,339**	142,681

(a) The Group has an option to redeem the bonds on 18 August 2024, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(b) The Group has an option to redeem the bonds on 12 November 2019, subject to approval from the relevant authority. If they are not redeemed by the Group, the interest rate per annum will increase by 1.538% on the basis of the twelve months CNH HIBOR applicable on the interest reset date from 12 November 2019. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(c) The Group has an option to redeem the bonds on 13 May 2020, subject to approval from the relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 13 May 2020 and increase by 2.425% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(d) The Group has an option to redeem the bonds on 21 December 2020, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(e) The Group has an option to redeem the bonds on 25 September 2023, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(f) The Group has an option to redeem the bonds on 29 October 2023, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(g) The Group has an option to redeem the bonds on 27 February 2024, subject to approval from the relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 27 February 2024 and increase by 1.88% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(Expressed in millions of RMB, unless otherwise stated)

41 Other liabilities

	30 June 2019	31 December 2018
Insurance related liabilities	132,435	116,463
Dividends payable	76,563	–
Clearing and settlement accounts	57,416	7,630
Deferred income	21,776	14,548
Lease liabilities	20,225	N/A
Payment and collection clearance accounts	18,132	21,696
Cash pledged and rental income received in advance	9,402	9,486
Capital expenditure payable	7,038	9,248
Dormant accounts	6,689	6,973
Accrued expenses	3,420	3,728
Others	122,734	91,642
Total	475,830	281,414

42 Share capital

	30 June 2019	31 December 2018
Listed in Hong Kong (H shares)	240,417	240,417
Listed in Mainland China (A shares)	9,594	9,594
Total	250,011	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

43 Other equity instruments

(1) Preference shares outstanding as at the end of the reporting period

Preference shares	Issuance date	Classification	Initial interest rate	Issuance price	Quantity (million)	Total amount Original currency (USD)	Total amount (RMB)	Maturity date	Conversion conditions
2015 Offshore Preference Shares	16 December 2015	Equity instruments	4.65%	$20 per share	152.5	3,050	19,711	No maturity date	None
2017 Domestic Preference Shares	21 December 2017	Equity instruments	4.75%	RMB100 per share	600		60,000	No maturity date	None
Less: Issuance fee							(75)		
Carrying amount							79,636		

(2) The key terms

(a) Offshore Preference Shares

(i) Dividend

The initial annual dividend rate is 4.65% and is subsequently subject to reset per agreement, but in no case shall exceed 20.4850%. The dividend is measured and paid in dollars. After such dividend being paid at the agreed dividend payout ratio, the holders of the above offshore preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends for offshore preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend for the offshore preference shares, and such cancellation shall not be deemed a default. However, until the Bank fully pays the dividends for the current dividend period, the Bank shall not make any dividend distribution to ordinary shareholders.

(ii) Redemption

Subject to receiving the prior approval of CBIRC and satisfaction of the redemption conditions precedent, all or only some of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 16 December 2020 or on any dividend payment date thereafter at the redemption price which is equal to the issue price plus dividends payable but not yet distributed in the current period.

43 Other equity instruments (continued)

(2) The key terms (continued)

(a) *Offshore Preference Shares (continued)*

(iii) Compulsory conversion of preference shares

When an Additional Tier 1 Capital Instrument Trigger Event occurs, that is when Core Tier 1 Capital Adequacy Ratio of the Bank falls to 5.125% (or below), the Bank shall (without the need for the consent of offshore preference shareholders) convert all or only some of the preference shares in issue into such number of H shares which will be sufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125% according to the contract; when a Tier 2 Capital Instrument Trigger Event occurs, the Bank shall (without the need for the consent of offshore preference shareholders) convert all of the offshore preference shares in issue into such number of H shares according to contract. Tier 2 Capital Instrument Trigger Event is defined as the earlier of: (i) the CBIRC having decided that without a conversion or write-off the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Once a preference share has been converted, it will not be restored in any circumstances. When the compulsory conversion of offshore preference shares occurs, the Bank shall report to the CBIRC for approval and decision.

(b) *Domestic Preference Shares*

(i) Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

(ii) Redemption

The Bank may, subject to CBIRC approval and compliance with the Redemption Preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

(iii) Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (1) the CBIRC having decided that without a conversion or write-off of the Bank's capital, the Bank would become non-viable; and (2) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBIRC for approval and decision, and perform the announcement obligation according to the regulations of the Securities Law and CSRC.

The Bank classifies preference shares issued as an equity instrument and presented as an equity item on the statement of financial position. Capital raised from the issuance of the above preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(Expressed in millions of RMB, unless otherwise stated)

43 Other equity instruments (continued)

(3) Changes in preference shares outstanding

Preference Shares	1 January 2019 Amount (million shares)	1 January 2019 Carrying value	Increase/(Decrease) Amount (million shares)	Increase/(Decrease) Carrying value	30 June 2019 Amount (million shares)	30 June 2019 Carrying value
2015 Offshore Preference Shares	152.5	19,659	–	–	**152.5**	**19,659**
2017 Domestic Preference Shares	600	59,977	–	–	**600**	**59,977**
Total	752.5	79,636	–	–	**752.5**	**79,636**

(4) Interests attributable to the holders of equity instruments

Items	30 June 2019	31 December 2018
1. Total equity attributable to equity holders of the Bank	**2,055,756**	1,976,463
(1) Equity attributable to ordinary equity holders of the Bank	**1,976,120**	1,896,827
(2) Equity attributable to other equity holders of the Bank	**79,636**	79,636
Of which: net profit	**–**	3,936
dividends received	**–**	3,936
2. Total equity attributable to non-controlling interests	**16,282**	15,131
(1) Equity attributable to non-controlling interests of ordinary shares	**12,829**	11,678
(2) Equity attributable to non-controlling interests of other equity instruments	**3,453**	3,453

44 Capital reserve

	30 June 2019	31 December 2018
Share premium	**134,537**	134,537

45 Other comprehensive income

	Other comprehensive income of the statement of financial position: 1 January 2019	Net-of-tax amount attributable to equity shareholders of the Bank	30 June 2019	Other comprehensive income of the statement of comprehensive income, Six months ended 30 June 2019: The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1) Other comprehensive income that will not be reclassified to profit or loss								
Remeasurements of post-employment benefit obligations	(406)	110	(296)	110	–	–	110	–
Fair value changes of equity of equity instruments designated as measured at fair value through other comprehensive income	599	318	917	424	–	(106)	318	–
Others	521	(3)	518	(3)	–	–	(3)	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss								
Fair value changes of debt instruments measured at fair value through other comprehensive income	17,165	(229)	16,936	(350)	(124)	213	(229)	(32)
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	2,277	1,359	3,636	1,819	–	(460)	1,359	–
Net gains/(losses) on cash flow hedges	53	(174)	(121)	(174)	–	–	(174)	–
Exchange difference on translating foreign operations	(1,758)	225	(1,533)	(76)	–	–	225	(301)
Total	18,451	1,606	20,057	1,750	(124)	(353)	1,606	(333)

(Expressed in millions of RMB, unless otherwise stated)

45 Other comprehensive income (continued)

		Other comprehensive income of the statement of financial position			Other comprehensive income of the statement of comprehensive income				
					2018				
		1 January 2018	Net-of-tax amount attributable to equity shareholders of the Bank	31 December 2018	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1)	Other comprehensive income that will not be reclassified to profit or loss								
	Remeasurements of post-employment benefit obligations	(110)	(296)	(406)	(296)	–	–	(296)	–
	Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	479	120	599	160	–	(40)	120	–
	Others	478	43	521	43	–	–	43	–
(2)	Other comprehensive income that may be reclassified subsequently to profit or loss								
	Fair value changes of debt instruments measured at fair value through other comprehensive income	(18,420)	35,585	17,165	47,816	(199)	(11,879)	35,585	153
	Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	1,976	301	2,277	404	–	(101)	301	2
	Net gains/(losses) on cash flow hedges	320	(267)	53	(267)	–	–	(267)	–
	Exchange difference on translating foreign operations	(4,322)	2,564	(1,758)	2,573	–	–	2,564	9
	Total	(19,599)	38,050	18,451	50,433	(199)	(12,020)	38,050	164

46 Surplus reserve

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in Annual General Meetings.

47 General reserve

The general reserve of the Group is set up based upon the requirements of:

	Note	**30 June 2019**	31 December 2018
MOF	(1)	**272,001**	272,001
Hong Kong Banking Ordinance	(2)	**2,124**	2,124
Other regulatory bodies in Mainland China	(3)	**5,196**	4,908
Other overseas regulatory bodies		**724**	692
Total		**280,045**	279,725

(1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the "Regulation on Management of Financial Institutions for Reserves" (Cai Jin [2012] No. 20) issued by the MOF on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.

(2) Pursuant to the requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

(Expressed in millions of RMB, unless otherwise stated)

48 Profit distribution

In the Annual General Meeting held on 21 June 2019, the shareholders approved the profit distribution for the year ended 31 December 2018. The Bank appropriated cash dividend for the year ended 31 December 2018 in an aggregate amount of RMB76,503 million.

49 Notes to the statement of cash flows

Cash and cash equivalents

	30 June 2019	31 December 2018	30 June 2018
Cash	**59,906**	65,215	75,574
Surplus deposit reserves with central banks	**301,981**	389,425	276,242
Demand deposits with banks and non-bank financial institutions	**63,071**	60,531	55,376
Time deposits with banks and non-bank financial institutions with original maturity with or within three months	**130,231**	211,186	334,826
Placements with banks and non-bank financial institutions with original maturity with or within three months	**186,037**	134,345	110,976
Total	**741,226**	860,702	852,994

50 Transferred financial assets

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

Securities lending transactions

Transferred financial assets that do not qualify for derecognition 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 30 June 2019, the carrying value of debt securities lent to counterparties was RMB8,077 million (as at 31 December 2018: nil).

Credit asset securitisation transactions

The Group enters into securitisation transactions in its normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group may retain interests in the form of holding subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement.

As at 30 June 2019, loans with an original carrying amount of RMB515,723 million (as at 31 December 2018: RMB447,278 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 30 June 2019, the carrying amount of assets that the Group continued to recognise was RMB56,676 million (as at 31 December 2018: RMB49,017 million). As at 30 June 2019, the carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB56,601 million (as at 31 December 2018: RMB47,515 million).

As at 30 June 2019, the carrying amount of asset-backed securities held in the securitisation transaction derecognised by the Group was RMB222 million (as at 31 December 2018: RMB187 million), and its maximum loss exposure approximates to the carrying amount.

51 Operating segments

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile, Auckland, etc. and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur, etc.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

– "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

– "Pearl River Delta" refers to the following areas where the tier-1 branches of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

– "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

– the "Central" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;

– the "Western" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

– the "Northeastern" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(1) Geographical segments (continued)

	Six months ended 30 June 2019								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	28,865	27,290	20,332	30,107	27,497	5,525	104,502	6,318	250,436
Internal net interest income/ (expense)	8,706	6,735	17,352	13,304	11,835	6,406	(63,286)	(1,052)	–
Net interest income	37,571	34,025	37,684	43,411	39,332	11,931	41,216	5,266	250,436
Net fee and commission income	10,782	13,073	10,813	9,514	6,020	2,323	22,922	1,248	76,695
Net trading gain/(loss)	39	111	97	106	65	3	4,460	(23)	4,858
Dividend income	44	–	28	11	2	–	24	305	414
Net gain/(loss) arising from investment securities	2,282	(112)	(94)	111	245	594	2,031	1,484	6,541
Net gain/(loss) on derecognition of financial assets measured at amortised cost	2	–	167	(1)	–	–	1,209	58	1,435
Other operating income, net	(706)	358	619	168	708	41	301	2,519	4,008
Operating income	50,014	47,455	49,314	53,320	46,372	14,892	72,163	10,857	344,387
Operating expenses	(12,157)	(9,688)	(12,604)	(14,330)	(12,641)	(5,217)	(7,331)	(4,581)	(78,549)
Credit impairment losses	(8,633)	(12,256)	(16,671)	(14,038)	(11,621)	(3,194)	(7,887)	(338)	(74,638)
Other impairment losses	(6)	(1)	(50)	25	30	7	(121)	(32)	(148)
Share of profits of associates and joint ventures	–	–	–	116	–	–	–	12	128
Profit before tax	29,218	25,510	19,989	25,093	22,140	6,488	56,824	5,918	191,180
Capital expenditure	282	222	830	549	556	190	111	2,255	4,995
Depreciation and amortisation	1,691	1,482	1,833	2,176	1,835	857	942	518	11,334
	30 June 2019								
Segment assets	4,703,295	3,680,999	5,594,081	4,373,564	3,654,045	1,263,005	9,282,829	1,651,213	34,203,031
Long-term equity investments	1	–	2,512	7,389	–	–	–	522	10,424
	4,703,296	3,680,999	5,596,593	4,380,953	3,654,045	1,263,005	9,282,829	1,651,735	34,213,455
Deferred tax assets									63,730
Elimination									(9,894,034)
Total assets									24,383,151
Segment liabilities	4,678,413	3,647,923	5,479,901	4,363,267	3,637,594	1,258,607	7,603,503	1,535,549	32,204,757
Deferred tax liabilities									390
Elimination									(9,894,034)
Total liabilities									22,311,113
Off-balance sheet credit commitments	508,834	462,398	665,318	526,987	390,919	141,482	–	257,727	2,953,665

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(1) Geographical segments (continued)

	Six months ended 30 June 2018								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	27,633	25,386	20,719	29,121	28,207	7,274	93,516	7,630	239,486
Internal net interest income/ (expense)	10,339	7,804	15,377	13,330	12,151	4,937	(61,257)	(2,681)	–
Net interest income	37,972	33,190	36,096	42,451	40,358	12,211	32,259	4,949	239,486
Net fee and commission income	11,104	11,044	10,542	9,203	5,552	2,262	17,707	1,590	69,004
Net trading gain	299	452	289	209	150	51	5,457	1,005	7,912
Dividend income	52	–	–	13	3	–	211	133	412
Net (loss)/gain arising from investment securities	(451)	(46)	(11)	299	(197)	–	2,466	1,059	3,119
Net gain/(loss) on derecognition of financial assets measured at amortised cost	4	–	–	–	–	–	(2,434)	65	(2,365)
Other operating income, net	130	292	710	246	860	73	713	2,137	5,161
Operating income	49,110	44,932	47,626	52,421	46,726	14,597	56,379	10,938	322,729
Operating expenses	(12,351)	(9,450)	(12,340)	(13,679)	(12,177)	(5,222)	(6,091)	(3,371)	(74,681)
Credit impairment losses	(7,185)	(5,835)	(15,441)	(11,081)	(7,730)	(9,026)	(10,294)	(437)	(67,029)
Other impairment losses	26	33	(52)	(13)	8	(16)	259	4	249
Share of profits of associates and joint ventures	–	–	–	83	–	–	–	69	152
Profit before tax	29,600	29,680	19,793	27,731	26,827	333	40,253	7,203	181,420
Capital expenditure	382	196	2,516	556	387	227	120	918	5,302
Depreciation and amortisation	1,303	913	1,262	1,749	1,408	745	707	236	8,323
	31 December 2018								
Segment assets	4,552,907	3,568,920	5,294,858	4,200,214	3,448,750	1,179,534	9,090,812	1,693,490	33,029,485
Long-term equity investments	1	–	6	6,966	–	–	–	1,029	8,002
	4,552,908	3,568,920	5,294,864	4,207,180	3,448,750	1,179,534	9,090,812	1,694,519	33,037,487
Deferred tax assets									58,730
Elimination									(9,873,524)
Total assets									23,222,693
Segment liabilities	4,545,367	3,572,390	5,280,416	4,208,014	3,453,631	1,189,598	7,280,378	1,574,344	31,104,138
Deferred tax liabilities									485
Elimination									(9,873,524)
Total liabilities									21,231,099
Off-balance sheet credit commitments	512,137	461,552	653,558	495,996	378,075	143,531	100	203,775	2,848,724

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currencies for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

	Six months ended 30 June 2019				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	93,280	57,009	90,423	9,724	250,436
Internal net interest income/(expenses)	24,612	30,856	(52,464)	(3,004)	–
Net interest income	117,892	87,865	37,959	6,720	250,436
Net fee and commission income	17,971	45,729	9,447	3,548	76,695
Net trading (loss)/gain	(119)	(30)	1,803	3,204	4,858
Dividend income	–	–	2	412	414
Net (loss)/gain arising from investment securities	(1,401)	(1,796)	5,346	4,392	6,541
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(1)	1,174	36	226	1,435
Other operating income, net	5	335	635	3,033	4,008
Operating income	134,347	133,277	55,228	21,535	344,387
Operating expenses	(28,574)	(38,079)	(4,946)	(6,950)	(78,549)
Credit impairment losses	(61,884)	(9,309)	(2,475)	(970)	(74,638)
Other impairment losses	(13)	–	(69)	(66)	(148)
Share of profits of associates and joint ventures	–	–	–	128	128
Profit before tax	43,876	85,889	47,738	13,677	191,180
Capital expenditure	938	1,400	151	2,506	4,995
Depreciation and amortisation	3,939	5,884	633	878	11,334
			30 June 2019		
Segment assets	7,998,752	6,312,186	8,646,673	1,472,615	24,430,226
Long-term equity investments	–	–	–	10,424	10,424
	7,998,752	6,312,186	8,646,673	1,483,039	24,440,650
Deferred tax assets					63,730
Elimination					(121,229)
Total assets					24,383,151
Segment liabilities	10,423,558	9,002,984	945,596	2,059,814	22,431,952
Deferred tax liabilities					390
Elimination					(121,229)
Total liabilities					22,311,113
Off-balance sheet credit commitments	1,735,220	960,718	–	257,727	2,953,665

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(2) Business segments (continued)

Others (continued)

	Six months ended 30 June 2018				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	83,937	61,176	84,221	10,152	239,486
Internal net interest income/(expenses)	34,395	30,069	(61,862)	(2,602)	–
Net interest income	118,332	91,245	22,359	7,550	239,486
Net fee and commission income	17,927	38,682	7,407	4,988	69,004
Net trading (loss)/gain	(104)	(53)	2,506	5,563	7,912
Dividend income	–	–	–	412	412
Net (loss)/gain arising from investment securities	(1,966)	(1,944)	7,251	(222)	3,119
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(2,452)	–	18	69	(2,365)
Other operating income, net	20	364	3,684	1,093	5,161
Operating income	131,757	128,294	43,225	19,453	322,729
Operating expenses	(25,965)	(37,982)	(4,518)	(6,216)	(74,681)
Credit impairment losses	(56,650)	(9,587)	(356)	(436)	(67,029)
Other impairment losses	1	–	336	(88)	249
Share of profits of associates and joint ventures	–	–	–	152	152
Profit before tax	49,143	80,725	38,687	12,865	181,420
Capital expenditure	818	1,291	140	3,053	5,302
Depreciation and amortisation	2,878	4,541	492	412	8,323
	31 December 2018				
Segment assets	7,555,369	6,043,043	8,252,601	1,526,264	23,377,277
Long-term equity investments	–	–	–	8,002	8,002
	7,555,369	6,043,043	8,252,601	1,534,266	23,385,279
Deferred tax assets					58,730
Elimination					(221,316)
Total assets					23,222,693
Segment liabilities	10,098,929	8,256,278	1,058,771	2,037,952	21,451,930
Deferred tax liabilities					485
Elimination					(221,316)
Total liabilities					21,231,099
Off-balance sheet credit commitments	1,771,513	873,436	–	203,775	2,848,724

(Expressed in millions of RMB, unless otherwise stated)

52 Entrusted lending business

As at the end of the reporting period, the entrusted loans and funds were as follows:

	30 June 2019	31 December 2018
Entrusted loans	**3,043,835**	2,922,226
Entrusted funds	**3,043,835**	2,922,226

53 Pledged assets

(1) Assets pledged as security

Carrying value of pledged assets analysed by asset type

	30 June 2019	31 December 2018
Cash deposit	**266**	948
Discounted bills	**773**	765
Bonds	**487,247**	639,922
Others	**3,984**	5,773
Total	**492,270**	647,408

(2) Collateral accepted as security for assets

The Group enters into resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 30 June 2019 and 31 December 2018, the Group did not hold any collateral for resale agreements, which was permitted to sell or repledge in the absence of default for the transactions.

54 Commitments and contingent liabilities

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit, etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loan commitments and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the contractual amounts set out in the following table do not represent the expected future cash outflows.

	30 June 2019	31 December 2018
Loan commitments		
– with an original maturity within one year	**153,302**	150,257
– with an original maturity of one year or over	**333,296**	306,838
Credit card commitments	**1,002,688**	923,508
	1,489,286	1,380,603
Bank acceptances	**220,902**	230,756
Financing guarantees	**52,039**	51,422
Non-financing guarantees	**1,048,128**	1,006,748
Sight letters of credit	**36,663**	34,159
Usance letters of credit	**102,598**	130,195
Others	**4,049**	14,841
Total	**2,953,665**	2,848,724

(Expressed in millions of RMB, unless otherwise stated)

54 Commitments and contingent liabilities (continued)

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of the counterparty and the maturity characteristics.

	30 June 2019	31 December 2018
Credit risk-weighted amount of contingent liabilities and commitments	**978,131**	985,503

(3) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	30 June 2019	31 December 2018
Contracted for	**9,084**	11,792

(4) Underwriting obligations

As at 30 June 2019, there was no unexpired underwriting commitment of the Group (as at 31 December 2018: nil).

(5) Government bond redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 30 June 2019, were RMB83,962 million (as at 31 December 2018: RMB81,331 million).

(6) Outstanding litigations and disputes

As at 30 June 2019, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB10,601 million (as at 31 December 2018: RMB9,070 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 39). The Group considers that the provisions made are reasonable and adequate.

(7) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies.

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

As approved by the State Council, CIC was established on 29 September 2007 with registered capital of RMB1,550,000 million. As a wholly-owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of the PRC government.

Huijin was incorporated on 16 December 2003 as a wholly-state-owned investment company. It was registered in Beijing with registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 30 June 2019, Huijin directly held 57.11% of shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB117,184 million (as at 31 December 2018: RMB145,236 million). These are bearer bonds and tradable in the secondary market. The Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows:

Amounts

	Six months ended 30 June			
	2019		2018	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,028**	**0.24%**	814	0.21%
Interest expense	**56**	**0.03%**	77	0.05%
Net trading gain	**7**	**0.14%**	–	–

Balances outstanding as at the end of the reporting period

	30 June 2019		31 December 2018	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Loans and advances to customers	**12,000**	**0.09%**	28,000	0.21%
Financial investments				
Financial assets measured at fair value through profit or loss	**411**	**0.06%**	–	–
Financial assets measured at amortised cost	**12,174**	**0.34%**	8,097	0.25%
Financial assets measured at fair value through other comprehensive income	**15,099**	**0.84%**	11,563	0.68%
Deposits from banks and non-bank financial institutions	**15**	**0.00%**	1,627	0.11%
Deposits from customers	**4,817**	**0.03%**	3,675	0.02%
Credit commitments	**288**	**0.01%**	288	0.01%

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions (continued)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies

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

Amounts

		Six months ended 30 June			
		2019		2018	
	Note	**Amount**	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income		**11,371**	**2.63%**	11,426	2.90%
Interest expense		**1,954**	**1.07%**	4,102	2.63%
Fee and commission income		**137**	**0.16%**	69	0.09%
Fee and commission expense		**114**	**1.53%**	57	0.90%
Net trading gain		**218**	**4.49%**	–	–
Net gain arising from investment securities		**975**	**14.91%**	–	–
Operating expenses	(i)	**324**	**0.41%**	414	0.58%

Balances outstanding as at the end of the reporting period

		30 June 2019		31 December 2018	
	Note	**Balance**	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		**61,460**	**16.81%**	40,591	8.34%
Placements with banks and non-bank financial institutions		**77,229**	**17.24%**	96,352	27.55%
Positive fair value of derivatives		**3,322**	**11.47%**	4,811	9.51%
Financial assets held under resale agreements		**17,159**	**3.81%**	10,110	5.01%
Loans and advances to customers		**52,647**	**0.37%**	68,382	0.51%
Financial investments					
Financial assets measured at fair value through profit or loss		**73,383**	**10.82%**	17,067	2.33%
Financial assets measured at amortised cost		**279,843**	**7.83%**	294,975	9.01%
Financial assets measured at fair value through other comprehensive income		**231,108**	**12.86%**	229,510	13.41%
Other assets	(ii)	**128**	**0.07%**	211	0.16%
Deposits from banks and non-bank financial institutions	(iii)	**91,783**	**6.32%**	60,518	4.24%
Placements from banks and non-bank financial institutions		**164,548**	**37.23%**	117,661	28.00%
Negative fair value of derivatives		**3,364**	**12.01%**	6,961	14.35%
Financial assets sold under repurchase agreements		**1,452**	**4.13%**	1,486	4.83%
Deposits from customers		**34,173**	**0.19%**	18,633	0.11%
Other liabilities		**5,667**	**1.19%**	4,467	1.59%
Credit commitments		**9,771**	**0.33%**	8,443	0.29%

(i) Operating expenses mainly represent fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions (continued)

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	Six months ended 30 June	
	2019	2018
Interest income	**45**	193
Interest expense	**173**	37
Fee and commission income	**140**	28
Fee and commission expense	**4**	–
Operating expenses	**50**	106

Balances outstanding as at the end of the reporting period

	30 June 2019	31 December 2018
Loans and advances to customers	**3,220**	8,634
Other assets	**34**	16
Negative fair value of derivatives	**–**	35
Deposits from customers	**6,270**	1,669
Other liabilities	**369**	419
Credit commitments	**10**	10

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions are conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 2(3).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	Six months ended 30 June	
	2019	2018
Interest income	**532**	444
Interest expense	**417**	95
Fee and commission income	**1,317**	1,196
Fee and commission expense	**522**	264
Dividend income	**160**	52
Net loss arising from investment securities	**(52)**	–
Other operating income/(expense), net	**16**	(68)
Operating expenses	**1,132**	631

Balances outstanding as at the end of the reporting period

	30 June 2019	31 December 2018
Deposits with banks and non-bank financial institutions	**2,456**	3,640
Placements with banks and non-bank financial institutions	**86,644**	77,992
Positive fair value of derivatives	**68**	327
Financial assets held under resale agreements	**–**	2,130
Loans and advances to customers	**4,716**	10,918
Financial investments		
Financial assets measured at fair value through profit or loss	**206**	–
Financial assets measured at amortised cost	**1,232**	2,127
Financial assets measured at fair value through other comprehensive income	**9,797**	10,336
Other assets	**39,090**	39,105

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions (continued)

(3) Transactions between the Bank and its subsidiaries (continued)

Balances outstanding as at the end of the reporting period (continued)

	30 June 2019	31 December 2018
Deposits from banks and non-bank financial institutions	**23,181**	6,688
Placements from banks and non-bank financial institutions	**48,970**	38,999
Financial liabilities measured at fair value through profit or loss	**45**	45
Negative fair value of derivatives	**271**	344
Financial assets sold under repurchase agreements	**–**	1,334
Deposits from customers	**24,406**	7,233
Debt securities issued	**824**	824
Other liabilities	**981**	281

As at 30 June 2019, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary was RMB37,230 million (as at 31 December 2018: RMB38,733 million).

For the six months ended 30 June 2019, the transactions between subsidiaries of the Group were mainly placements with banks and non-bank financial institutions and placements from banks and non-bank financial institutions (for the year ended 31 December 2018: deposits with banks and non-bank financial institutions and deposits from banks and non-bank financial institutions). As at 30 June 2019, the balances of the above transactions were RMB14,300 million (as at 31 December 2018: RMB2,509 million) and RMB14,897 million (as at 31 December 2018: RMB2,509 million), respectively.

(4) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme for the six months ended 30 June 2019 and for the year ended 31 December 2018.

As at 30 June 2019, the Group's supplementary retirement benefit plan assets of RMB3,717 million (as at 31 December 2018: RMB3,760 million) were managed by CCB Principal and management fees payable to CCB Principal were RMB4.50 million (as at 31 December 2018: RMB15.63 million).

(5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior management. The Group enters into banking transactions with key management personnel in the normal course of business. For the six months ended 30 June 2019 and for the year ended 31 December 2018, there were no material transactions and balances with key management personnel. As at 30 June 2019, the aggregate balance of loans and credit card overdraft to the persons who were considered as related parties according to the relevant rules of the Shanghai Stock Exchange was RMB22.99 million (as at 31 December 2018: RMB19.06 million).

(6) Loans, quasi-loans and other credit transactions to directors, supervisors and senior management

The Group had no material balances of loans, quasi-loans and other credit transactions to directors, supervisors and senior management as at the end of the reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior management were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

56 Risk management

The Group has exposure to the following risks:

- credit risk
- market risk
- liquidity risk
- operational risk
- insurance risk

This note presents information about the Group's exposures to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors carries out their responsibilities according to the Articles of Association and other related regulatory requirements. The Board of Directors of the Bank established the Risk Management Committee to be responsible for formulating risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. The Board of Supervisors has overseen the establishment of the overall risk management system and the carrying out of risk management responsibilities by the Board of Directors and senior management. Senior management is responsible for carrying out the risk management strategies established by the Board of Directors and the implementation of the overall risk management of the Group. Senior management appoints the Chief Risk Officer who assists the president with the corresponding risk management work.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training system, standardised management and process management, aims at developing a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Department is the overall business risk management department. The Credit Management Department is the overall credit risk management department. The Credit Approval Department is the overall credit business approval department. The Internal Control and Compliance Department is the coordination department for compliance risk management, money laundering risk management, operational risk management and information technology risk management. Other departments are responsible for various corresponding risks.

The Group's Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core business sectors and their management procedures. The Internal Control and Compliance Department assists the Audit Committee to execute the above-mentioned responsibilities and reports to the Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Special Assets Resolution Center is responsible for the special assets resolutions. The Credit Approval Department is responsible for the Group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the Inclusive Finance Department, the Institutional Banking Department, the International Business Department, the Strategic Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually carries out post-lending monitoring, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard recovery procedures.

56 Risk management (continued)

(1) Credit risk (continued)

Credit business (continued)

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A refined management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Treasury business

For risk management purposes, credit risk arising from debt securities and derivatives exposures is managed independently and information thereon is disclosed in Notes (1)(i) and (1)(j) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

Measurement of expected credit losses (ECLs)

(A) Segmentation of financial instruments

The Group adopts a “three-stage” model for impairment based on changes in credit risk since initial recognition, to estimate the expected credit losses.

The key definition of the three stages are summarised below:

Stage 1: For financial instruments with no significant increase in credit risk after initial recognition, expected credit losses in the next 12 months are recognised.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, but with no objective evidence of impairment, lifetime expected credit losses are recognised.

Stage 3: For financial assets with objective evidence of impairment at the end of the reporting period, lifetime expected credit losses are recognised.

(B) Significant increase in credit risk (SICR)

The Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition on a quarterly basis. The Group sufficiently considers all reasonable and supportable information, including forward-looking information, which reflects the significant increase in credit risk. The major factors considered include regulatory and business environment, internal and external credit grading, repayment ability, operation capacity, contract terms of the loan, asset price, market interest rate, repayment behaviours, etc. The Group compares the risk of defaulted financial instruments as at the reporting date with that as at the date of initial recognition of an individual financial instrument or a group of financial instruments that shares the similar credit risk characteristics. The key factors are as follows: 1. The change in probability of default (PD), for example, in principle, the internal credit rating of corporate loans and advances is 15 or below, and the internal credit rating of debt securities has dropped by 2 or more notches. 2. Other factors which cause significant increase in credit risk. Usually, it should be regarded as a significant increase in credit risk if the overdue days exceed 30 days.

(C) Definition of default and credit-impaired assets

The Group considers a financial instrument as default, when it is credit-impaired. Generally, overdue for more than 90 days on contractual payment terms is considered default.

In order to evaluate whether a financial asset is impaired, the Group considers the following criteria:

– Significant financial difficulty of the borrower or issuer;

– Breach of contract terms, such as a default or delinquency in interest or principal payments;

– The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;

– It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– Disappearance of an active market for financial assets because of financial difficulties;

– Purchase or originate a financial asset by a large margin discount which reflects the fact of credit-impairment’s occurrence;

– Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group;

– Other objective evidence indicating there is an impairment of the financial asset.

The Group’s definition of default has been consistently applied to the modelling process of PD, LGD and EAD during the ECL calculation.

56 Risk management (continued)

(1) Credit risk (continued)

Measurement of expected credit losses (ECLs) (continued)

(D) Measuring ECL – explanation of parameters, assumptions and estimation techniques

The ECL is recognised on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether a financial instrument is considered to be credit-impaired. Expected credit losses are the discounted product of the weighted average of PD, LGD, and EAD under the three scenarios, defined as follows:

PD represents, after consideration of forward-looking information, the likelihood of a borrower defaulting on its financial obligation in the future. Please refer to the disclosure above in this note for the definition of default.

LGD represents, after consideration of forward-looking information, the Group's expectation on the ratio of extent of loss resulting from the default exposure.

EAD is the total amount of risk exposure on and off-balance sheet at the time of default. The exposure is determined by the repayment plan according to different types of products.

The discount rate used in the ECL calculation is the effective interest rate.

Please refer to further disclosure in this note for forward-looking information which is incorporated in the calculation of expected credit losses.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how the collateral values change, are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(E) Forward-looking information incorporated in the ECL

The assessment of SICR and the calculation of ECLs both incorporate forward-looking information. The Group has performed historical data analysis and identified the key economic variables related to expected credit losses and made forward-looking adjustments, such as GDP, CPI, M2, PPI, RMB deposit reserve rate, London spot gold price, average exchange rate of US Dollar to RMB and so on. Taking GDP as an example, the predicted value in neutral scenario accords with the development goals issued by the Central People's Government, the predicted value in positive and negative scenarios will fluctuate up and down on the basis of the predicted value in neutral scenario. The forecasts of macroeconomic variables in the variable pool are provided periodically by the Group. The Group constructs empirical models to obtain the relationship between historical macroeconomic variables and PD and LGD, and the PD and LGD in a given future horizon are projected based on the forecasted macroeconomic variables.

The Group constructs empirical models to determine the weightings in positive, neutral and negative. As at 30 June 2019 and 31 December 2018, the positive, neutral and negative scenarios are of comparable weighting. Following this assessment, the Group measures ECLs as a weighted average probability of ECLs in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECLs for Stage 2 and 3 financial instruments.

(F) Grouping of financial instruments for losses measured on a collective basis

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

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(a) Maximum credit risk exposure

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting any impairment allowance.

	30 June 2019	31 December 2018
Deposits with central banks	**2,406,261**	2,567,648
Deposits with banks and non-bank financial institutions	**365,628**	486,949
Placements with banks and non-bank financial institutions	**447,872**	349,727
Positive fair value of derivatives	**28,962**	50,601
Financial assets held under resale agreements	**450,226**	201,845
Loans and advances to customers	**14,087,296**	13,365,430
Financial investments		
Financial assets measured at fair value through profit or loss	**560,686**	630,241
Financial assets measured at amortised cost	**3,575,473**	3,272,514
Financial assets measured at fair value through other comprehensive income	**1,792,989**	1,707,884
Other financial assets	**156,256**	123,629
Total	**23,871,649**	22,756,468
Off-balance sheet credit commitments	**2,953,665**	2,848,724
Maximum credit risk exposure	**26,825,314**	25,605,192

(b) Loans and advances to customers analysed by credit quality

Within overdue but not credit impaired loans and advances and credit impaired loans and advances, the portions covered and not covered by collateral held are as follows:

	30 June 2019		
	Overdue but not credit impaired loans and advances		**Credit impaired loans and advances**
	Corporate	**Personal**	**Corporate**
Portion covered	**11,764**	**18,090**	**69,606**
Portion not covered	**5,722**	**11,161**	**109,754**
Total	**17,486**	**29,251**	**179,360**

	31 December 2018		
	Overdue but not credit impaired loans and advances		Credit impaired loans and advances
	Corporate	Personal	Corporate
Portion covered	1,737	15,239	22,581
Portion not covered	1,482	10,757	150,459
Total	3,219	25,996	173,040

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

	30 June 2019			31 December 2018		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	1,480,075	10.18%	510,967	1,435,520	10.42%	497,172
– Manufacturing	1,275,539	8.77%	332,349	1,260,179	9.14%	338,453
– Leasing and commercial services	1,127,135	7.75%	401,118	1,048,235	7.61%	367,530
– Production and supply of electric power, heat, gas and water	844,682	5.81%	200,869	840,381	6.10%	201,091
– Real estate	644,947	4.44%	342,375	630,192	4.57%	312,305
– Wholesale and retail trade	480,464	3.30%	220,628	426,948	3.10%	188,993
– Water, environment and public utility management	433,952	2.98%	215,132	409,137	2.97%	203,576
– Construction	361,323	2.49%	83,998	311,157	2.26%	75,368
– Mining	250,713	1.72%	21,955	254,241	1.84%	21,878
– Agriculture, forestry, farming, fishing	70,750	0.49%	19,185	67,256	0.49%	21,355
– Education	68,270	0.47%	15,300	66,476	0.48%	15,071
– Public management, social securities and social organisation	65,071	0.45%	6,913	70,578	0.51%	9,406
– Others	741,081	5.10%	181,360	658,166	4.77%	163,219
Total corporate loans and advances	7,844,002	53.95%	2,552,149	7,478,466	54.26%	2,415,417
Personal loans and advances	6,203,413	42.66%	5,266,200	5,957,545	43.22%	5,004,794
Discounted bills	454,520	3.13%	–	310,244	2.25%	–
Accrued interest	37,904	0.26%	–	36,798	0.27%	–
Total loans and advances to customers	14,539,839	100.00%	7,818,349	13,783,053	100.00%	7,420,211

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of the total gross loans and advances to customers are as follows:

	30 June 2019				Six months ended 30 June 2019	
	Stage 3 Gross loans	Allowances for expected credit losses			Charge for the period	Written off during the period
		Stage 1	Stage 2	Stage 3		
Transportation, storage and postal services	18,754	(21,025)	(10,074)	(13,323)	(9,768)	423

	31 December 2018				2018	
	Stage 3 Gross loans	Allowances for expected credit losses			Charge for the year	Written off during the year
		Stage 1	Stage 2	Stage 3		
Transportation, storage and postal services	16,500	(17,555)	(8,509)	(10,339)	(13,930)	545

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

	30 June 2019			31 December 2018		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Central	**2,577,847**	**17.73%**	**1,605,828**	2,418,013	17.54%	1,505,629
Yangtze River Delta	**2,525,441**	**17.37%**	**1,554,026**	2,386,931	17.31%	1,491,555
Bohai Rim	**2,436,143**	**16.76%**	**1,184,048**	2,292,606	16.63%	1,109,429
Western	**2,394,835**	**16.47%**	**1,358,513**	2,277,666	16.53%	1,299,688
Pearl River Delta	**2,236,185**	**15.38%**	**1,552,569**	2,085,684	15.13%	1,454,487
Northeastern	**737,768**	**5.07%**	**356,674**	712,310	5.17%	357,228
Head office	**686,247**	**4.72%**	**551**	685,733	4.98%	–
Overseas	**907,469**	**6.24%**	**206,140**	887,312	6.44%	202,195
Accrued interest	**37,904**	**0.26%**	**–**	36,798	0.27%	–
Gross loans and advances to customers	**14,539,839**	**100.00%**	**7,818,349**	13,783,053	100.00%	7,420,211

Details of Stage 3 loans and expected credit losses in respect of geographical sectors are as follows:

	30 June 2019			
	Stage 3	**Allowances for expected credit losses**		
	Gross loan balance	**Stage 1**	**Stage 2**	**Stage 3**
Bohai Rim	**44,885**	**(34,025)**	**(20,343)**	**(29,372)**
Western	**39,316**	**(37,548)**	**(13,898)**	**(27,656)**
Central	**37,048**	**(39,662)**	**(16,902)**	**(25,039)**
Yangtze River Delta	**25,860**	**(40,175)**	**(20,361)**	**(17,847)**
Pearl River Delta	**25,680**	**(35,665)**	**(12,239)**	**(16,952)**
Northeastern	**23,094**	**(11,826)**	**(10,160)**	**(16,959)**
Head office	**9,774**	**(9,682)**	**(1,252)**	**(8,565)**
Overseas	**2,412**	**(3,329)**	**(1,330)**	**(1,756)**
Total	**208,069**	**(211,912)**	**(96,485)**	**(144,146)**

	31 December 2018			
	Stage 3	Allowances for expected credit losses		
	Gross loans balance	Stage 1	Stage 2	Stage 3
Bohai Rim	42,331	(28,558)	(19,930)	(29,548)
Western	36,092	(31,323)	(15,091)	(24,688)
Central	34,087	(33,900)	(14,904)	(25,313)
Yangtze River Delta	26,234	(34,526)	(18,960)	(18,543)
Pearl River Delta	24,077	(29,859)	(10,630)	(14,627)
Northeastern	25,850	(9,996)	(11,195)	(19,095)
Head office	8,123	(11,317)	(2,112)	(6,395)
Overseas	4,087	(4,136)	(802)	(2,175)
Total	200,881	(183,615)	(93,624)	(140,384)

The definitions of geographical segments are set out in Note 51(1).

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by type of collateral

	30 June 2019	31 December 2018
Unsecured loans	4,658,932	4,301,972
Guaranteed loans	2,024,654	2,024,072
Loans secured by property and other immovable assets	6,578,736	6,218,435
Other pledged loans	1,239,613	1,201,776
Accrued interest	37,904	36,798
Gross loans and advances to customers	14,539,839	13,783,053

(f) Rescheduled loans and advances to customers

	30 June 2019		31 December 2018	
	Total balance	Percentage of gross loans and advances to customers	Total balance	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	4,846	0.03%	5,818	0.04%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	1,537	0.01%	1,866	0.01%

(g) Credit exposure

Loans and advances to customers

	30 June 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	13,863,000	12,757	–	13,875,757
Medium risk	–	406,080	–	406,080
High risk	–	–	208,069	208,069
Gross loans and advances	13,863,000	418,837	208,069	14,489,906
Allowances for impairment losses on loans and advances measured at amortised cost	(211,912)	(96,485)	(144,146)	(452,543)
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	(1,083)	(30)	–	(1,113)

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Loans and advances to customers (continued)

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	13,112,857	12,230	–	13,125,087
Medium risk	3,521	383,909	–	387,430
High risk	–	–	200,881	200,881
Gross loans and advances	13,116,378	396,139	200,881	13,713,398
Allowances for impairment losses on loans and advances measured at amortised cost	(183,615)	(93,624)	(140,384)	(417,623)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfil the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower has obvious problems in its repayment ability and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

Off-balance sheet business

	30 June 2019			
	Stage 1 12 months ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Low risk	**2,892,950**	**–**	**–**	**2,892,950**
Medium risk	**–**	**55,460**	**–**	**55,460**
High risk	**–**	**–**	**5,255**	**5,255**
Total carrying amount	**2,892,950**	**55,460**	**5,255**	**2,953,665**
Allowance for impairment losses	**(23,948)**	**(4,868)**	**(3,601)**	**(32,417)**

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	2,759,992	–	–	2,759,992
Medium risk	–	84,082	–	84,082
High risk	–	–	4,650	4,650
Total carrying amount	2,759,992	84,082	4,650	2,848,724
Allowance for impairment losses	(22,344)	(5,971)	(2,909)	(31,224)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfil the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower has obvious problems in its repayment ability and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Financial investments

	30 June 2019			
	Stage 1 12 months ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Low risk	**5,264,105**	**–**	**–**	**5,264,105**
Medium risk	**23,118**	**3,367**	**–**	**26,485**
High risk	**–**	**1,000**	**5,309**	**6,309**
Total carrying amount excluding accrued interest	**5,287,223**	**4,367**	**5,309**	**5,296,899**
Allowance for impairment losses on financial investments measured at amortised cost	**(5,681)**	**(218)**	**(2,264)**	**(8,163)**
Allowance for impairment losses on financial investments measured at fair value through other comprehensive income	**(3,744)**	**–**	**–**	**(3,744)**

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	4,915,168	–	–	4,915,168
Medium risk	65,689	222	–	65,911
High risk	–	3,564	2,590	6,154
Total carrying amount	4,980,857	3,786	2,590	4,987,233
Allowance for impairment losses	(7,261)	(509)	(1,155)	(8,925)

The Group classifies financial investment risk characteristics based on asset entry and internal rating changes. “Low risk” means that the issuer’s initial internal rating is above the entry level, there are no reasons to suspect that the financial investment is expected to be defaulted; “Medium risk” means that although the issuer’s internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to be defaulted; “High risk” means that there are obvious problems may cause a default, or the financial investment indeed is defaulted.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Amounts due from banks and non-bank financial institutions

Amounts due from banks and non-bank financial institutions include deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	30 June 2019			
	Stage 1 12 months ECL	**Stage 2 lifetime ECL**	**Stage 3 lifetime ECL**	**Total**
Low risk	**1,258,205**	**–**	**–**	**1,258,205**
Medium risk	**–**	**–**	**–**	**–**
High risk	**–**	**–**	**–**	**–**
Total carrying amount excluding accrued interest	**1,258,205**	**–**	**–**	**1,258,205**
Allowance for impairment losses	**(361)**	**–**	**–**	**(361)**

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	1,038,909	–	–	1,038,909
Medium risk	–	–	–	–
High risk	–	–	–	–
Total carrying amount	1,038,909	–	–	1,038,909
Allowance for impairment losses	(388)	–	–	(388)

The Group classifies risk characteristics of amounts due from banks and non-bank financial institutions based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, there are no reasons to suspect that the amount due from banks and non-bank financial institutions is expected to be defaulted; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the amount due from banks and non-bank financial institutions is expected to be defaulted; "High risk" means that there are obvious problems may cause a default, or the amount due from banks and non-bank financial institutions indeed is defaulted.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(h) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

	30 June 2019	31 December 2018
Credit impaired	–	1
Allowances for impairment losses	–	(1)
Subtotal	–	–
Neither overdue nor impaired		
– grades A to AAA	1,055,957	958,266
– grades B to BBB	16,651	14,103
– unrated	185,597	61,345
Accrued interest	5,882	5,195
Total	1,264,087	1,038,909
Allowances for impairment losses	(361)	(388)
Subtotal	1,263,726	1,038,521
Total	1,263,726	1,038,521

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit ratings. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group has not assigned internal credit ratings.

(i) Distribution of debt investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt investment portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2019					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	427	–	–	–	–	427
– Enterprises	5,322	–	–	–	–	5,322
Total	5,749	–	–	–	–	5,749
Allowances for impairment losses						(2,264)
Subtotal						3,485
Neither overdue nor impaired						
– Government	1,509,232	2,441,776	18,163	28,180	26,309	4,023,660
– Central banks	14,176	3,026	19,784	4,641	553	42,180
– Policy banks	758,225	–	385	52,550	–	811,160
– Banks and non-bank financial institutions	238,234	227,549	14,877	28,750	15,745	525,155
– Enterprises	186,596	290,056	27,458	19,071	6,226	529,407
Total	2,706,463	2,962,407	80,667	133,192	48,833	5,931,562
Allowances for impairment losses						(5,899)
Subtotal						5,925,663
Total						5,929,148

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(i) *Distribution of debt investments analysed by rating (continued)*

	31 December 2018					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	344	–	–	–	–	344
– Enterprises	2,246	–	–	–	–	2,246
Total	2,590	–	–	–	–	2,590
Allowances for impairment losses						(1,155)
Subtotal						1,435
Neither overdue nor impaired						
– Government	1,512,484	2,186,322	13,049	20,556	25,719	3,758,130
– Central banks	16,362	4,549	16,735	853	400	38,899
– Policy banks	764,358	3,160	2,901	21,313	–	791,732
– Banks and non-bank financial institutions	291,519	135,189	10,795	40,327	7,729	485,559
– Enterprises	238,441	262,728	14,652	19,278	5,465	540,564
Total	2,823,164	2,591,948	58,132	102,327	39,313	5,614,884
Allowances for impairment losses						(5,680)
Subtotal						5,609,204
Total						5,610,639

(j) *Credit risk arising from the Group's derivative exposures*

The majority of the Group's derivative transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(k) *Settlement risk*

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(l) Sensitivity analysis

The allowance for impairment losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, and other factors considered when applying expert credit judgement. Changes in these inputs, assumptions, models, and judgements would have an impact on the recognition of significant increase in credit risk and the measurement of ECLs.

(i) Sensitivity analysis of segmentation

The allowance for credit losses of performing financial assets consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECLs which are twelve-month ECLs and lifetime ECLs, respectively. A significant increase in credit risk since initial recognition will result in financial assets transferring from Stage 1 to Stage 2. The following table presents the impact of ECLs from the second year to the end of the lifetime for financial assets in Stage 2.

	30 June 2019		
	12 months credit loss of all performing financial assets	**Impact of lifetime**	**Current ECL**
Performing loans	**299,021**	**10,489**	**309,510**
Performing financial investments	**9,433**	**210**	**9,643**

	31 December 2018		
	12 months credit loss of all performing financial assets	Impact of lifetime	Current ECL
Performing loans	267,782	9,457	277,239
Performing financial investments	7,266	504	7,770

(ii) Sensitivity analysis of macroeconomic variables

The Group has carried out sensitivity analysis of benchmark core economic factors such as GDP. As at 30 June 2019, when the core economic factors in the neutral scenario are up or down by 10%, the ECLs of financial assets will not change by more than 5% (as at 31 December 2018: not change by more than 5%).

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department and Financial Market Trading Center manage the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc. to monitor the interest rate risk periodically.

The Group's foreign exchange exposures mainly comprise exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposures by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivative portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-Risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors it regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective periods is as follows:

		Six months ended 30 June 2019			
	Note	**As at 30 June**	**Average**	**Maximum**	**Minimum**
VaR of trading portfolio		**321**	**320**	**341**	**288**
Of which:					
– Interest rate risk		**103**	**99**	**117**	**75**
– Foreign exchange risk	(i)	**306**	**298**	**335**	**251**
– Commodity risk		**14**	**14**	**31**	**–**

		Six months ended 30 June 2018			
	Note	As at 30 June	Average	Maximum	Minimum
VaR of trading portfolio		158	120	158	92
Of which:					
– Interest rate risk		44	43	58	32
– Foreign exchange risk	(i)	151	113	151	77
– Commodity risk		–	11	39	–

(i) The VaR in relation to bullion is included in foreign exchange risk above.

56 Risk management (continued)

(2) Market risk (continued)

(a) *VaR analysis (continued)*

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

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

– A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

– A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used, there is 1 percent probability that losses could exceed the VaR;

– VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

– The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

– The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

(b) *Net interest income sensitivity analysis*

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group by RMB59,460 million (as at 31 December 2018: RMB32,453 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group would decrease or increase by RMB48,059 million (as at 31 December 2018: RMB69,138 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the interest risk management department or related business departments to mitigate interest rate risk have not been taken into account. In practice, the departments that manage the interest rate risk strive to reduce loss arising from the risk while increasing the net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arises from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate re-pricing gap. The main reason for measuring the interest rate re-pricing gap is to assist in analysing the impact of interest rate changes on net interest income.

The following tables indicate the average interest rate ("AIR") for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

		30 June 2019						
	Note	Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.50%	124,163	2,342,004	–	–	–	2,466,167
Deposits and placements with banks and non-bank financial institutions		2.58%	5,760	595,446	203,901	8,393	–	813,500
Financial assets held under resale agreements		2.46%	122	449,906	198	–	–	450,226
Loans and advances to customers	(ii)	4.49%	37,904	3,276,995	10,443,329	212,730	116,338	14,087,296
Investments	(iii)	3.65%	222,986	514,682	601,932	2,791,366	1,930,509	6,061,475
Others			504,487	–	–	–	–	504,487
Total assets		3.88%	895,422	7,179,033	11,249,360	3,012,489	2,046,847	24,383,151
Liabilities								
Borrowings from central banks		3.31%	7,375	189,702	248,922	770	–	446,769
Deposits and placements from banks and non-bank financial institutions		2.52%	13,694	1,580,700	271,188	22,405	6,371	1,894,358
Financial liabilities measured at fair value through profit or loss		3.20%	20,519	170,169	103,510	7,302	–	301,500
Financial assets sold under repurchase agreements		3.01%	61	27,123	3,599	4,381	–	35,164
Deposits from customers		1.55%	364,069	11,708,046	3,254,603	2,879,212	8,142	18,214,072
Debt securities issued		3.63%	10,612	230,701	233,873	288,737	25,435	789,358
Others			629,892	–	–	–	–	629,892
Total liabilities		1.76%	1,046,222	13,906,441	4,115,695	3,202,807	39,948	22,311,113
Asset-liability gap		2.12%	(150,800)	(6,727,408)	7,133,665	(190,318)	2,006,899	2,072,038

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

	Note	31 December 2018						
		Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.53%	119,043	2,513,820	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions		3.34%	5,050	664,234	159,581	7,811	–	836,676
Financial assets held under resale agreements		2.85%	126	201,719	–	–	–	201,845
Loans and advances to customers	(ii)	4.34%	36,798	8,324,410	4,827,130	118,889	58,203	13,365,430
Investments	(iii)	3.75%	193,041	644,118	815,599	2,428,596	1,641,557	5,722,911
Others			462,968	–	–	–	–	462,968
Total assets		3.82%	817,026	12,348,301	5,802,310	2,555,296	1,699,760	23,222,693
Liabilities								
Borrowings from central banks		3.21%	8,947	205,692	338,978	775	–	554,392
Deposits and placements from banks and non-bank financial institutions		2.72%	10,970	1,325,178	424,822	80,644	6,083	1,847,697
Financial liabilities measured at fair value through profit or loss		3.42%	22,977	233,450	165,395	9,512	–	431,334
Financial assets sold under repurchase agreements		2.87%	154	24,045	1,268	4,611	687	30,765
Deposits from customers		1.39%	233,879	11,289,878	3,365,791	2,210,178	8,952	17,108,678
Debt securities issued		3.62%	4,905	289,858	197,857	259,087	24,078	775,785
Others			482,448	–	–	–	–	482,448
Total liabilities		1.64%	764,280	13,368,101	4,494,111	2,564,807	39,800	21,231,099
Asset-liability gap		2.18%	52,746	(1,019,800)	1,308,199	(9,511)	1,659,960	1,991,594

(i) Average interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB61,431 million as at 30 June 2019 (as at 31 December 2018: RMB59,455 million).

(iii) Investments include financial assets measured at financial assets measured at fair value through profit or loss, financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and long-term equity investments, etc.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposures mainly comprise exposures that arise from the foreign currency proprietary investments of the treasury business and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposures by minimising foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact to the pre-tax profits and other comprehensive income of the Group is not material.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

		30 June 2019			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,220,393	93,656	152,118	2,466,167
Deposits and placements with banks and non-bank financial institutions	(i)	1,008,460	216,071	39,195	1,263,726
Loans and advances to customers		13,131,196	540,266	415,834	14,087,296
Investments	(ii)	5,787,359	186,260	87,856	6,061,475
Others		453,143	3,571	47,773	504,487
Total assets		22,600,551	1,039,824	742,776	24,383,151
Liabilities					
Borrowings from central banks		382,196	38,229	26,344	446,769
Deposits and placements from banks and non-bank financial institutions	(iii)	1,436,918	360,183	132,421	1,929,522
Financial liabilities measured at fair value through profit or loss		283,822	15,534	2,144	301,500
Deposits from customers		17,435,556	449,150	329,366	18,214,072
Debt securities issued		392,097	278,902	118,359	789,358
Others		593,215	11,451	25,226	629,892
Total liabilities		20,523,804	1,153,449	633,860	22,311,113
Long position		2,076,747	(113,625)	108,916	2,072,038
Net notional amount of derivatives		(341,524)	306,673	50,059	15,208
Credit commitments		2,490,179	305,653	157,833	2,953,665

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(d) Currency risk (continued)

	Note	31 December 2018 RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,412,254	116,273	104,336	2,632,863
Deposits and placements with banks and non-bank financial institutions	(i)	800,852	198,616	39,053	1,038,521
Loans and advances to customers		12,390,275	545,594	429,561	13,365,430
Investments	(ii)	5,452,573	174,263	96,075	5,722,911
Others		395,762	48,020	19,186	462,968
Total assets		21,451,716	1,082,766	688,211	23,222,693
Liabilities					
Borrowings from central banks		503,669	33,184	17,539	554,392
Deposits and placements from banks and non-bank financial institutions	(iii)	1,433,725	309,123	135,614	1,878,462
Financial liabilities measured at fair value through profit or loss		408,623	20,972	1,739	431,334
Deposits from customers		16,347,860	442,304	318,514	17,108,678
Debt securities issued		438,158	230,548	107,079	775,785
Others		463,483	14,590	4,375	482,448
Total liabilities		19,595,518	1,050,721	584,860	21,231,099
Long position		1,856,198	32,045	103,351	1,991,594
Net notional amount of derivatives		(244,071)	270,379	(14,750)	11,558
Credit commitments		2,538,090	188,121	122,513	2,848,724

(i) Including financial assets held under resale agreements.

(ii) Please refer to Note 56(2)(c)(iii) for the scope of investments.

(iii) Including financial assets sold under repurchase agreements.

(3) Liquidity risk

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, fulfil other payment obligations, or meet the other funding needs in regular business development. Major factors and events affecting liquidity risks include: massive outflow of wholesale or retail deposits, increase in wholesale or retail financing cost, debtor defaults, decrease in the liquidity of assets, and decrease in the financing ability, etc.

In managing liquidity risks, the decision-making system consists of the Bank's Board of Directors and its sub-committee, and senior management. The Head Office's ALM takes the lead in the daily management of the Bank's liquidity risks, and works along with the Financial Market Department, Channel and Operation Management Department, Data Management Department, Public Relations & Corporate Culture Department, Board of Directors' Office, management arms of business lines, and relevant divisions of the branches and subsidiaries to ensure proper execution of liquidity risk management actions. The Board of Supervisors and Audit Department constitute the supervisory component. These three units perform decision-making, execution and supervisory functions respectively in the Bank's liquidity risk management as per their roles and responsibilities.

The Group's objective for liquidity risk management is to guarantee the Group's payment and settlement security, and maintain an optimal balance between the Bank's liquidity position and profitability. Liquidity risks are managed on a consolidated basis, where the Head Office centrally manages the Bank's overall liquidity risks, and in light of regulatory requirements, external macro environment and the Bank's business development status, formulates liquidity risk management policies, including limit management, intraday liquidity risk management, stress testing and contingency planning. Subsidiaries are the primary owners of their own liquidity risk management.

The Group conducts stress testing on its liquidity risk position on a quarterly basis in order to gauge its risk tolerance in adverse situations, including improbable extreme scenarios. The results have shown that under stress scenarios, the Bank's liquidity risk increases but remains manageable.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(3) Liquidity risk (continued)

The Group uses a variety of methods to measure its liquidity risks, including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis.

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	30 June 2019							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,103,274	361,887	–	1,006	–	–	–	2,466,167
Deposits and placements with banks and non-bank financial institutions	–	83,836	380,424	134,269	206,164	8,747	60	813,500
Financial assets held under resale agreements	–	–	446,847	3,181	198	–	–	450,226
Loans and advances to customers	70,880	683,556	421,031	625,066	3,022,708	3,358,014	5,906,041	14,087,296
Investments								
– Financial assets measured at fair value through profit or loss	100,272	24,728	65,522	96,844	183,712	124,443	82,626	678,147
– Financial assets measured at amortised cost	–	–	70,180	114,064	236,917	1,809,704	1,344,608	3,575,473
– Financial assets measured at fair value through other comprehensive income	4,442	–	49,044	93,520	193,817	948,219	508,389	1,797,431
– Long-term equity investments	10,424	–	–	–	–	–	–	10,424
Others	275,291	93,572	7,470	21,711	31,802	17,866	56,775	504,487
Total assets	2,564,583	1,247,579	1,440,518	1,089,661	3,875,318	6,266,993	7,898,499	24,383,151
Liabilities								
Borrowings from central banks	–	–	100,585	93,449	251,965	770	–	446,769
Deposits and placements from banks and non-bank financial institutions	–	1,077,330	264,703	221,694	277,340	43,749	9,542	1,894,358
Financial liabilities measured at fair value through profit or loss	–	17,671	121,178	50,789	104,468	7,394	–	301,500
Financial assets sold under repurchase agreements	–	–	24,885	2,271	3,609	4,399	–	35,164
Deposits from customers	–	10,967,027	853,287	864,065	2,496,900	3,022,579	10,214	18,214,072
Debt securities issued								
– Certificates of deposit issued	–	–	75,726	134,922	171,117	11,766	–	393,531
– Bonds issued	–	–	4,202	1,180	25,505	77,967	5,493	114,347
– Subordinated bonds issued	–	–	–	15,567	23,204	82,684	–	121,455
– Eligible Tier 2 capital bonds issued	–	–	–	–	15,802	123,196	21,027	160,025
Others	7,625	270,767	48,878	41,685	174,061	20,623	66,253	629,892
Total liabilities	7,625	12,332,795	1,493,444	1,425,622	3,543,971	3,395,127	112,529	22,311,113
Net gaps	2,556,958	(11,085,216)	(52,926)	(335,961)	331,347	2,871,866	7,785,970	2,072,038
Notional amount of derivatives								
– Interest rate contracts	–	–	49,964	17,055	144,702	109,232	11,856	332,809
– Exchange rate contracts	–	–	1,138,493	966,506	2,169,836	143,168	4,769	4,422,772
– Other contracts	–	–	13,517	21,205	19,842	2,948	–	57,512
Total	–	–	1,201,974	1,004,766	2,334,380	255,348	16,625	4,813,093

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	31 December 2018							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,177,053	454,640	–	1,170	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions	–	82,941	492,206	93,405	160,187	7,937	–	836,676
Financial assets held under resale agreements	–	–	201,103	742	–	–	–	201,845
Loans and advances to customers	70,252	717,226	475,109	567,815	2,799,488	3,203,135	5,532,405	13,365,430
Investments								
– Financial assets measured at fair value through profit or loss	85,036	31,322	76,537	104,992	227,632	144,658	61,040	731,217
– Financial assets measured at amortised cost	–	–	82,489	57,223	274,510	1,704,067	1,154,225	3,272,514
– Financial assets measured at fair value through other comprehensive income	3,294	–	18,383	48,472	246,776	888,772	505,481	1,711,178
– Long-term equity investments	8,002	–	–	–	–	–	–	8,002
Others	252,935	50,974	14,966	27,156	52,093	16,831	48,013	462,968
Total assets	2,596,572	1,337,103	1,360,793	900,975	3,760,686	5,965,400	7,301,164	23,222,693
Liabilities								
Borrowings from central banks	–	–	99,813	109,258	344,546	775	–	554,392
Deposits and placements from banks and non-bank financial institutions	–	929,855	246,048	152,645	427,102	83,943	8,104	1,847,697
Financial liabilities measured at fair value through profit or loss	–	18,839	148,784	87,018	167,065	9,628	–	431,334
Financial assets sold under repurchase agreements	–	–	23,189	918	1,274	4,694	690	30,765
Deposits from customers	–	10,372,640	873,288	926,854	2,545,389	2,368,005	22,502	17,108,678
Debt securities issued								
– Certificates of deposit issued	–	–	66,392	133,875	155,634	16,458	–	372,359
– Bonds issued	–	–	–	16	13,669	94,526	4,095	112,306
– Subordinated bonds issued	–	–	–	28,952	35,742	82,278	–	146,972
– Eligible Tier 2 capital bonds issued	–	–	–	–	2,011	121,709	20,428	144,148
Others	485	162,924	47,670	47,416	174,763	1,389	47,801	482,448
Total liabilities	485	11,484,258	1,505,184	1,486,952	3,867,195	2,783,405	103,620	21,231,099
Net gaps	2,596,087	(10,147,155)	(144,391)	(585,977)	(106,509)	3,181,995	7,197,544	1,991,594
Notional amount of derivatives								
– Interest rate contracts	–	–	64,199	47,984	96,775	82,458	10,906	302,322
– Exchange rate contracts	–	–	1,203,631	872,879	2,738,985	127,182	4,763	4,947,440
– Other contracts	–	–	33,130	31,688	22,014	2,493	–	89,325
Total	–	–	1,300,960	952,551	2,857,774	212,133	15,669	5,339,087

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments of the Group as at the end of the reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	30 June 2019							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	446,769	452,509	–	100,859	94,020	256,860	770	–
Deposits and placements from banks and non-bank financial institutions	1,894,358	1,919,182	1,077,330	269,368	223,654	283,974	52,113	12,743
Financial liabilities measured at fair value through profit or loss	301,500	304,402	17,671	121,638	51,089	106,191	7,813	–
Financial assets sold under repurchase agreements	35,164	36,299	–	24,907	2,281	3,669	5,442	–
Deposits from customers	18,214,072	18,724,261	10,967,655	866,533	894,075	2,613,914	3,371,094	10,990
Debt securities issued								
– Certificates of deposit issued	393,531	396,846	–	76,595	136,038	172,364	11,849	–
– Bonds issued	114,347	121,951	–	4,507	1,590	27,770	82,073	6,011
– Subordinated bonds issued	121,455	133,728	–	–	15,642	27,676	90,410	–
– Eligible Tier 2 capital bonds issued	160,025	187,565	–	–	3,556	19,407	143,419	21,183
Other non-derivative financial liabilities	357,631	357,631	87,561	32,854	29,857	130,892	12,822	63,645
Total	22,038,852	22,634,374	12,150,217	1,497,261	1,451,802	3,642,717	3,777,805	114,572
Off-balance sheet loan commitments and credit card commitments (Note)		1,489,286	968,920	82,205	17,305	107,063	127,028	186,765
Guarantees, acceptances and other credit commitments (Note)		1,464,379	–	283,508	182,639	561,391	427,070	9,771

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	31 December 2018							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	554,392	562,405	–	100,667	110,809	350,154	775	–
Deposits and placements from banks and non-bank financial institutions	1,847,697	1,878,423	930,363	246,832	155,573	441,916	93,123	10,616
Financial liabilities measured at fair value through profit or loss	431,334	438,124	18,839	151,389	87,702	169,994	10,200	–
Financial assets sold under repurchase agreements	30,765	32,323	–	23,209	926	1,405	5,782	1,001
Deposits from customers	17,108,678	17,367,636	10,373,070	883,249	941,884	2,615,420	2,529,230	24,783
Debt securities issued								
– Certificates of deposit issued	372,359	378,674	–	66,811	135,146	159,820	16,897	–
– Bonds issued	112,306	121,149	–	258	433	16,153	100,205	4,100
– Subordinated bonds issued	146,972	163,059	–	–	29,230	41,479	92,350	–
– Eligible Tier 2 capital bonds issued	144,148	172,588	–	–	–	8,756	142,636	21,196
Other non-derivative financial liabilities	317,810	317,810	84,604	34,266	28,583	122,706	–	47,651
Total	21,066,461	21,432,191	11,406,876	1,506,681	1,490,286	3,927,803	2,991,198	109,347
Off-balance sheet loan commitments and credit card commitments (Note)		1,380,603	1,126,654	93,138	27,583	24,320	79,865	29,043
Guarantees, acceptances and other credit commitments (Note)		1,468,121	–	226,985	176,721	442,485	591,866	30,064

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amounts to be paid.

(4) Operational risk

Operational risk refers to the risks that resulted from flawed or erroneous internal processes, people and systems, or external events.

In the first half of 2019, the Group continuously promoted the application of management tools and system optimisation, strengthened the prevention and control of operational risk in key areas, and took multiple measures to reduce operational risk events and losses.

– Continuously promoted the application of management tools, such as operational loss data, self-assessment, and key risk indicators.

– Developed the system function for recording losses from non-compliance, and focused on the recording, analysis, monitoring and reporting of regulatory penalties.

– Revised the policies for incompatible positions and re-examined the manuals.

– Made arrangements for job rotations and mandatory leave for key positions. Periodically reviewed the status of implementation.

– Enhanced the code of conduct for employees, advocated integrity, accountability and diligence to strengthen operational risk prevention capabilities.

– Revised business continuity management policies and successively launched the business continuity system.

56 Risk management (continued)

(5) Fair value of financial instruments

(a) Valuation process, technique and input

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and senior management. According to the requirements of the Board and the Board of Supervisors, senior management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

For the six months ended 30 June 2019, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2018.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

– Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	30 June 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	28,904	58	28,962
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	12,029	–	12,029
– Loans and advances to customers measured at fair value through other comprehensive income	–	454,457	–	454,457
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	1,333	252,841	–	254,174
– Equity instruments and funds	1,151	–	–	1,151
Financial assets designated as measured at fair value through profit or loss				
– Debt securities	651	–	10,501	11,152
– Other debt instruments	–	156,131	67,173	223,304
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	13,610	3,821	17,431
– Debt securities	–	54,537	88	54,625
– Funds and others	34,178	36,054	46,078	116,310
Financial assets measured at fair value through other comprehensive income				
– Debt securities	190,036	1,602,953	–	1,792,989
– Equity instruments designated as measured at fair value through other comprehensive income	2,157	–	2,285	4,442
Total	229,506	2,611,516	130,004	2,971,026
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	299,490	2,010	301,500
Negative fair value of derivatives	–	27,959	58	28,017
Total	–	327,449	2,068	329,517

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	50,566	35	50,601
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	32,857	–	32,857
– Loans and advances to customers measured at fair value through other comprehensive income	–	308,368	–	308,368
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	1,711	217,046	–	218,757
– Equity instruments and funds	1,706	–	–	1,706
Financial assets designated as measured at fair value through profit or loss				
– Debt securities	595	–	14,314	14,909
– Other debt instruments	–	265,938	84,640	350,578
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	13,004	1,253	14,257
– Debt securities	–	31,553	187	31,740
– Funds and others	28,300	27,009	43,961	99,270
Financial assets measured at fair value through other comprehensive income				
– Debt securities	187,632	1,520,252	–	1,707,884
– Equity instruments designated as measured at fair value through other comprehensive income	1,819	73	1,402	3,294
Total	221,763	2,466,666	145,792	2,834,221
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	429,706	1,628	431,334
Negative fair value of derivatives	–	48,490	35	48,525
Total	–	478,196	1,663	479,859

A majority of the financial assets classified as level 2 is RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as at fair value through profit or loss classified as level 2 is the fund raised from principal guaranteed wealth management products, the fair value of which is determined based on the income approach. The majority of derivatives is classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial assets at fair value through profit or loss classified as level 3 are the underlying assets of principal guaranteed wealth management products. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate.

For the six months ended 30 June 2019 and for the year ended 31 December 2018, there were no significant transfers within the fair value hierarchy of the Group.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	Six months ended 30 June 2019										
		Financial assets designated as measured at fair value through profit or loss		Other financial assets measured at fair value through profit or loss							
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investments	Debt securities	Funds and others	Equity instruments designated as measured at fair value through other comprehensive income	Total assets	Negative fair value of derivatives	Financial liabilities designated as measured at fair value through profit or loss	Total liabilities
As at 1 January 2019	35	14,314	84,640	1,253	187	43,961	1,402	145,792	(35)	(1,628)	(1,663)
Total gains or losses:											
In profit or loss	23	(215)	(65)	19	(3)	1,732	–	1,491	(23)	12	(11)
In other comprehensive income	–	–	–	–	–	–	49	49	–	–	–
Purchases	–	–	3,620	2,549	15	16,661	836	23,681	–	(476)	(476)
Sales and settlements	–	(3,598)	(21,022)	–	(111)	(16,276)	(2)	(41,009)	–	82	82
As at 30 June 2019	58	10,501	67,173	3,821	88	46,078	2,285	130,004	(58)	(2,010)	(2,068)

	2018										
		Financial assets designated as measured at fair value through profit or loss		Other financial assets measured at fair value through profit or loss							
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investments	Debt securities	Funds and others	Equity instruments designated as measured at fair value through other comprehensive income	Total assets	Negative fair value of derivatives	Financial liabilities designated as measured at fair value through profit or loss	Total liabilities
As at 1 January 2018	99	10,164	125,395	267	1,098	19,462	623	157,108	(98)	(472)	(570)
Total gains or losses:											
In profit or loss	(17)	(135)	235	(85)	(194)	(1,106)	–	(1,302)	17	146	163
In other comprehensive income	–	–	–	–	–	–	18	18	–	–	–
Purchases	–	7,263	487,445	1,073	–	34,688	761	531,230	–	(1,414)	(1,414)
Sales and settlements	(47)	(2,978)	(528,435)	(2)	(717)	(9,083)	–	(541,262)	46	112	158
As at 31 December 2018	35	14,314	84,640	1,253	187	43,961	1,402	145,792	(35)	(1,628)	(1,663)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain and net gain arising from investment securities.

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

	Six months ended 30 June 2019			Six months ended 30 June 2018		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains	1,091	389	1,480	1,789	1,015	2,804

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(d) Financial instruments not measured at fair value

(i) Financial assets

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers and financial assets measured at amortised cost.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate to the fair values.

Loans and advances to customers

Majority of the loans and advances to customers measured at amortised cost are repriced at least annually to the market rate. Accordingly, their carrying values approximate to the fair values.

Financial assets measured at amortised cost

The following table shows the carrying values and the fair values of financial assets measured at amortised cost as at 30 June 2019 and 31 December 2018 which are not presented in the statement of financial position at their fair values.

	30 June 2019					31 December 2018				
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortised cost	**3,575,473**	**3,612,961**	**25,790**	**3,449,955**	**137,216**	3,272,514	3,272,774	47,794	3,156,789	68,191
Total	**3,575,473**	**3,612,961**	**25,790**	**3,449,955**	**137,216**	3,272,514	3,272,774	47,794	3,156,789	68,191

(ii) Financial liabilities

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The fair value of subordinated bonds and the eligible Tier 2 capital bonds issued as at 30 June 2019 was RMB287,758 million (as at 31 December 2018: RMB293,466 million) and the carrying value was RMB281,591 million (as at 31 December 2018: RMB291,104 million), and the carrying values of other financial liabilities approximated to their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified them as the Level 2 of the fair value hierarchy.

(6) 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 an election, 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 IFRS.

As at 30 June 2019, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(7) Insurance risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

56 Risk management (continued)

(7) Insurance risk (continued)

The Group makes related assumptions for the insurance risks and recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholder's behaviour and decision.

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policy design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitoring and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with the CBRC's "Capital Rules for Commercial Banks (Provisional)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and the total capital ratio at or above a minimum of 8%. Besides, capital conservation buffer requirements and additional buffer requirements of Global Systemically Important Banks should also be met. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

In April 2014, the CBRC has officially approved the implementation of the advanced approach of capital management by the Bank. In this approach, the Bank has elected to use foundation internal ratings-based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal model approach for market risk and standardised approach for operational risk exposure.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	30 June 2019	31 December 2018
Common Equity Tier 1 ratio	(a)(b)(c)	**13.70%**	13.83%
Tier 1 ratio	(a)(b)(c)	**14.25%**	14.42%
Total capital ratio	(a)(b)(c)	**17.06%**	17.19%
Common Equity Tier 1 capital			
– Qualifying common share capital		**250,011**	250,011
– Capital reserve		**134,511**	134,511
– Surplus reserve		**223,231**	223,231
– General reserve		**279,946**	279,627
– Retained earnings		**1,065,973**	989,113
– Non-controlling interest recognised in Common Equity Tier 1 capital		**2,946**	2,744
– Others	(d)	**21,345**	19,836
Deductions for Common Equity Tier 1 capital			
– Goodwill	(e)	**2,585**	2,572
– Other intangible assets (excluding land use rights)	(e)	**3,064**	3,156
– Cash flow hedge reserve		**(121)**	53
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		**6,970**	3,902
Additional Tier 1 capital			
– Other directly issued qualifying additional Tier 1 instruments including related premium		**79,636**	79,636
– Non-controlling interest recognised in Additional Tier 1 capital		**85**	84
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		**203,263**	206,615
– Provisions in Tier 2	(f)	**199,703**	172,788
– Non-controlling interest recognised in Tier 2 capital		**136**	133
Common Equity Tier 1 capital after regulatory adjustments	(g)	**1,965,465**	1,889,390
Tier 1 capital after regulatory adjustments	(g)	**2,045,186**	1,969,110
Total capital after regulatory adjustments	(g)	**2,448,288**	2,348,646
Risk-weighted assets	(h)	**14,348,040**	13,659,497

Notes:

(a) From the first half year of 2014, the Group has elected the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.

(b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after regulatory adjustments by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after regulatory adjustments by risk-weighted assets. Total capital ratio is calculated by dividing the total capital after regulatory adjustments by risk-weighted assets.

(c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (excluding CCB Life).

(d) As at 30 June 2019 and 31 December 2018, others include other comprehensive income (including foreign exchange reserve).

(e) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(f) From the first half year of 2014, eligible excessive loan provisions were measured based on the advanced approach and implemented parallel period rules.

(g) Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the total capital.

(h) According to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excess risk-weighted assets due to the application of capital floor.

(Expressed in millions of RMB, unless otherwise stated)

57 Statement of financial position and statement of changes in equity of the Bank

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Assets:		
Cash and deposits with central banks	**2,456,349**	2,619,762
Deposits with banks and non-bank financial institutions	**345,859**	463,059
Precious metals	**36,911**	33,928
Placements with banks and non-bank financial institutions	**442,549**	354,876
Positive fair value of derivatives	**26,442**	47,470
Financial assets held under resale agreements	**439,111**	183,161
Loans and advances to customers	**13,632,305**	12,869,443
Financial investments		
Financial assets measured at fair value through profit or loss	**402,300**	529,223
Financial assets measured at amortised cost	**3,555,468**	3,206,630
Financial assets measured at fair value through other comprehensive income	**1,700,442**	1,614,375
Long-term equity investments	**65,270**	50,270
Investments in consolidated structured entities	**157,725**	161,638
Fixed assets	**135,516**	140,865
Land use rights	**13,195**	13,443
Intangible assets	**2,632**	2,690
Deferred tax assets	**60,563**	55,217
Other assets	**202,167**	147,305
Total assets	**23,674,804**	22,493,355
Liabilities:		
Borrowings from central banks	**446,768**	554,392
Deposits from banks and non-bank financial institutions	**1,447,250**	1,410,847
Placements from banks and non-bank financial institutions	**375,105**	323,535
Financial liabilities measured at fair value through profit or loss	**299,362**	429,595
Negative fair value of derivatives	**27,052**	47,024
Financial assets sold under repurchase agreements	**10,419**	8,407
Deposits from customers	**17,917,060**	16,795,736
Accrued staff costs	**28,942**	32,860
Taxes payable	**50,197**	74,110
Provisions	**37,426**	36,130
Debt securities issued	**717,558**	702,038
Deferred tax liabilities	**4**	6
Other liabilities	**308,407**	141,985
Total liabilities	**21,665,550**	20,556,665

(Expressed in millions of RMB, unless otherwise stated)

57 Statement of financial position and statement of changes in equity of the Bank (continued)

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Equity:		
Share capital	**250,011**	250,011
Other equity instruments		
Preference Shares	**79,636**	79,636
Capital reserve	**135,109**	135,109
Other comprehensive income	**22,760**	21,539
Surplus reserve	**223,231**	223,231
General reserve	**272,899**	272,867
Retained earnings	**1,025,608**	954,297
Total equity	**2,009,254**	1,936,690
Total liabilities and equity	**23,674,804**	22,493,355

Approved and authorised for issue by the Board of Directors on 28 August 2019.

Liu Guiping	**Kenneth Patrick Chung**	**Murray Horn**
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

(Expressed in millions of RMB, unless otherwise stated)

57 Statement of financial position and statement of changes in equity of the Bank

(continued)

	(Unaudited)							
	Share capital	**Other equity instruments-preference shares**	**Capital reserve**	**Other comprehensive income**	**Surplus reserve**	**General reserve**	**Retained earnings**	**Total equity**
As at 1 January 2019	**250,011**	**79,636**	**135,109**	**21,539**	**223,231**	**272,867**	**954,297**	**1,936,690**
Movements during the period	**–**	**–**	**–**	**1,221**	**–**	**32**	**71,311**	**72,564**
(1) Total comprehensive income for the period	**–**	**–**	**–**	**1,221**	**–**	**–**	**147,846**	**149,067**
(2) Profit distribution								
i Appropriation to general reserve	**–**	**–**	**–**	**–**	**–**	**32**	**(32)**	**–**
ii Dividends paid to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(76,503)**	**(76,503)**
As at 30 June 2019	**250,011**	**79,636**	**135,109**	**22,760**	**223,231**	**272,899**	**1,025,608**	**2,009,254**

	(Unaudited)							
	Share capital	Other equity instruments-preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2018	250,011	79,636	135,109	(14,120)	198,613	254,864	827,423	1,731,536
Movements during the period	–	–	–	13,762	–	175	66,819	80,756
(1) Total comprehensive income for the period	–	–	–	13,762	–	–	139,747	153,509
(2) Profit distribution								
i Appropriation to general reserve	–	–	–	–	–	175	(175)	–
ii Dividends paid to ordinary shareholders	–	–	–	–	–	–	(72,753)	(72,753)
As at 30 June 2018	250,011	79,636	135,109	(358)	198,613	255,039	894,242	1,812,292

	(Audited)							
	Share capital	Other equity instruments–preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2018	250,011	79,636	135,109	(14,120)	198,613	254,864	827,423	1,731,536
Movements during the year	–	–	–	35,659	24,618	18,003	126,874	205,154
(1) Total comprehensive income for the year	–	–	–	35,659	–	–	246,184	281,843
(2) Profit distribution								
i Appropriation to general reserve	–	–	–	–	–	18,003	(18,003)	–
ii Appropriation to surplus reserve	–	–	–	–	24,618	–	(24,618)	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	(72,753)	(72,753)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(3,936)	(3,936)
As at 31 December 2018	250,011	79,636	135,109	21,539	223,231	272,867	954,297	1,936,690

(Expressed in millions of RMB, unless otherwise stated)

58 Events after the reporting period

On 11 August 2019, the Group has exercised the option to redeem the 4.04% fixed rate subordinated bonds issued in August 2009, with the nominal value of RMB10,000 million.

On 20 August 2019, the Group has exercised the option to redeem the 4.25% fixed rate subordinated bonds issued in August 2014, with the nominal value of USD750 million.

59 Comparative figures

Certain comparative figures have been adjusted to confirm with the presentation and disclosures in the current period.

60 Ultimate parent

As stated in Note 1, the immediate and ultimate parents of the Group are Huijin and CIC, respectively.

61 Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the period ended 30 June 2019 and have not been adopted in the financial statements.

Standards	Effective for annual periods beginning on or after
(1) Amendments to IAS 1 and IAS 8	1 January 2020
(2) Amendments to IFRS 3	1 January 2020
(3) IFRS 17 "Insurance Contracts"	1 January 2021
(4) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	Effective date has been deferred indefinitely

Except for IFRS 17, the Group anticipates that the adoption of the new standards and amendments will not have a significant impact on the Group's consolidated financial statements.

(1) Amendments to IAS 1 and IAS 8 "Definition of Material"

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

(2) Amendments to IFRS 3 "Definition of A Business"

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

61 Possible impact of amendments, new standards and interpretations issued but not yet effective (continued)

(3) IFRS 17 "Insurance Contracts"

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured during 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 income statement 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 contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The Group is currently assessing the impact of IFRS 17 upon initial application.

(4) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The narrow-scope amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business" (as defined in IFRS 3 "Business Combinations").

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.

THE ISSUER

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