香港交易及結算所有限公司及香港聯合交易所有限公司對本公告的內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示，概不對因本公告全部或任何部分內容而產生或因倚賴該等內容而引致之任何損失承擔任何責任。

本公告僅供信息參考之用，並不構成收購、購買或認購證券的邀請或要約，或訂立任何協議以作出任何該等事宜的邀請，其目的亦並非為了作出收購、購買或認購任何證券的任何要約邀請。

本公告及本公告所述的上市文件乃按上市規則(定義見下文)規定刊發，僅供參考之用，並不構成出售任何證券的要約或招攬購買任何證券的要約。本公告及本公告所述任何內容(包括上市文件)並非任何合同或承諾的依據。*為免生疑，刊發本公告及本公告所述的上市文件不應被視為就香港法例第32章公司(清盤及雜項條文)條例而言根據本公司(定義見下文)或其代表刊發的售股章程提出的證券發售要約，亦不構成香港法例第571章證券及期貨條例所指其中載有向公眾人士發出邀請以訂立或發出要約以訂立有關收購、出售、認購或承銷證券的協議的廣告、邀請或文件。*

*如未根據美國或任何其他司法權區的證券法例辦理登記或取得資格而在任何有關司法權區內建議出售或遊說建議購買任何證券即屬違法，則本公告僅供參考之用而並不構成於美國出售任何證券的要約或招攬購買任何證券的要約。本公告所述的證券概無及將不會按照經修訂的1933年美國證券法(「****證券法****」)進行登記，亦不得在美國境內招售或出售，惟獲豁免或毋須遵守證券法登記規定的交易除外。因此，根據證券法S條例，證券僅在美國境外以離岸交易方式發售和出售。*

香港投資者謹請注意*：本公司確認，票據(定義見下文)擬僅供專業投資者(如上市規則第37章所定義)購買，以及該計劃(定義見下文)已按此基礎於香港聯交所(定義見下文)上市，而票據(若於香港聯交所上市)亦將按此基礎於香港聯交所上市。因此，本公司確認票據不適合作為香港零售投資者之投資。投資者應審慎考慮所涉及的風險。*

招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司

CHINA MERCHANTS BANK CO., LTD.

(於中華人民共和國註冊成立的股份有限公司)

(H股股票代碼：03968)

(「本公司」)

5,000,000,000美元中期票據計劃
於香港聯合交易所有限公司刊發發售通函之通告

本公告乃根據香港聯合交易所有限公司(「**香港聯交所**」)證券上市規則(「**上市規則**」)第37.39A條刊發。

請參閱本公告隨附有關5,000,000,000美元中期票據計劃(「**該計劃**」)的日期為2023年6月5日的發售通函(「**發售通函**」)。誠如發售通函所披露，根據該計劃將予發行的中期票據(「**票據**」)擬僅供專業投資者(如上市規則第37章所定義)購買，以及該計劃已按此基礎於香港聯交所上市，而票據(若於香港聯交所上市)亦將按此基礎於香港聯交所上市。

發售通函並不構成向任何司法權區的公眾人士提呈出售任何證券的售股章程、通告、通函、宣傳冊或廣告，且並非向公眾人士發出邀請以就認購或購買任何證券作出要約，亦非供傳閱以邀請公眾人士就認購或購買任何證券作出要約。

發售通函不應被視為認購或購買本公司的任何票據的勸誘，且本公司並無意進行有關勸誘。

招商銀行股份有限公司董事會

2023年6月6日

於本公告日期，本公司的執行董事為王良；本公司的非執行董事為繆建民、胡建華、孫雲飛、周松、洪小源、張健及陳冬；及本公司的獨立非執行董事為王仕雄、李孟剛、劉俏、田宏啟、李朝鮮及史永東。

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A UNDER THE SECURITIES ACT (AS DEFINED BELOW) OR (2) PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES (THE "U.S.") IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S").

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

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

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

Confirmation of your Representation: In order to be eligible to view the following Offering Circular or make an investment decision with respect to the securities, investors must be either (I) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (II) purchasing the securities outside the U.S. in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the following Offering Circular, you shall be deemed to have represented to us and the dealers under this programme that (1) you and any customers you represent are either (a) QIBs or (b) purchasing the securities outside the U.S. in an offshore transaction in reliance on Regulation S under the Securities Act and that the electronic e-mail address that you gave us and to which this e-mail has been delivered is not located in the U.S. and (2) that you consent to the delivery of such Offering Circular by electronic transmission.

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

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

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Arrangers, the Dealers or the Agents (each as defined in the Offering Circular), nor any person who controls any of them, nor any of their respective affiliates, officers, employees, agents, representatives, directors or advisers accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

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

CHINA MERCHANTS BANK CO., LTD.

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

U.S.$5,000,000,000

Medium Term Note Programme

Under the U.S.$5,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), China Merchants Bank Co., Ltd. (the "**Bank**") or such branch of China Merchants Bank Co., Ltd. as specified in the applicable Pricing Supplement (each an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Notes (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$5,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of an amended and restated Dealer Agreement dated 5 June 2023 (the "**Dealer Agreement**").

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

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 14.

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 Administrative Measures for the Examination and Registration of Medium- and Long-term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法(國家發展和改革委員會令第56號)) which took effect on 10 February 2023 (as supplemented, amended or replaced from time to time) and any implementation rules or policies as issued by the NDRC from time to time (the "**NDRC Administrative Measures**"). 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.

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

Notice to Hong Kong Investors: Each Issuer confirms that each Tranche of Notes issued under the Programme is intended for purchase by Professional Investors only and the Programme and the Notes, to the extent that they are, to be listed on the HKSE, will be listed on the HKSE on that basis. Accordingly, each Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The HKSE 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 HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Bank or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the HKSE 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.

Each Series (as defined in "**Summary of the Programme**") of Notes in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note in bearer form (each a "**Temporary Global Note**") or a permanent global note in bearer form (each a "**Permanent Global Note**", together with the Temporary Global Note, the "**Global Notes**"). Interests in a Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent Global Note or for definitive Bearer Notes, after the expiry of 40 days after the later of the completion of the distribution of the relevant Tranche of the Notes and the issue date, upon certification as to non-U.S. beneficial ownership. Notes in registered form ("**Registered Notes**") will be represented by registered certificates (each a "**Certificate**"), one definitive Certificate being issued in respect of each Noteholder's (as defined in the Conditions) entire holding of Registered Notes of one Series or (a) in the case of Notes issued in reliance on Category 3 of Regulation S ("**Regulation S**") of the United States Securities Act of 1933 (the "**Securities Act**"), a temporary global certificate in registered form (a "**Temporary Global Certificate**") or (b) in in the case of all other Notes, a permanent global certificate in registered form (a "**Permanent Global Certificate**", and together with the Temporary Global Certificate, the "**Global Certificates**") in respect of the Notes. Interests in Temporary Global Certificates will be exchangeable for interests in a Permanent Global Certificate on or after a date which is expected to be the first business day following the period of 40 calendar days from (but not including) the later of the completion of the distribution of the relevant Tranche of the Notes and the issue date, and upon certification as to non-U.S. beneficial ownership. Global Notes and Global Certificates may be deposited on the issue date with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**CMU**"). In the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream or CMU, or delivered outside a clearing system, the Global Notes and Global Certificates may be deposited on the relevant issue date as agreed between the Issuer and the relevant Dealer.

The Notes of each Series to be issued in registered form ("**Registered Notes**") and which are sold in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Notes**") will initially be represented by a permanent registered global certificate (each an "**Unrestricted Global Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, with a common depositary on behalf of Euroclear and Clearstream and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. Registered Notes which are sold in the United States to "qualified institutional buyers" (each, a "**QIB**") within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act ("**Restricted Notes**") will initially be represented by a permanent registered global certificate (each a "**Restricted Global Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, with a common depositary on behalf of Euroclear and Clearstream and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED, SOLD, OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES. SEE "*SUBSCRIPTION AND SALE*" FOR FURTHER DESCRIPTION OF RESTRICTIONS ON TRANSFER.

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

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

Arrangers for the Programme

Citigroup **CMB International** **J.P. Morgan**

Dealers

Agricultural Bank of China Limited Hong Kong Branch
Bank of China
BNP PARIBAS
China Merchants Securities (HK)
Citigroup
CMB International
CMB Wing Lung Bank Limited
Crédit Agricole CIB
ICBC (Asia)
J.P. Morgan
OCBC Bank
Standard Chartered Bank

Offering Circular dated 5 June 2023

IMPORTANT NOTICE

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

Each Tranche of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by a document specific to such Tranche called a pricing supplement (the "Pricing Supplement"). This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein (see "*Documents Incorporated by Reference*") and, in relation to any Tranche of Notes, must be read and construed together with the relevant Pricing Supplement.

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

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

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Dealers, the Arrangers and any of their respective affiliates, officers, employees, agents, representatives, directors or advisers to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may include Notes in bearer form that are subject to U.S. tax law requirements.

EU MiFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "**EU MiFID II Product Governance**" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**EU 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 "**EU 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 EU MiFID Product Governance Rules.

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

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

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 EU MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT – UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "**Prohibition of Sales to UK Retail Investors**", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of

Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The Notes are being offered and sold outside the United States to non-US persons in reliance on Regulation S and, in the case of Registered Notes, within the United States to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular see "*Subscription and Sale*" and "*Transfer Restrictions*".

***Singapore SFA* Product Classification** – The Pricing Supplement in respect of any Notes may include a legend entitled "*Singapore SFA Product Classification*" which will state the product classification of the Notes pursuant to Section 309B(1) of the Securities and Futures Act 2001 (the "**SFA**"). The Issuer will make a determination and provide the appropriate written notification to "relevant persons" in relation to each issue about the classification of the Notes being offered for the purposes of Section 309B(1)(a) and Section 309B(1)(c) of the SFA.

Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors:

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

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

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

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

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

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

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

To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Agents or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by an Arranger or a Dealer or any Agent or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers or on its behalf in connection with the Bank, the Issuer, the Group or the issue and offering of the Notes. Each Arranger, each Dealer and each Agent or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers 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 of the Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers, the Agents or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers that any recipient of this Offering Circular or any financial statements of the Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. The Dealers do not make any representation, warranty or undertaking, express or implied, as to the accuracy or completeness of the information contained herein. None of the Arrangers, the Dealers, the Agents or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Agents or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers.

From time to time, in the ordinary course of business, certain of the Dealers and any of their respective affiliates, officers, employees, agents, representatives, directors or advisers have provided advisory and investment banking services, and entered into other commercial transactions with the Issuer and its affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and any of their respective affiliates, officers, employees, agents, representatives, directors or advisers will continue to provide such services to, and enter into such transactions, with the Issuer and their affiliates in the future.

The Dealers or any of their respective affiliates, officers, employees, agents, representatives, directors or advisers may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Issuer, the Arrangers, the Dealers, the Agents and any of their respective affiliates, officers, employees, agents, representatives, directors or advisers do not make any representation regarding the legality of investment under any applicable laws.

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

In connection with any Tranche of Notes, any Dealer (or persons acting on its behalf) may be appointed and act in its capacity as stabilisation manager (the "Stabilisation Manager"). The identity of the Stabilisation Manager(s) (if any) will be disclosed in the relevant Pricing Supplement. In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no obligation on the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) to do this. Such stabilisation if commenced may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

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

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

- "**the Bank**" refer to China Merchants Bank Co., Ltd. and "**the Group**" to the Bank and its subsidiaries;
- a "**business day**" is a day that is not Saturday, Sunday or a public holiday in Hong Kong; and
- the terms "**associate**", "**subsidiary**" and "**substantial shareholder**" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words "**anticipate**", "**believe**", "**expect**", "**plan**", "**intend**", "**targets**", "**aims**", "**estimate**", "**project**", "**will**", "**would**", "**may**", "**could**", "**continue**" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Offering Circular, including, without limitation, those regarding the Issuer's financial position, business strategy, management plans and objectives for future operations, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Issuer's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer expects to operate in the future. Important factors that could cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other factors referenced in this Offering Circular:

- the Issuer's ability to integrate its newly-acquired operations and any future expansion of its business;

- the Issuer's ability to realise the benefits it expects from existing and future investments in its existing operations and pending expansion and development projects;

- the Issuer's ability to obtain requisite governmental or regulatory approvals to undertake planned or proposed terminal development projects;

- the Issuer's ability to obtain external financing or maintain sufficient capital to fund its existing and future operations;

- changes in political, social, legal or economic conditions in the markets in which the Issuer and its customers operate;

- changes in the competitive environment in which the Issuer and its customers operate;

- the Issuer's ability to secure or renew concessions at future or existing facilities;

- failure to comply with regulations applicable to the Issuer's business;

- fluctuations in the currency exchange rates in the markets in which the Issuer operates;

- actions taken by the Issuer's joint venture partners that may not be in accordance with the Issuer's policies and objectives; and

- actions taken by the Issuer's controlling shareholder, China Merchants Group Ltd., that are not in line with, or may conflict with, the best interests of the Issuer and/or the holders of the Issuer's debt, including Noteholders.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Forward-looking statements speak only as at the date of this Offering Circular and the Issuer expressly disclaims any obligation or undertaking to publicly update or revise any forward-looking statements in this Offering Circular to reflect any change in the Issuer's expectations or any change in events, conditions or circumstances on which these forward-looking statements are based. Given the uncertainties of forward-looking statements, the Issuer cannot assure you that projected results or events will be achieved.

Presentation of financial information

This Offering Circular contains the consolidated financial information of the Bank as at and for each of the years ended 31 December 2021 and 2022.

The audited financial statements of the Bank were prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and the relevant disclosure requirements pursuant to the Companies Ordinance (Cap. 622) of Hong Kong, and have been audited in accordance with the International Standards on Auditing ("**ISA**") issued by the International Auditing and Assurance Standards Board ("**IAASB**").

The audited financial information as at and for the years ended 31 December 2021 and 2022 included in this Offering Circular is derived from the Bank's published consolidated financial statements for the years ended 31 December 2021 and 2022 (the "**2021 and 2022 Statements**"), which were prepared and presented in accordance with IFRSs and the relevant disclosure requirements pursuant to the Companies Ordinance (Cap. 622) of Hong Kong, and have been audited by Deloitte Touche Tohmatsu.

The 2021 and 2022 Statements are included in this Offering Circular, and should be read in conjunction with such published consolidated financial statements and the notes thereto included elsewhere in this Offering Circular.

The unaudited consolidated quarterly interim financial information as at and for the three months ended 31 March 2022 and 2023 of the Bank included in this Offering Circular is derived from the Bank's unaudited consolidated quarterly interim report as at and for the three months ended 31 March 2023 as announced on 26 April 2023 (the "**First Quarterly Report**"). The unaudited consolidated quarterly interim financial information as at and for the three months ended 31 March 2022 and 2023 set forth in the First Quarterly Report was prepared on the same basis as the audited consolidated financial statements for the year ended 31 December 2022 and has not been reviewed by the Bank's auditors. Consequently, such consolidated quarterly interim financial information and the First Quarterly Report 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. Investors must exercise caution when using such data to evaluate the Bank financial condition and results of operations. Such unaudited consolidated quarterly interim financial information as at and for the three months ended 31 March 2022 and 2023 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2023.

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

Documents Incorporated by Reference

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

The Bank publishes its unaudited but reviewed interim consolidated financial statements in respect of the six months ended 30 June of each financial year. A copy of the unaudited but reviewed interim consolidated financial statements can be found on the website of the HKSE. The unaudited but reviewed interim consolidated financial statements have not been and will not be audited by the Bank's auditors and were and will be prepared under IFRSs. The unaudited but reviewed interim reports may not provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. The unaudited but reviewed interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

The Bank publishes its consolidated quarterly interim financial statements in respect of the three months ended 31 March and the nine months ended 30 September of each financial year. A copy of the quarterly interim consolidated financial statements can be found on the website of the HKSE. The quarterly interim consolidated financial statements have not been and will not be audited or reviewed by the Bank's auditors and were and will be prepared under IFRSs. The quarterly interim reports may not 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 operation. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

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

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

Supplemental Offering Circular

Each of the Bank and the Issuer has given an undertaking to the Dealers that unless the Bank has notified the Dealers in writing that it does not intend to issue Notes under the Programme for the time being, if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Bank, the Issuer and/or of the rights attaching to the Notes, the Bank shall (i) prepare and publish an amendment or supplement to the Offering Circular (the "**Supplemental Offering Circular**"), (ii) advise the Dealers promptly of any proposal to amend, supplement or replace the Offering Circular, (iii) advise the Arrangers and Dealers of any proposal to amend, supplement or replace the Offering Circular and (iv) provide the Dealers with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Notes are "**restricted securities**" as defined in Rule 144(a)(3) under the Securities Act, the Issuer will during any period that it is neither subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish to any holder or beneficial owner of such restricted securities or any prospective purchaser designated by any such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Bank is a joint stock company incorporated in the People's Republic of China with limited liability. None of the directors and executive officers of the Bank are residents of the United States, and all or a substantial portion of the assets of the Bank and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or anywhere else outside the PRC upon the Bank or such persons or to enforce against any of them in the United States courts judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States. For more information, please refer to "*Risk Factors – Risks Relating to the PRC – Noteholders may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and its management.*"

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SUMMARY

The Bank was incorporated on 11 August 1987 as a joint stock company with limited liability under the Approval on Pilot Establishment of Merchants Bank (關於同意試辦招商銀行的批覆(銀覆[1986]175號)) issued by the People's Bank of China of the PRC (the "**PBOC**") and with registration number She Qi Fu No. 0345 (蛇企副字0345號). Founded in 1987 with its head office in Shenzhen, China, the Bank mainly focuses on the market in China. The Bank's distribution network is mainly distributed in major central cities in the Chinese mainland and some international financial centres such as Hong Kong, New York, London, Singapore, Luxembourg and Sydney. As at 31 December 2022, the Bank had 143 branches and 1,756 sub-branches in mainland China, two branch-level specialised institutions (a credit card centre and a capital operation centre), 2,695 self-service banks, 5,855 cash self-service devices and 12,511 visual counters. The Bank also has a Hong Kong branch, a New York branch and a representative office in the United States, a London branch in the United Kingdom, a Singapore branch, a Luxembourg branch, a representative office in Taipei and a Sydney branch in Australia. As at 31 December 2022, the Bank ranked first among national small- and medium-sized banks in terms of the balance of deposits from retail customers according to data released by the PBOC. As at the date of this Offering Circular, the Bank is the largest listed joint-stock bank in China by market capitalisation.

The growth of the Bank from a regional bank into a national commercial bank with significant asset scale and strength in China is primarily attributable to its resources and efforts. The Bank was listed on the Shanghai Stock Exchange in April 2002 and on the HKSE in September 2006.

The Bank provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Bank have been well received by the market. Retail banking services include the "All-in-one" multi- function debit card, credit card account and payment settlement services, classified wealth management services including the "Sunflower Wealth Management" services and private banking services, retail credit services, CMB APP, CMB Life APP, "All-in-one Net" which is a comprehensive online banking service platform, and other online services. Wholesale banking services include payment and settlement, wealth management, investment and financing and digital services, cash management, sci-tech finance, green finance, inclusive finance, supply chain finance and cross-border finance services, asset management, asset custody and investment banking. The Bank continues to tap further into the living and business circles of customers to provide customers with customised, intelligent and comprehensive solutions for their supply chains and investment chains.

In recent years, the Bank has continued to deepen its strategic transformation and come up with the strategic vision of "building the best value creation bank with innovation-driven development, leading model and distinguished features" based on the internal and external situation and its own development. In line with the trend of steady advancement of China's common prosperity initiative underpinned by the transformation and upgrading of traditional industries and the development and growth of emerging industries, the Bank actively serves the real economy, helps people realise their dreams for a better life, and strives to create more value for customers, employees, shareholders, partners and the society.

As at 31 December 2021 and 2022, the Group had RMB9,249.0 billion and RMB10,138.9 billion in total assets, respectively, and RMB5,570.0 billion and RMB6,051.5 billion in gross amount of loans and advances to customers, respectively. For the years ended 31 December 2021 and 2022, the Group had an operating income of RMB327.4 billion and RMB342.2 billion, respectively, and a net profit of RMB120.8 billion and RMB139.3 billion, respectively. For the year ended 31 December 2022, the Group realised a net profit attributable to shareholders of the Bank of RMB138.0 billion, representing a year-on-year increase of 15.1%. For the year ended 31 December 2022, net operating income[1] was RMB344.7 billion, representing a year-on-year increase of 4.0%, among which, the net interest income was RMB218.2 billion, representing a year-on-year increase of 7.0%. The Group's net non-interest income was RMB126.5 billion for the year ended 31 December 2022, representing a year-on-year decrease of 0.8%. For the year ended 31 December 2022, the Group's return on average asset (the "**ROAA**") attributable to shareholders of the Bank and return on average equity (the "**ROAE**") attributable to ordinary shareholders of the Bank were 1.42% and 17.06%, up by 0.06 percentage point and 0.10 percentage point year-on-year, respectively. For the years ended 31 December 2021 and 2022, the net interest spread of the Group was 2.39% and 2.28%, respectively, and the net interest margin of the Group was 2.48% and 2.40%, respectively.

CORE COMPETITIVE STRENGTHS

The Bank's core competitive strengths are as follows:

- leading retail finance business with unique competitive advantages.
- corporate finance business with specialised and professional operations.
- rapidly developing cross-border finance platform.
- innovative e-channels and IT platform.
- industry benchmark of high-quality services.
- continuously enhanced brand influence.
- experienced management team.

BUSINESS DEVELOPMENT STRATEGIES

The Bank is committed to building the best value creation bank with innovation-driven development, leading model and distinguished features. In light of the advantages of retail banking which is less cyclically relevant, and the advantages of endogenous growth of capital benefiting from the "Light-model Bank", the Bank upholds the philosophy of win-win business and business for common good to grow into a value creation bank. The Bank seeks to maximise the comprehensive value of customers, employees, shareholders, partners and the society, as well as creating a new pattern of high-quality growth, aiming to become a world-class commercial bank. The Bank's strategic focus is centred on building three capacities in wealth management, Fintech and risk management, and also to promote the evolution of organisational culture. Based on the needs of the country and enterprises and the ability of the Bank, the Bank is expected to perform its ESG responsibilities, serve the real economy and meet the needs of people's livelihood to create a new stage for high-quality growth.

The Bank intends to implement the following strategies:

- expanding wealth management business and accelerating the transformation of the business model.
- optimising Fintech and accelerating comprehensive digital transformation.
- strengthening risk management and building a fortress-style overall risk and compliance management system.
- pursuing the core values and building the cultural and organisational foundation for a value creation bank.

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1 Net operating income is the sum of net interest income, net fee and commission income, other net income as well as share of profits of joint ventures and associates.

SUMMARY OF THE PROGRAMME

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

The Issuer	China Merchants Bank Co., Ltd., or such branch of China Merchants Bank Co., Ltd.
Description	Medium Term Note Programme.
Size	Up to U.S.$5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfill its obligations under Notes issued under the Programme. These are set out under "*Risk Factors*" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk Factors*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Arrangers	Citigroup Global Markets Limited CMB International Capital Limited J.P. Morgan Securities plc
Dealers	Agricultural Bank of China Limited Hong Kong Branch Bank of China Limited BNP Paribas China Merchants Securities (HK) Co., Limited Citigroup Global Markets Limited CMB International Capital Limited CMB Wing Lung Bank Limited Crédit Agricole Corporate and Investment Bank Industrial and Commercial Bank of China (Asia) Limited J.P. Morgan Securities plc Oversea-Chinese Banking Corporation Limited Standard Chartered Bank The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

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

	Registered Notes will be represented by registered Certificates, one definitive Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series or (a) in the case of Notes issued in reliance on Category 3 of Regulation S of the Securities Act, a Temporary Global Certificate or (b) in the case of all other Notes, a Permanent Global Certificate, in respect of the Notes. Interests in Temporary Global Certificates will be exchangeable for interests in a Permanent Global Certificate only after the date falling at least 40 days after the completion of the distribution of the Notes of the relevant Series and upon certification as to non-U.S. beneficial ownership. Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by an Unrestricted Global Certificate. Registered Notes sold in the United States to QIBs within the meaning of Rule 144A will initially be represented by a Restricted Global Certificate.
Clearing Systems	Clearstream, Euroclear, the CMU and, in relation to any Tranche, such other alternative clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealers and, as applicable, the Registrar.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the HKMA as operator of the CMU, or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system **provided that** the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity.

Specified Denomination	Notes will be in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all relevant laws, regulations and directives. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies) and in the case of any Notes to be sold in the United States to QIBs, the minimum specified denomination shall be U.S.$250,000.
Interest	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Tranche. All such information will be set out in the relevant Pricing Supplement.
Benchmark Amendment	The Benchmark Amendment provisions set out in the "*Terms and Conditions of the Notes*" will apply if a Benchmark Event occurs.
Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies) and in the case of any Notes to be sold in the United States to QIBs, the minimum specified denomination shall be U.S.$250,000.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of the Notes	The Notes issued by the Issuer will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer other than any such obligations as are preferred by law, all as further described in Condition 3.

Events of Default	See "*Terms and Conditions of the Notes – Events of Default*".
Cross Acceleration	See the relevant sub-condition under "*Terms and Conditions of the Notes – Events of Default*".
Ratings	The Programme is rated "A2" by Moody's. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Early Redemption	Except as provided in "*Optional Redemption*" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of Hong Kong or the PRC, subject to customary exceptions, all as described in "*Terms and Conditions of the Notes – Taxation*".
Governing Law	English law.
Listing	Application has been made to the HKSE for the listing of the Programme valid within the 12-month period after the date of this Offering Circular on the HKSE by way of debt issues to Professional Investors only, as described in this Offering Circular. Separate application may be made for the listing of the Notes on the HKSE or other stock exchange(s). 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).
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC and Japan, see "*Subscription and Sale*" below.

Bearer Notes will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) ("**TEFRA D Rules**"), unless (i) such Bearer Notes are issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("**TEFRA C Rules**") or (ii) the Bearer Notes are issued in circumstances under which TEFRA is not applicable as set forth in the applicable terms for such Bearer Notes.

Transfer Restrictions

There are restrictions on the transfer of Notes sold pursuant to Regulation S under the Securities Act prior to the expiration of the relevant distribution compliance period and on the transfer of Registered Notes sold pursuant to Rule 144A under the Securities Act. See "*Transfer Restrictions*".

SUMMARY FINANCIAL INFORMATION

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

*The summary consolidated financial information of the Bank as at and for the years ended 31 December 2021 and 2022 set forth below is derived from and should be read in conjunction with the 2021 and 2022 Statements, including the notes thereto and the auditor's reports in respect of the years ended 31 December 2021 and 2022, each of which is included elsewhere in this Offering Circular. The audited financial statements were prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and have been audited in accordance with the International Standards on Auditing ("**ISA**") issued by the International Auditing and Assurance Standards Board ("**IAASB**"). The 2021 and 2022 Statements were prepared and presented in accordance with IFRSs and have been audited by Deloitte Touche Tohmatsu.*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year Ended 31 December	
	2022	**2021**
	(Expressed in millions of Renminbi unless otherwise stated)	
Interest income	353,380	327,056
Interest expense	(135,145)	(123,137)
Net interest income	**218,235**	**203,919**
Fee and commission income	103,372	102,318
Fee and commission expense	(9,097)	(7,871)
Net fee and commission income	**94,275**	**94,447**
Other net income	29,705	29,011
– Disposal of financial instruments at amortised cost	170	(657)
Operating income	342,215	327,377
Operating expenses	(122,061)	(116,879)
Operating profit before impairment losses and taxation	**220,154**	**210,498**
Expected credit losses	(56,751)	(65,962)
Impairment losses on other assets	(815)	(393)
Share of profits of joint ventures	1,710	2,877
Share of profits of associates	815	1,153
Profit before taxation	165,113	148,173
Income tax	(25,819)	(27,339)
Profit for the year	**139,294**	**120,834**
Attributable to:		
Equity holders of the Bank	138,012	119,922
Non-controlling interests	1,282	912
Earnings per share		
Basic and diluted (RMB Yuan)	5.26	4.61
Other comprehensive income for the year after tax		
Items that may be reclassified subsequently to profit or loss	1,285	5,856
Net fair value (loss)/gain on debt instruments measured at fair value through other comprehensive income	(5,617)	4,156
Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income	3,471	3,036
Net movement in cash flow hedge reserve	112	105
Share of other comprehensive (expense)/income from equity-accounted investees	(1,155)	133
Exchange difference on translation of financial statements of foreign operations	4,429	(1,574)
Other	45	–

	Year Ended 31 December	
	2022	2021
	(Expressed in millions of Renminbi unless otherwise stated)	
Items that will not be reclassified to profit or loss	38	1,333
Net fair value gain on equity instruments designated at fair value through other comprehensive income	48	1,318
Remeasurement of defined benefit scheme	(10)	15
Other comprehensive income for the year, net of tax	**1,323**	**7,189**
Attributable to:		
Equity holders of the Bank	1,053	7,298
Non-controlling interests	270	(109)
Total comprehensive income for the year	**140,617**	**128,023**
Attributable to:		
Equity holders of the Bank	139,065	127,220
Non-controlling interests	1,552	803

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2022	2021
	(Expressed in millions of Renminbi unless otherwise stated)	
Assets		
Cash	15,209	13,310
Precious metals	2,962	4,639
Balances with central banks	587,818	553,898
Balances with banks and other financial institutions	91,346	80,350
Placements with banks and other financial institutions	263,576	194,421
Amounts held under resale agreements	276,676	524,601
Loans and advances to customers	5,807,154	5,335,391
Financial investments at fair value through profit or loss	423,467	348,123
Derivative financial assets	18,671	23,390
Debt investments at amortised cost	1,555,457	1,185,841
Debt investments at fair value through other comprehensive income	780,349	636,038
Equity investments designated at fair value through other comprehensive income	13,416	6,995
Interest in joint ventures	14,247	14,779
Interest in associates	9,597	8,875
Investment properties	1,268	1,372
Property and equipment	99,919	80,415
Right-of-use assets	17,553	18,403
Intangible assets	3,402	4,066
Goodwill	9,999	9,954
Deferred tax assets	90,848	81,639
Other assets	55,978	122,521
Total assets	**10,138,912**	**9,249,021**

	As at 31 December	
	2022	2021
	(Expressed in millions of Renminbi unless otherwise stated)	
Liabilities		
Borrowing from central banks	129,745	159,987
Deposits from banks and other financial institutions	645,674	753,018
Placements from banks and other financial institutions	192,857	170,650
Financial liabilities at fair value through profit or loss	63,314	63,761
Derivative financial liabilities	18,636	27,282
Amounts sold under repurchase agreements	107,093	157,660
Deposits from customers	7,590,579	6,385,154
Salaries and welfare payable	23,866	19,761
Tax payable	19,458	22,491
Contract liabilities	6,679	7,536
Lease liabilities	13,013	13,812
Provisions	22,491	14,660
Debt securities issued	223,821	446,645
Deferred tax liabilities	1,510	1,353
Other liabilities	125,938	139,570
Total liabilities	**9,184,674**	**8,383,340**
Equity		
Share capital	25,220	25,220
Other equity instruments	120,446	127,043
– Preference shares	27,468	34,065
– Perpetual bonds	92,978	92,978
Capital reserve	65,435	67,523
Investment revaluation reserve	11,815	15,047
Hedging reserve	151	39
Surplus reserve	94,985	82,137
General reserve	132,471	115,288
Retained earnings	449,139	390,207
Proposed profit appropriations	43,832	38,385
Exchange reserve	2,009	(2,144)
Total equity attributable to shareholders of the Bank	**945,503**	**858,745**
Non-controlling interests	8,735	6,936
– Non-controlling interest	5,948	3,300
– Perpetual debt capital	2,787	3,636
Total equity	954,238	865,681
Total equity and liabilities	**10,138,912**	**9,249,021**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December	
	2022	2021
	(Expressed in millions of Renminbi unless otherwise stated)	
Operating activities		
Profit before taxation	**165,113**	**148,173**
Adjustments for:		
– Impairment losses on loans and advances	45,157	37,020
– Impairment losses on investments and other	12,409	29,335
– Unwinding of discount on the allowances of loans and advances	(386)	(247)
– Depreciation of property and equipment and investment properties	10,279	8,857
– Depreciation of right-of-use assets	4,151	4,259
– Amortisation of other assets	1,193	1,389
– Net gains on debt securities and equity investments	(14,722)	(15,388)
– Interest income on investments	(65,808)	(56,059)
– Interest expense on issued debt securities	9,662	12,532
– Share of profits of associates	(815)	(1,153)
– Share of profits of joint ventures	(1,710)	(2,877)
– Net gains on disposal of properties and equipment and other assets	(282)	(113)
– Interest expense on lease liabilities	510	555
Changes in:		
Balances with central banks	(48,851)	12,874
Loans and advances to customers	(508,891)	(564,924)
Other assets	63,611	(37,395)
Deposits from customers	1,188,664	718,742
Amount due to banks and other financial institutions	(135,569)	73,321
Amount due from banks and other financial institutions with original maturity over 3 months	(46,825)	2,160
Borrowing from central banks	(30,073)	(170,100)
Other liabilities	(39,251)	16,596
Cash generated from operating activities before income tax payment	**607,566**	**217,557**
Income tax paid	(37,423)	(35,509)
Net cash generated from operating activities	**570,143**	**182,048**
Investing activities		
Payment for the purchases of investments	(1,898,898)	(1,225,385)
Proceeds from disposals and redemptions of investments	1,334,013	1,160,739
Investment income received	79,122	71,197
Payment for the acquisition of subsidiaries, associates or joint ventures	(484)	(5,342)
Payment for the purchases of property and equipment and other assets	(34,892)	(24,160)
Proceeds from the disposals of property and equipment and other assets	6,750	2,399
Proceeds from the disposals of subsidiaries, associates or joint ventures	463	855
Net cash used in investing activities	**(513,926)**	**(19,697)**

	Year Ended 31 December	
	2022	2021
	(Expressed in millions of Renminbi unless otherwise stated)	
Financing activities		
Proceeds from the issuance of negotiable interbank certificates of deposit	78,666	319,707
Proceeds from the issuance of certificates of deposit	20,287	14,692
Proceeds from the issuance of debt securities	21,481	63,872
Proceeds from the issuance of perpetual bonds	–	42,989
Proceeds from non-controlling interests of subsidiaries	2,667	–
Proceeds from other financing activities	10,796	6,860
Repayment of negotiable interbank certificates of deposit	(250,996)	(226,012)
Repayment of certificates of deposit	(16,504)	(21,363)
Repayment of debt securities	(78,735)	(55,771)
Payment for lease liabilities	(4,932)	(4,835)
Payment for redemption of preference shares	(7,196)	–
Payment for redemption of perpetual debt capital	(1,104)	–
Distribution paid on perpetual debt capital	(202)	(227)
Payment for dividends distribution	(38,664)	(31,845)
Distribution paid on preference shares	(1,675)	(1,638)
Distribution paid on perpetual bonds	(3,562)	(1,975)
Interest paid on financing activities	(12,400)	(11,398)
Payment for other financing activities	(14,959)	(3,697)
Net cash (used in)/generated from financing activities	**(297,032)**	**89,359**
Net (decrease)/increase in cash and cash equivalents	**(240,815)**	**251,710**
Cash and cash equivalents as at 1 January	**801,754**	**552,790**
Effect of foreign exchange rate changes	**6,259**	**(2,746)**
Cash and cash equivalents as at 31 December	**567,198**	**801,754**
Cash flows from operating activities include:		
Interest received	285,050	269,081
Interest paid	108,496	111,177

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The Bank's business, financial condition or results of operations could be materially adversely affected by any of these risks. The Bank believes that the following factors may affect its ability to fulfill its obligations under the Notes. Additional considerations and uncertainties not presently known to the Bank or which 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 Bank is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Notes are described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Bank's inability to repay principal, pay interest or other amounts or fulfill other obligations on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive.

RISKS RELATING TO THE BANK'S BUSINESS

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

The Bank's results of operations are negatively impacted by its non-performing loans, and the sustainability of its growth depends largely on its ability to effectively manage its credit risk and maintain the quality of its loan portfolio. As at 31 December 2021 and 2022, the Group's non-performing loans amounted to RMB50.9 billion and RMB58.0 billion, respectively, and its non-performing loan ratio was 0.91% and 0.96%, respectively.

The Bank cannot assure investors that its credit risk management policies, procedures and systems are free from any deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in the level of the Bank's non-performing loans and adversely affect the quality of the Bank's loan portfolio. In addition, the quality of the Bank's loan portfolio may also deteriorate due to various other reasons, including factors beyond the Bank's control, such as a slowdown in economic growth and other adverse macroeconomic trends in China, which could impair the ability of the Bank's borrowers to service their outstanding debt. For example, the Bank's SMEs customers may be particularly sensitive to the impact of the COVID-19 pandemic, inflationary pressures, interest rate fluctuations and recessionary risks. There can be no assurance that the Bank will be able to maintain or lower its current NPL ratio in the future or that the quality of its existing or future loans and advances to borrowers will not deteriorate. As a result of the PRC government's economic stimulus programmes, many PRC banks, including the Bank, experienced high growth in their loan balances in the past. This increase in bank loans may lead to elevated impaired loan ratios and loan loss provisions as well as increasing strain on the Bank's risk management resources, which may affect the quality of its loan portfolio. If such deterioration were to occur, it could materially and adversely affect the Bank's financial condition, results of operations and cashflows.

The Bank may have to increase its allowance for impairment losses to cover future actual losses to its loan portfolio.

As at 31 December 2021 and 2022, the allowance-to-loan ratio of the Group, being the ratio of allowances for impairment losses to total loans and advances to customers, was 4.42% and 4.32% respectively. The amount of the allowance is based on its current assessment of, and expectations concerning, various factors affecting the quality of the Bank's loan portfolio based on International Accounting Standard 39, or IAS 39. These factors include, among other things, the Bank's borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral and the ability of the guarantors of the Bank's customers to fulfill their obligations, as well as China's economy, government macroeconomic policies, interest rates, exchange rates, inflationary pressures, recessionary risks and the overall legal and regulatory environment. Many of these factors are subject to change and are beyond the Bank's control.

In addition, the Bank relies on the skills of its employees to collect, process, and analyse relevant statistical data and estimate these factors, processes which are not free of deficiencies and errors. If the Bank's assessment of, and expectations concerning, these factors differ from actual developments, or if the quality of the Bank's loan portfolio deteriorates, the Bank's allowance for impairment losses may not adequately cover its actual losses, and the Bank may need to make additional provision for impairment losses. The need to make additional loan loss provision may materially and adversely affect the Bank's financial condition and results of operations.

The collateral or guarantees securing the Bank's loans may not be sufficient, and the Bank may be unable to realise the full value of the collateral or guarantees.

As at 31 December 2021 and 2022, 43.2% and 41.0%, respectively, of the Group's gross amount of loans and advances to customers were secured by collateral or pledges. The value of the collateral securing the Bank's loans may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting China's economy. For example, a slowdown in China's economy may lead to a downturn in China's real estate markets, which may in turn result in declines in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal balance of such loans. Any decline in the value of such collateral may reduce the amount the Bank can recover from collateral and increase its impairment losses. The Bank does not always appoint independent appraisers to re-evaluate its collateral (particularly its real properties) on a fixed, periodic basis. As a result, the Bank may not have updated current information on the value of such collateral, which may adversely affect the accurate assessment of the Bank's loans secured by such collateral.

In addition, in certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights. In addition, in China, the procedures for liquidating or otherwise realising the value of collateral in the form of tangible assets may be protracted and it may be difficult to enforce claims in respect of such collateral. As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing non-performing loans. Further, the Bank has granted certain deferments of loan payments to customers as a result of COVID-19 pandemic, in line with the decisions and arrangements of Central Committee of the Communist Party of China and the State Council of China on the overall prevention and control of the COVID-19 pandemic and the promotion of economic and social development, helped customers who were impacted by the pandemic mitigate repayment pressure of the principal and interest, and relieved the temporary operating difficulties of the enterprises brought about by the pandemic in a timely manner. There is no assurance that such policy for deferment will not be continued and if so, this may further adversely affect the Bank's financial condition and results of operations.

As at 31 December 2021 and 2022, 13.5% and 13.8%, respectively, of the Group's gross amount of loans and advances to customers were secured by guarantees, some of which were provided by the borrower's affiliates. Such guarantees are generally not backed by collateral or other security interests. A significant deterioration in the financial condition of a guarantor may significantly decrease the amount the Bank could recover under such guarantee. Moreover, the Bank is subject to the risk that a court or other judicial or government authorities may declare a guarantee to be invalid. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amount of the guarantees in respect of its loans.

The Bank's inability to realise the full value of the collateral and guarantees securing its loans on a timely basis may materially and adversely affect its asset quality, financial condition or results of operations.

The Bank may not be able to maintain the continuing growth of its loan portfolio.

The Group's net loans and advances to customers increased from RMB5,335.4 billion as at 31 December 2021 to RMB5,807.2 billion as at 31 December 2022. The growth of the Bank's loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow down, or such loan portfolio may even decline. In addition, in response to the constraints from the amount of the Bank's regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect its business prospects, financial condition and results of operations.

The Bank has a concentration of loans to certain industries and regions and, if these industries or the economies of these regions significantly deteriorate, its financial condition and results of operations may be materially and adversely affected.

As at 31 December 2021 and 2022, the Group's loans in mainland China to the (1) manufacturing, (2) wholesale and retail, (3) property development, (4) transportation, storage and postal services, and (5) production and supply of electric power, heating power, gas and water sectors represented in aggregate 26.5% and 28.0% of the Group's gross amount of loans and advances to customers in mainland China, respectively. If any of the industries in which the Bank's loans are highly concentrated significantly deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As at 31 December 2021 and 2022, 46.4% and 44.4%, respectively, of the Group's retail loans in mainland China were residential mortgage loans, and 18.6% and 15.8%, respectively, of its corporate loans in mainland China were to property development. The real estate market in China continues to be prone to fluctuations in real estate prices. When real estate prices in China decline significantly, the Bank's asset quality will be negatively affected, which will affect the quality of the Bank's loans to the real estate industry and the portfolio of the Bank's residential mortgage loans. Furthermore, when the real estate market in China experiences a downturn as a whole, the overall value of real estate collateral will decline, which will in turn reduce the amount the Bank can recover in the event of a default. This may materially and adversely affect the Bank's asset quality, financial condition and results of operations.

Pursuant to the PRC government's policies designed to curb development of certain industries facing overcapacity (including steel, cement, coal chemical, aluminium electrolysis, plate glass and ship building industries), the Bank distributes loans to some of these aforementioned industries in accordance with strict regulations. Any further restriction to relevant industries or deteriorations in the production capabilities and operations of customers in relevant industries may materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The Group's profit before tax is generated mainly from the Yangtze River Delta, the Bohai Rim, and the Pearl River Delta and West side of Taiwan Strait region ("**West Coast region**"). For the years ended 31 December 2021 and 2022, 43.4% and 41.9%, respectively, of the Group's total profit before tax was derived from these three areas. A significant economic downturn in any of these regions, or any inaccurate assessment of the credit risks regarding borrowers located in or with substantial operations in such regions, may materially and adversely affect the Bank's asset quality, financial condition and results of operations.

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

Loans extended to local government financing vehicles are a part of the loan portfolio for China's commercial banks. According to the State Council, local government financing vehicles consist of economic entities with independent legal identity, established by local government or its departments and institutions by fiscal appropriation or injection of land use rights or equity which take the responsibility of financing for government-invested projects. These vehicles primarily provide support to various infrastructure development and quasi-public interest government investment projects.

The Bank's loans to local government financing vehicles are mainly made to financing vehicles of provincial and municipal level or above with terms of less than five years. In recent years, with the aim of reinforcing the risk management of loans to local government financing vehicles, the State Council, CBIRC and PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles.

Certain factors, such as unfavourable developments in macroeconomic conditions, adverse changes to state policies, and adverse changes to the financial condition of particular local governments, may adversely affect the debt repayments of these financing platforms, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

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

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in a year using the five-category classification system. The Bank performs such assessment, determination and recognition using the concept of impairment under IAS 39. For the Bank's corporate loans classified as substandard or lower, the Bank makes an assessment on the impairment allowance on an individual loan basis. For the Bank's performing corporate loans and all of its retail loans, the Bank makes a collective assessment based on its historical loan loss experience. The Bank's loan classification and provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classification as well as its allowance for impairment losses, as determined under the Bank's loan classification and provisioning policies, may differ from those that would be reported if the Bank was incorporated in those countries or regions.

The Bank has expanded its wealth management and trust plan businesses in recent years, and any adverse developments or changes in relevant regulatory policies could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including the Bank, have been expanding their offering of wealth management services to customers.

In 2022, the Group's fee and commission income from wealth management amounted to RMB30.9 billion[2], representing a year-on-year decrease of 14.3%, of which income from agency distribution of insurance policies amounted to RMB12.4 billion, representing a year-on-year increase of 51.3%. This was mainly due to an increase in customers' protective demand for insurance, leading to the Group's year-on-year increase in sales volume and premium rate of regular insurance business. In the same year, income from agency sales of wealth management products was RMB6.6 billion, representing a year-on-year increase of 5.6%. As compared to 2021, the slower growth rate was mainly due to the slowing down of the daily average balance growth of wealth management products and a decline in sales fee rate of wealth management products. In 2022, income from agency distribution of funds amounted to RMB6.6 billion, representing a year-on-year decrease of 46.4%. As compared to 2021, this decrease was mainly due to the downward trend amidst volatility in the capital market, which resulted in sales decline of agency distribution of funds and a decrease in the proportion of high-fee equity funds. In 2022, income from agency distribution of trust schemes amounted to RMB4.0 billion, representing a year-on-year decrease of 47.2%. As compared to 2021, this decrease was mainly due to the Group's suppression of such financial products, resulting in the decreased sales volume and agency sales fee rate of agency trust. Agency securities transaction income in 2022 was RMB903 million, representing a year-on-year decrease of 29.5%. As compared to 2021, this decrease was mainly due to the depressed market conditions and lower trading activity of Hong Kong's capital market.

As most of the wealth management products issued by the Bank were non-principal-guaranteed products, the Bank is not liable for losses suffered by investors in these products in principle. However, if investors incur losses on these products, the Bank's reputation may be damaged and its prospects, for its wealth management and trust plan businesses and otherwise, may suffer. In addition, the terms of wealth management products are often shorter than that of the underlying assets. This mismatch subjects the Bank to liquidity risk and requires it to issue new wealth management products, sell the underlying assets, or otherwise address the funding gap when existing wealth management products mature.

PRC regulatory authorities have introduced regulatory policies with respect to operations of wealth management and trust plan businesses by PRC commercial banks. If PRC regulatory authorities implement further regulations restricting the wealth management and trust plan businesses of PRC commercial banks, the Bank's business, financial condition, results of operations and prospects could be materially and adversely affected.

2 Fees and commissions from wealth management include income from agency distribution of funds, income from agency distribution of insurance policies, income from agency distribution of trust schemes, income from agency sales of wealth management services, income from securities brokerage and income from agency distribution of precious metals.

Consolidated quarterly financial information of the Bank has not been audited or reviewed.

Where consolidated quarterly financial information is incorporated by reference into this Offering Circular, none of such consolidated quarterly financial information in respect of the three months ended 31 March and nine months ended 30 September of each financial year of the Bank has been audited or reviewed by any auditors and such financial information may not provide the same type or quality of information associated with information that has been audited or reviewed. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operation and must not place undue reliance on such financial information.

The Bank is subject to interest rate risk.

The Bank's net interest income is affected by changes in interest rates. The Group's net interest income represented 61.5% and 63.3% of its total net operating income[3] in the years ended 31 December 2021 and 2022 respectively. Increasing competition in the banking industry and further liberalisation of the interest rate regime may result in more volatility in interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect the Bank's net interest income, which may affect its business, financial condition and results of operations.

The PBOC publishes and adjusts benchmark interest rates on loans and deposits from time to time. For example, with effect from 22 November 2014, 1 March 2015, 11 May 2015, 28 June 2015 and 26 August 2015 and 24 October 2015, respectively, the PBOC lowered the benchmark interest rates on RMB-denominated loans and deposits six times. On 22 November 2014, the PBOC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 120% of PBOC benchmark rates, which was increased to 130% and then 150% of PBOC benchmark rates on 1 March 2015 and 11 May 2015, respectively. With effect from 26 August 2015, the PBOC removed the cap on the interest rates on RMB-denominated time deposits with tenors of longer than one year, while the cap on the interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remain unchanged. With effect from 24 October 2015, the PBOC ceased to set upper limits of RMB-denominated deposit interest rates for commercial banks and rural cooperative financial institutions. On the other hand, the PBOC continues to liberalize the restrictions on interest rates for loans. For example, on 20 July 2013, the PBOC eliminated the minimum interest rate requirements for RMB-denominated loans. As at 20 August 2020, the ceiling on private lending interest rate has been significantly lowered to 15.4% which is four times the then China loan prime rate, from the previous ceiling, which was set between 24% and 36%. As at 20 August 2020, the private lending interest rate is 14.6% which is 4 times the China loan prime rate of 3.65%. There is no assurance that the ceiling on private lending interest rate will not be further lowered in the future nor is there assurance that such adjustments in interest rate caps will not have a material adverse impact on the Bank's business, financial condition and results of operations.

The PRC Banking Regulatory Authority (as defined below) may further liberalize the existing interest rate restrictions in the future. If the existing regulations were substantially liberalized or eliminated, loan-deposit spreads in the PRC banking industry may further narrow due to market competition, which may materially reduce the Bank's net interest income. Furthermore, the Bank cannot assure that it will be able to diversify its businesses and adjust the composition of its asset and liability portfolios and its pricing mechanism to enable it to effectively respond to the further liberalization of interest rates.

3 Net operating income is the sum of net interest income, net fee and commission income, other net income as well as share of profits of joint ventures and associates.

In addition, major overseas economies also experienced inflation due to tight energy supply amid geopolitical tensions in 2022, which was followed by interest rate hikes announced by central banks around the world (such as the United States Federal Reserve). This could lead to corresponding PBOC interest rate policy adjustments to the benchmark interest rates on loans or deposits, or any changes in market interest rates, which may negatively impact the Bank's financial condition and results of operations. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets and the average cost on its interest-bearing liabilities to different extents and may narrow the Bank's interest margin, leading to a reduction in its net interest income. In particular, the yield arising from the Bank's investment in debt securities is affected by changes in interest rates. As at 31 December 2021, the Group's total investment securities and other financial assets[4] was RMB2,200.2 billion, which represented 23.8% of the Group's total assets. As at 31 December 2022, the Group's total investment securities and other financial assets was RMB2,787.1 billion, which represented 27.5% of the Group's total assets. Changes in market interest rates may affect the yield from the Bank's investments in debt securities and thus may further adversely affect the Bank's business, financial condition and results of operations.

It should also be noted that changes in interest rates, changes in relationship between short-term and long-term interest rates, or changes in relationship between different types of interest rates can affect the interest rate charged on interest-earning assets to different degrees from the interest rate paid on interest-bearing liabilities. This impact may be increased by the Bank's inability to adjust to rate changes with respect to the fixed rate portions of its portfolio.

A reduction in interest rates for deposits could cause the Bank's depositors to withdraw their funds from the Bank, while an increase in interest rates for loans could result in increases in the financing costs of the Bank's customers, reduce overall demand for loans and increase the risk of customer default. How the Bank manages interest rate volatility generally will determine, to a certain extent, the impact of such volatility on the Bank's net interest and dividend income, and the Bank cannot assure investors that it will be able to manage such volatility in a manner that does not adversely affect its business, financial condition and results of operations.

The Bank is subject to currency risk.

The value of the RMB against the USD and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in China's and international political and economic conditions and the fiscal and foreign exchange policies prescribed by the PRC government. On 21 July 2005, the PRC government adopted a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band that is based on market supply and demand and with reference to a basket of currencies. On the same day, the value of the RMB appreciated by approximately 2% against the USD. The PRC government has since made further adjustments to the exchange rate system. The PBOC further enlarged the floating band for the trading prices on the interbank spot exchange market of the RMB against the USD to 1.0% around the median rate on 16 April 2012. On 17 March 2014, the PBOC decided to further enlarge the floating band for the trading prices on the interbank spot exchange market of RMB against USD to 2.0%. On 11 August 2015, the PBOC announced to improve the central parity of RMB against USD by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply

4 Total investment securities and other financial assets includes financial investments at fair value through profit or loss, derivative financial assets, debt investments at amortised cost, debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and investments in joint ventures and associates.

and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity of RMB against the USD depreciated by nearly 2% as compared to 10 August 2015, and further depreciated by nearly 1.6% on 12 August 2015 as compared to 11 August 2015. Following the gradual appreciation against the USD in 2017, the RMB experienced a recent depreciation in value against the USD followed by a fluctuation in 2018 and early 2019. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system. There can be no assurance that the RMB will not experience significant depreciation or appreciation against the USD or against any other currency in the future.

The Bank is subject to currency risk arising from losses incurred by unfavourable exchange rate fluctuations on its foreign exchange exposures resulting from the unmatched currency structure between foreign currency-denominated assets and foreign currency-denominated liabilities. Changes of exchange rates in the future may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to liquidity risk.

Customer deposits are the Bank's primary funding source. As at 31 December 2021 and 2022, the Group's total principal of deposits from customers were RMB6,347.1 billion and RMB7,535.7 billion, respectively. However, there are many factors affecting the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, the availability of alternative investment choices and retail customers' changing perceptions toward savings. For example, as the capital markets in China grow, an increased number of customers may elect to invest in securities to seek a higher rate of return. In addition, as at 31 December 2021 and 2022, 87.2% and 84.7% of the Group's total customer deposits had remaining maturities of one year or less, or were repayable on demand respectively. A substantial proportion of the Bank's assets have longer-term maturities, resulting in a mismatch between the maturities of its liabilities and assets.

However, the Bank cannot assure investors that its depositors will not withdraw their demand deposits or will roll over their time deposits upon maturity, particularly as the domestic capital market in China continues to develop. If the Bank fails to maintain its growth rate in deposits or if a substantial portion of its depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In case of such events, the Bank may need to seek more expensive sources of funding to meet its funding requirements.

The Bank's ability to obtain additional sources of funding may be affected by factors such as deterioration of market conditions and disruptions to financial markets. If the Bank fails to secure required funding on a timely basis or at terms or levels which are acceptable, the Bank may face liquidity risk which may adversely affect its business, financial condition and results of operations.

In addition, the Bank relies on the inter-bank money market to obtain a portion of its funding, including the portion of funds that are used to manage its liquidity. Any fluctuation in liquidity or funding costs on the inter-bank money market, including those fluctuations as a result of financial or other crisis or changes in the central bank's policies or practices affecting the liquidity of other banking institutions, may materially and adversely affect the Bank's ability to fund its business and manage its liquidity through the inter-bank money market at a reasonable cost, or at all.

The Bank may not be able to maintain the growth rate of its retail finance business.

The growth in the Bank's retail banking business has contributed significantly to its operating income and its profitability in recent years. The Group's profit before tax from retail finance increased from RMB77.7 billion for 2021 to RMB94.2 billion for 2022. The Bank may not be able to maintain its competitive position or sustain this growth rate due to increasing market saturation and competition, changes in government regulations in the retail banking and credit card segments and other factors, any of which may materially and adversely affect the Bank's financial condition and results of operations.

For example, on 26 February 2013, the General Office of State Council promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》), which requires banking institutions to carry on strict implementation of the differentiated housing credit policies, further implement the policy of down payment ratio and lending rate for loan of the first-set housing, rigidly tighten the credit policies for the second set (or more sets) of housing, and strictly impose a 20% personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of residential real estate market, hinder the increase of housing mortgages, and reduce the average amount of housing mortgages, and thus have an adverse impact on the increase of the Bank's retail finance business. On 29 September 2014, the PBOC and the CBRC jointly promulgated the Notice on Further Improving Financial Services for Housing (《關於進一步做好住房金融服務工作的通知》), which allows households owning only one residential property and having paid all mortgages on such property to enjoy the benefit of first time home buyers under certain circumstances. However, such policies are subject to further change and implementation by banks in the PRC.

The rapid expansion of the Bank's retail finance businesses also increases the Bank's exposure to changes in economic conditions affecting Chinese consumers. For example, a slowdown in China's economic development, inflationary pressures and interest rate hikes could adversely affect the ability of retail borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for retail loans and credit cards. Such a slowdown may also reduce the demand for the Bank's non-interest-based products and services, which could result in a reduction, among other things, of the Bank's credit card transaction volume and sales of investment products. Accordingly, economic difficulties in China that have a material adverse effect on Chinese consumers could materially and adversely affect the Bank's financial condition and results of operations.

The Bank may be unable to meet regulatory requirements relating to capital adequacy.

Following the issuance of Basel III in December 2010, on 27 April 2011, the CBIRC issued new guidelines setting more stringent capital adequacy, leverage, liquidity and loan loss provisioning requirements for PRC banks in accordance with the reform of China's banking industry and the related regulatory framework. On 7 June 2012, the CBIRC further issued the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (the "**Capital Regulation**"), which in view of the new international capital regulatory framework and the spirit of Basel II and Basel III, establish a unified and comprehensive regulatory system for capital adequacy, re-define the term "capital", expand the scope of capital risk coverage and set forth different regulatory requirements for commercial banks with different capital adequacy levels. Also, the rules set forth a new method for calculate the capital adequacy ratio and provide a transition period for PRC commercial banks to meet their capital adequacy requirements progressively. The Capital Regulation has been effective since 1 January 2013. Pursuant to the Notice of Interim Arrangement for Implementation of the Capital Regulation (《中國銀監會關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知》), the CBIRC encourages the commercial banks which had satisfied the capital adequacy requirements in the Capital Regulation before the end of 2012 to continue to meet such requirements during the transition period, and the commercial banks which had failed to meet such requirements by the end of 2012 to gradually improve their capital adequacy during the transition period by satisfying the year-by-year capital adequacy requirements. In December 2020, the CBIRC issued the Assessment Methods for Systemically Important Banks (《系統重要性銀行評估辦法》), which aimed to release a list of systemically important banks in China annually to place these banks under differentiated supervision, so as to reduce the possibility of their incurring material risks and prevent systemic risks. The systemic importance scores of sample banks shall be calculated by using quantitative assessment indicators, and supervisory judgments shall be made based on other quantitative and qualitative information, so as to comprehensively assess the systemic importance of sample banks. In September 2021, the PBOC and the CBIRC further issued Provisions on the Additional Regulation of Systemically Important Banks (《系統重要性銀行附加監管規定(試行)》), which subjected the sample banks to more additional capital requirements. The PBOC, the CBIRC or the National Administration of Financial Regulation of the PRC (the "**NAFR**") (each of the PBOC, the CBIRC or the NAFR, as the case may be, the "**PRC Banking Regulatory Authority**") may, based on other quantitative or qualitative auxiliary information, give supervisory judgment recommendation for putting a sample bank with a systemic importance score of less than 100 points on the list of systemically important banks and submit the recommendation to the FSDC Office together with the initial list.

As at 31 December 2021, the core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio of the Group under the advanced measurement approach set out in the Capital Regulation were 12.66%, 14.94% and 17.48%, respectively, representing increases of 0.37, 0.96 and 0.94 percentage point, respectively, as compared with those at the end of the previous year. As at 31 December 2022, the core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio of the Group under the advanced measurement approach set out in the Capital Regulation were 13.68%, 15.75% and 17.77%, respectively, representing increases of 1.02, 0.81 and 0.29 percentage point, respectively, as compared with those at the end of the previous year.

As the Bank carries out its business operations in the future, it may be required from time to time to raise additional core or supplementary capital in order to continue to meet the minimum CBIRC capital adequacy requirements. To raise additional capital in order to meet the minimum CBIRC capital adequacy requirement, the Bank may need to issue additional equity securities that qualify as core capital or additional instruments that qualify as supplementary capital. However, the Bank's ability to obtain additional capital may be restricted by a number of factors, including its future business, financial condition, results of operations and cash flows; necessary government regulatory approvals; its credit rating; general market conditions for capital-raising activities by commercial banks and other financial institutions; and economic, political and other conditions both within and outside the PRC.

The Bank cannot assure investors that it will be able to obtain additional capital on commercially acceptable terms or in a timely manner, or at all. As such, there can be no assurance that the Bank will continue to be able to comply with the capital adequacy requirements. Furthermore, the PRC Banking Regulatory Authority may increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios or the Bank may otherwise be subject to new capital adequacy requirements. If the Bank's capital adequacy ratio does not meet the regulatory requirements, the regulatory authorities may adopt certain correction measures including, but not limited to, restricting the growth of the Bank's risk-bearing assets, suspending all of its operation activities other than low-risk business, as well as restricting its dividend payment, which may adversely affect the Bank's business, financial condition and results of operations.

The Bank's expanding range of products and services exposes it to new risks.

The Bank intends to expand its range of products and services in order to meet the needs of its customers and to expand its business. Some of the Bank's new products and services in the past have contributed significantly to its operating results or are expected to provide it with competitive advantages, such as the All-in-one Card debit cards, the All-in-one Net online banking services, new fintech infrastructure and the Sunflower wealth management services, as well as certain loan products rolled out to small businesses (through the Bank's small enterprise credit centres) and to the Bank's corporate customers with operations in both the PRC and Hong Kong (through CMB Wing Lung Bank Limited or otherwise). Expansion of the Bank's business activities exposes it to certain risks and challenges, including the following:

- the Bank may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;
- the Bank's new products and services may not be accepted by its customers or meet its expectations for profitability;
- the Bank may need to hire additional qualified personnel who may not be available or available on commercially reasonable terms;
- the Bank may lack adequate financial, operational, management and other human resources to support the new products and services;
- the Bank may fail to obtain regulatory approval for its new products or services; and
- the Bank may not be successful in enhancing its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to achieve the intended results with respect to its new products and services, its business, financial condition and results of operations may be materially and adversely affected.

The Bank may fail to effectively implement risk management and internal control policies and procedures and introducing certain information technology systems to assist it with its risk management and internal controls.

The Bank cannot assure investors that its risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. The Bank also cannot assure investors that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, the Bank may not be able to effectively monitor credit risk due to limited information resources or tools. The Bank's ability to operate its risk management systems and monitor and analyse the effectiveness of such systems is still subject to continued testing. If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner, the Bank's asset quality, business, financial condition and results of operations may be materially and adversely affected.

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

There have been a number of publicised cases involving fraud or other misconduct by employees or third parties in connection with financial institutions in China in recent years. Fraud and other misconduct by employees or third parties may be difficult to detect and prevent and could subject the Bank to financial losses and sanctions imposed by governmental authorities or could seriously harm the Bank's reputation. Types of misconduct by the Bank's employees in the past have included, among other things, theft, embezzlement or misappropriation of customer funds; mishandling of customer deposits and settlement of payment transactions; improper extensions of credit; improper accounting; fraud; and acceptance of bribes. Types of possible misconduct by third parties against the Bank may include, among other things, fraud, theft, robbery and certain armed crimes. The types and incidents of fraud and other misconduct by employees or third parties against the Bank may go beyond those detected in the past. In addition, the Bank's employees may commit errors or take improper actions that could subject it to financial or other claims and regulatory actions. Although the Bank has in the past and is at present continually increasing its efforts to detect and prevent employee and third-party fraud or other misconduct, it is not always possible to detect or prevent such activities, and the precautions the Bank takes may not be effective in all cases. The Bank cannot assure investors that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on its reputation, results of operations and business prospects.

The Bank is subject to reputational and general confidence risks related to its business operations.

With the rapid development of the financial industry and social media technology, the public (including customers of the Bank) is paying increasing attention to the banking industry and communicating any negative sentiments widely through social media or other form of internet network related to banks' services quality, their operations and management and compliance issues. Such communication may reflect negative feedback from the Bank's customers, investors and other stakeholders about the Bank's services, operations, management or compliance with applicable laws and regulations or codes of conduct. Such adverse publicity if not managed swiftly or adequately could deter existing or potential customers from using the Bank's services and may adversely affect the Bank's operations and business, causing a liquidity crisis in an extreme case.

Within the banking industry, the banks have close interbank relationships with one another and interbank deposits and lending are relatively common. If a certain bank does not operate properly or becomes insolvent, a chain reaction may occur, which may trigger a confidence crisis towards the whole banking industry, and adversely affect the Bank's financial condition and results of operations.

The Bank has expanded its business into jurisdictions other than the PRC, which has increased the complexity of the risks that it faces.

In recent years, the Bank has taken actions to expand its international operations. On 8 October 2008, the Bank's New York branch, which is located in the borough of Manhattan of New York City, commenced operations. In January 2009, the Bank completed the acquisition of Wing Lung Bank, a banking group primarily operating in Hong Kong, with branch offices in Los Angeles, the Cayman Islands, Macau and the PRC. The Bank opened a representative office in London in June 2009 and one in Taipei in March 2011. In November 2013, the Bank opened its Singapore branch. In March 2015, the Bank opened its Luxembourg branch. In 2016, the Bank opened its London branch. In 2017, the Bank opened its Sydney branch. The Bank's expansion into jurisdictions outside of the PRC may subject it to new regulatory and operational challenges and risks, and has also increased the complexity of its risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. The loan portfolio of the Bank's international branches includes foreign currency-denominated loans to Chinese companies engaged in international trade. This exposes it to additional risks including default risk resulting from the failure in the performance of the import or export agreements by any party, trade protectionist measures or other factors, and the Bank's inexperience in various aspects of the economic and legal framework in overseas markets. Adverse market conditions in these international jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank's overseas branches and increase their cost of funding.

Furthermore, despite the Bank's efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of the Bank's failure to comply with the regulations in certain jurisdictions. Regulators have the power to bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of the Bank's licences, cease and desist orders, fines, civil penalties, criminal penalties, or other disciplinary actions. In addition, the global financial crisis has led, and may continue to result in, significant regulatory changes in various jurisdictions, including those in which the Bank has operations. These changes may include changes with respect to capital and liquidity ratios, cross-border capital flows and consumer protection. The extent and impact of such changes is difficult to anticipate and estimate and such changes could have an adverse impact on the Bank's growth, capital adequacy, and profitability. If the Bank is unable to manage the risks resulting from its international expansion, its business, reputation, results of operations and financial condition may be adversely affected.

The Bank and its branches may be affected by Basel III Reforms and related reforms and the Financial Institutions (Resolution) Ordinance.

The Basel Committee has proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before taxpayers are exposed to loss (the "**Basel III Reforms**"), the principal elements of which are set out in its papers dated 16 December 2010 (as revised in June 2011) and its press release dated 13 January 2011. The implementation of the Basel III Reforms in the PRC is currently under way. In addition to Basel III Reforms, many jurisdictions have started to propose various reforms related or similar to the Basel III Reforms. As the Bank operates its business globally, the Bank may the subject of recent international regulatory guidance and proposals for reform.

In particular, any Notes issues by the Hong Kong Branch of the Bank may be subject to local regulations. 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 in the future include members of the Group (a "**FIRO Group Entity**"). 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, in the context of a resolution of any FIRO Group Entity, the relevant resolution authority may have the ability to resolve other entities within the Group as if they were themselves a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to such entities. Any such actions could potentially affect contractual and property rights relating to the relevant entity. The implementation of FIRO remains untested and certain details 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 or other Group entities, the Bank's operations and/or its financial position.

The Bank's acquisitions and the integration of acquired businesses may not result in the benefits anticipated.

The Bank has in the past and may in the future continue expanding its business by acquiring other businesses. On 15 January 2009, the Bank completed the acquisition of 100% equity interest in Wing Lung Bank in order to expand its operations in Hong Kong. The Bank is in the process of integrating the business of CMB Wing Lung Bank Limited and its subsidiaries ("**CMB Wing Lung Group**"). However, there is no guarantee that the Bank's acquisition will achieve the anticipated positive results, including results relating to the total cost of integration, the time required to complete the integration, the new business developed and the Bank's overall performance after the acquisition, or price for its common stock. Integration of an acquired business can be complex and costly, involving, among other things, combining relevant accounting and data processing systems and management controls, managing relevant relationships with employees, clients, depositors and other business partners and reconciling different corporate cultures. An unsuccessful integration process may result in business disruptions, loss of clients and depositors, inconsistencies in standards, controls, procedures and policies and loss of key employees. Integration efforts could also divert management attention and resources and require additional costs, which may adversely affect the Bank's operations.

As the Bank's wholly-owned subsidiary, CMB Wing Lung Group's financial condition and business operations directly affect the Bank's financial condition and business operations. For the years ended 31 December 2021 and 2022, CMB Wing Lung Group recorded profit attributable to shareholders of HK$3.0 billion and HK$3.0 billion respectively. However, the Bank cannot assure investors that CMB Wing Lung Group will continue to be profitable. If CMB Wing Lung Group recognises a net loss, the Bank's results of operations could be adversely affected.

In addition, the acquisition of CMB Wing Lung Group subjects the Bank to some additional risks that the business of CMB Wing Lung Group is subject to, such as the economic and political condition of Hong Kong, regulatory changes affecting the business of commercial banks in Hong Kong, risks related to the insurance and securities brokerage business conducted by CMB Wing Lung Group companies and the international banking business conducted through CMB Wing Lung Group's overseas branches, and any occurrence of a natural disaster or health epidemics in Hong Kong. If CMB Wing Lung Group's business operation deteriorates as a result of any of the foregoing factors, the Bank's financial condition and results of operations could be adversely affected. Furthermore, the acquisition of CMB Wing Lung Group exposes the Bank to foreign exchange risks. The Bank needs to convert the financial statements of CMB Wing Lung Group originally presented in Hong Kong dollars to Renminbi in order to prepare the Bank's consolidated financial statements. A significant depreciation of the Hong Kong dollar against the Renminbi may adversely affect the Bank's results of operations and financial conditions. The Bank may also be subject to similar risks and difficulties in connection with any future acquisitions.

The Bank is subject to credit risk in respect of certain commitments and guarantees.

In the ordinary course of business, the Bank makes commitments and guarantees that are not reflected on its balance sheet, including the provision of financial guarantees and letters of credit to guarantee the performance of the Bank's customers to third parties and bank acceptances. The Bank is subject to credit risk on its commitments and guarantees because certain commitments and guarantees may need to be fulfilled as a result of non-performance by its customers. If the Bank is not able to obtain payment from its customers in respect of these commitments and guarantees, its financial condition and results of operations may be adversely affected.

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and currently has foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. The Bank has also entered into interest rate swap arrangements. As at 31 December 2021, the notional amount of the Group's outstanding derivative financial instruments amounted to RMB3,967.8 billion, and the fair values of its outstanding derivative assets and liabilities amounted to RMB23.4 billion and RMB27.3 billion, respectively. As at 31 December 2022, the notional amount of the Group's outstanding derivative financial instruments amounted to RMB2,509.7 billion, and the fair values of its outstanding derivative assets and liabilities amounted to RMB18.7 billion and RMB18.6 billion, respectively. The Bank cannot assure investors that counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

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 a large number of transactions across numerous and diverse markets and its broad range of 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 its various branches and sub-branches and its main data processing centres, are critical to the Bank's business and its ability to compete effectively. The Bank has backup data for its key data processing systems and has established a backup system to carry on principal functions in the event of a catastrophe or a failure of its primary systems. However, the Bank cannot assure investors that its operations will not be materially disrupted if there is 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, physical or electronic break-ins, cyber-attacks, software bugs, computer virus attacks or conversion errors due to system upgrading, extended power outages, failure of service from the Bank's telecommunications provider, fires and natural disasters.

The Bank is also required to protect the personal data and confidential information of its customers under various laws, regulations and rules. Any security or privacy breach of these databases could expose the Bank to liability, including regulatory fines or penalties, increase its expenses relating to the resolution of these breaches and the mitigation of their impact on affected individuals, harm the Bank's reputation and deter customers, which could have a material adverse effect on the Bank's business, financial condition, financial returns and results of operations.

The proper functioning of the Bank's information technology also depends on accurate and reliable data and other system input, which is subject to human errors. Any failure, mistake or delay in recording or processing the Bank's transaction data could subject it to claims for losses and regulatory fines and penalties. In addition, any security breach caused by unauthorised access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could have a material adverse effect on the Bank's business, reputation, results of operations and financial condition.

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 it 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 to make, 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 materially and adversely affect its competitiveness, financial condition and results of operations.

The Bank's largest shareholder is able to exercise significant influence over it.

The Bank does not have any controlling shareholder and de facto controller. However, China Merchants Group Ltd. and its subsidiaries own in aggregate 29.97% and 29.97% of the Bank's outstanding shares as at 31 December 2021 and 2022. Accordingly, even while fully complying with the Bank's articles of association and the applicable laws and regulations, China Merchants Group Ltd. may be able to exercise significant influence over the Bank's business, including matters relating to:

- the timing and amount of the distribution of dividends;
- the issuance of new securities;
- the election of directors and supervisors;
- the Bank's business strategies and policies;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Bank's articles of association.

If the interests of China Merchants Group Ltd. are not consistent with the interests of Noteholders, it is possible that China Merchants Group Ltd. may take actions that are not in the best interests of Noteholders.

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

The Bank is subject to various PRC and overseas regulatory requirements, and the PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of the Bank's compliance with such requirements. These inspections, examinations and inquiries have from time to time revealed weaknesses in certain areas of the Bank's operations, such as risk management and internal controls. On occasion the Bank has failed to meet certain requirements and guidelines set by the PRC regulatory authorities, or was found to have violated certain regulations. The Bank cannot assure investors that it will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, its business, financial condition, results of operations and reputation may be materially and adversely affected.

In particular, 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, economic sanctions and other regulations in the PRC, the United States, Hong Kong, the Cayman Islands, the United Kingdom, the European Union and other jurisdictions where the Bank has operations. These laws and regulations require it, 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. Some branches of the Bank have in the past been subject to administrative fines and penalties imposed by regulatory agencies in the PRC for, among other things, incidences of non-compliance with the PRC anti-money laundering rules. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its network for money laundering activities and by terrorists and terrorist-related organizations 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 and other illegal or improper activities. 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 PRC, United States, European Union, United Kingdom, Hong Kong, 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 broad-based sanctions include but are not limited to Cuba, Iran, Burma, North Korea, South Sudan, Sudan, Syria, Russia, Ukraine (including the Crimea region), the so-called Donetsk People's Republic, the so-called Luhansk People's Republic, the non-government controlled areas of Zaporizhzhia and Kherson of Ukraine, any other non-government controlled areas of Ukraine. Sanctions laws are subject to change, sometimes with little advance notice. The Bank has mandatory policies and controls to comply with the relevant sanction programmes. In addition, the Group may from time to time engage in business activities in countries or with entities that are the subject of certain sanctions. Notwithstanding that such business activities may not themselves be subject to sanctions, the Group may face secondary sanctions if it is determined to be providing material support to countries or entities that are the subject of sanctions. The Bank believes it is in compliance with the economic sanctions that are applicable to the Group's activities. However, if the Group is in the future determined to have engaged in any prohibited transactions or otherwise violated applicable sanctions regulations, the Group could be subject to penalties and sanctions and its reputation and ability to conduct future business in the relevant jurisdictions may be materially and adversely affected. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom it reports have the power and authority to impose fines and other penalties on the Bank. In addition, the Bank's business and reputation could suffer if customers use the Bank for money laundering or illegal or improper purposes.

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which the Bank can engage in specific businesses, as well as changes in other governmental policies. The banking regulatory regime in China is currently undergoing significant changes, some of which are applicable to the Bank and may result in additional costs or restrictions on the Bank's activities. The Bank cannot assure investors that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect its business, financial condition and results of operations, nor can the Bank assure investors that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant impact on the Bank's business.

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

As a result of current PRC regulatory restrictions, substantially all of the Bank's RMB-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as PRC government bonds, bonds issued by PRC policy banks, bonds and subordinated notes issued by PRC commercial banks, PBOC bills and commercial paper issued by qualified domestic corporations. These restrictions on the Bank's ability to diversify its investment portfolio limit its ability to seek returns on its investments which are comparable with those of banks in other countries or to manage the Bank's liquidity in the same manner as banks in other countries. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of its RMB-denominated investments assets. For example, any deterioration of the financial condition of commercial banks in China would increase the risks associated with holding their bonds and subordinated notes. A decrease in the value of any of these types of investments could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank does not possess the relevant land use certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of its offices or business premises due to its landlords' lack of relevant title certificates for some leased properties.

The Bank may not be able to obtain certificates for all of these properties and cannot assure investors that its ownership rights would not be adversely affected in respect of properties for which it is unable to obtain the relevant title certificates. If the Bank ceases to hold these properties due to the failure to obtain the relevant land use right certificates or building ownership certificates, or is forced to relocate any of the operations it conducts on the affected properties, it may incur additional costs as a result of such relocation.

In addition, the Bank leases a large number of properties in China, primarily as business premises for its branches and sub-branches. Some of these properties were leased from lessors who were not able to provide the title certificates or documents evidencing the authorisation or consent of the owners of such properties and who did not register the lease. As a result, the validity of the Bank's leases may be subject to legal challenge. In addition, the Bank cannot assure investors that it would be able to renew its leases on terms acceptable to it upon their expiration. If any of the Bank's leases were terminated as a result of challenges by third parties or if it failed to renew them on terms acceptable to it upon expiration, the Bank may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and its business, financial condition and results of operations may be adversely affected.

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

The Bank relies upon the continued service and performance of its employees, including its senior management, as most aspects of the Bank's business depend on the quality of its professional staff. Therefore, the Bank devotes considerable resources to recruiting and training these personnel. However, the Bank faces increased competition in recruiting and retaining these individuals, including its senior management, as other banks are competing for the same pool of potential employees. In addition, the Bank's employees may resign at any time and may seek to divert customer relationships that they have developed while working for the Bank. Most of the Bank's employees are not party to long-term employment contracts with the Bank. The loss of members of the Bank's senior management team or professional staff may have a material adverse effect on its business and results of operations.

RISKS RELATING TO THE BANKING INDUSTRY IN THE PRC

The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC.

The Bank's business is inherently subject to capital market fluctuations and general economic conditions in the PRC and globally. Market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets all affect the business and economic environment in the PRC and globally and, ultimately, the amount and profitability of the Bank's business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis, the COVID-19 pandemic, and the conflict between Russia and Ukraine which has also resulted in the further imposition, by the United States and other nations, of sanctions and other restrictive actions against certain banks, companies and individuals in Russia, can have an adverse effect on the Bank.

The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. Moreover, there are on-going concerns about European sovereign debt levels and the consequences for economic growth and investor confidence in the Eurozone, the prolonged period of uncertainty around the exit of the United Kingdom from the European Union ("**Brexit**"), political gridlock in the United States over government spending and debt levels and the consequences for economic growth and investor confidence in the United States, and the "tapering" of the US Federal Reserve's quantitative easing programme. On 31 January 2020, the United Kingdom officially exited the European Union following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement (the "**TCA**"), which applied from 1 January 2021 and following a decision by the Council of the European Union, was ratified and entered into force on 1 May 2021. However, the TCA is limited in its scope to primarily the trade of goods, transport, energy links and fishing, and uncertainties remain relating to certain aspects of the UK's future economic, trading and legal relationships with the EU and with other countries. Given the lack of precedent, the effect of Brexit remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market. There is also considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including the PRC. While some governments worldwide are implementing or may implement "exit strategies" (in the form of reduced government spending, higher interest rates or otherwise) with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors have the unintended consequence of prolonging or worsening global economic and financial difficulties. As for the PRC, economic development is expected to face many uncertainties and potential risks arising from the weakening traditional growth drivers and diminishing demographic advantages, significant overcapacity, the threat of a real estate market downturn and increasing risks associated with credit granted to local government financing platforms and the shadow banking system, while the banking industry faces continuous increases in non-performing loans, increasing complexity of business structures and the acceleration of interest rate liberalisation. In addition, China's economic growth may slow due to weakened exports as well as uncertainty caused by the trade-war between the United States and the PRC. Starting in March 2018, the United States imposed tariffs on steel and aluminium imports from China, and later on 6 July 2018, the United States imposed 25% tariffs on U.S.$34 billion worth of Chinese goods as part of President Donald Trump's tariffs policy. In turn, the PRC responded with similarly sized tariffs on United States' products. Significant further tariffs have been imposed by both countries since then. In January 2020, China and the United States signed the first stage of trade deal, which, among other things, included a rollback by the United States of some existing tariffs. However, significant tariffs remain and it is unclear how much economic relief the first stage of trade deal will offer. In July 2020, the United

States imposed sanctions on certain Chinese companies from purchasing U.S. technology and products without a special license. Through various Executive Orders, most recently in June 2021, the United States further determined that certain Chinese firms are allegedly owned or controlled by the Chinese military. It remains unclear whether the United States will impose further sanctions on more Chinese companies in the future, or *vice versa*. Whilst the United States government and the PRC government have entered into a "phase one" trade agreement in early 2020, the effect of previously imposed tariffs on the economy of the PRC and the United States may result in long-term structural shifts to the economies of both countries. It also remains to be seen whether the "phase one" trade agreement will be abided by both governments and successfully reduce trade tensions, in particular with respect to the recent pandemic-triggered disagreement among the PRC and the United States. If either government violates the "phase one" trade agreement, it is likely that enforcement actions will be taken and trade tensions will escalate.

Furthermore, the COVID-19 pandemic has resulted in a widespread and global health crisis, restrictions on travel and public transport and prolonged closures of workplaces. The number of reported cases of COVID-19 worldwide, as well as the number of reported deaths as a consequence of COVID-19 worldwide, significantly exceed those observed during the Severe Acute Respiratory Syndrome ("**SARS**") epidemic that occurred from November 2002 to July 2003. This has negatively affected investment sentiment, resulted in sporadic and significant volatility in global capital markets and adversely affected economies around the world. There can be no assurance that there will not be a continued occurrence or a recurrence of an outbreak of COVID-19 (or new variants of COVID-19 that could be more contagious), or another significant global outbreak of a severe communicable disease, in Hong Kong, the PRC or the rest of the world in the future. If such an outbreak were to occur, businesses and economies worldwide may be severely disrupted. The resulting global disruptions could have a material adverse effect on the Group's financial condition and results of operation. For further details, please see "*Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations.*".

In light of the high level of interdependence of the global economy, any of the foregoing developments could have an adverse effect on the PRC economy and financial markets, and in turn on the Bank's business, financial condition and results of operations.

Uncertainties in the global and the PRC's economies may adversely affect the Bank's business, financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs;

- the increased regulation and supervision by the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs;

- the value of the Bank's investments in the equity and debt securities issued by overseas governments and financial institutions may significantly decline;

- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and

- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

Any potential market and economic downturns, economic slowdown or geopolitical uncertainties in the PRC, its neighbouring countries or regions or the rest of the world may exacerbate the risks relating to the PRC capital markets. In addition, global economic uncertainty and the slowdown in the PRC economic growth have precipitated, and may continue to raise the possibility of, fiscal, monetary, regulatory and other governmental actions. The Bank cannot predict whether or when such actions may occur, nor can the Bank predict what ultimate impact, if any, such actions or any other governmental actions could have on its business, results of operations and financial condition. There can be no assurance that the PRC's economy or the global economy will continue to improve or maintain sustainable growth. If further economic downturns occur, the Bank's business, financial condition and results of operations could be adversely affected.

The PRC economy is at a transitional period due to changes in economic growth rate, structural adjustment and adaptation of previously implemented stimulating policies. As a result, the PRC banking industry is facing unprecedented challenges in risk management and it is not clear how certain trends and events, such as the pace of China's economic growth, China's implementation of its commitments to WTO accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system will affect China's banking industry. In addition, there can be no assurance that the banking industry in China is free from systemic risks. Consequently, there can be no assurance that the growth and development of China's banking industry will be sustainable.

The Bank faces increasingly intense competition in China's banking industry and competition from other investment and financing channels.

The banking industry in China is becoming increasingly competitive. The Bank faces competition in all of the Bank's principal areas of business from commercial banks where the Bank has operations. On 1 July 2013, the General Office of the State Council of the PRC issued Guidance Letter regarding Financial Support for Promoting Economic Restructuring and Transformation (《國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見》) (the "**Guidance Letter**"). The Guidance Letter, among other things, encourages investment by private-sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction to the increasing involvement of private-sector capital in the financial industry in China. The Bank may face increasing competition from privately-owned banks in the future.

The Bank competes with competitors for substantially the same loan, deposit and fee- and commission-based products and services customers. Such competition may materially and adversely affect the Bank's business and future prospects by, for example, reducing the Bank's market share in its principal products and services, reducing its fee and commission income, affecting the growth of its loan or deposit portfolios and their related products and services, and increasing competition for soliciting senior management talent and qualified professional personnel.

In addition, the Bank may face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of the Bank's customers choose alternative ways of financing to fund their capital needs, this may adversely affect the Bank's interest income, which could in turn materially and adversely affect its business, financial condition and results of operations.

In addition to competition from other banks and financial institutions, the Bank also faces competition from other forms of investment alternatives in China. In recent years, financial disintermediation, which involves the movement of funds by investors from intermediary financial institutions such as savings and deposit-taking banks to direct investments, has increased in China. The Bank's deposit customers may elect to convert their funds into stocks, bonds and wealth management products, which may result in a decrease in the Bank's customer deposits, therefore further affecting the level of funds available to us for the Bank's lending business to generate net interest income. Meanwhile, financial disintermediation may result in a decrease in the enterprise demand for loans, which could materially and adversely affect the Bank's business, financial condition and results of operations.

The PRC regulators have implemented measures relating to lending to small and medium enterprises ("SMEs") and the Bank may be subject to future regulatory changes.

CBIRC has promulgated a series of measures, including the Guidance on Issues Relevant to Establishing Special Agencies for Small Business Lending by Banks (《關於銀行建立小企業金融服務專營機構的指導意見》) and Notice on Further Supporting Commercial Banks' Improvement of Financial Services to Small Enterprises (《關於支持商業銀行進一步改進小企業金融服務的通知》), to encourage banking institutions to implement the PRC government's macroeconomic policies, and, in particular, to proactively support continued healthy economic growth by increasing lending activities to SMEs while effectively controlling risk.

In addition, PBOC has implemented a variety of measures to reduce the cost of borrowing for companies that have been hit hard by the outbreak of COVID-19, including lowering the loan interest rates. On 31 January 2020, PBOC, MOF, CBIRC, CSRC and SAFE jointly issued the Notice of Further Strengthening Financial Support for the Prevention and Control of the Epidemic of Novel Coronavirus Pneumonia (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》) to encourage strengthening credit support in key fields such as manufacturing, small and micro-sized enterprises, and private enterprises, and to restrict financial institutions to limit, rescind or reduce loans of small and micro-sized enterprises which have prospects of development but temporarily experience difficulty because of the epidemic. On 14 February 2020, CBIRC issued the Notice of Further Effectively Providing Financial Services concerning the Epidemic Prevention and Control (《關於進一步做好疫情防控金融服務的通知》) to encourage banks to actively support small and micro-sized enterprises that encounter temporary difficulties due to the impact of COVID-19 but still have a sound development prospect by actively adopting such measures as adjusting the schedule of repayment and payment of interests, moderately reducing the interest rate of loans, and improving the connection of loan extension and renewal. In February 2020, PBOC reduced the one-year loan prime rate from 4.15% to 4.05%, and the five-year rate from 4.80% to 4.75% which was the first reduction since October 2019. However, SMEs are more vulnerable to fluctuation in the macro-economy as compared to large enterprises due to relatively limited capital, management or other resources required to cope with the adverse impact of major economic or regulatory changes. In addition, SMEs may not be able to provide reliable information necessary for the Bank to assess the credit and interest rate risks involved. In the absence of accurate assessment of the relevant credit and interest rate risks, the non-performing loans of the Bank may be significantly increased if its SME clients are affected by economic or regulatory changes, which could materially and adversely affect the Group's business, results of operations and financial condition.

There can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to SMEs, will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations.

The rapid growth of the banking industry in China may not be sustainable.

The banking industry in China has grown significantly in recent years. However, it is uncertain whether the banking industry in China can sustain its current levels of growth. A slowdown in the growth of the PRC economy, other unfavourable macroeconomic development trends in China and other parts of the world could materially and adversely affect the banking industry in China.

In addition, the PRC banking industry has historically accumulated a high level of non-performing loans. Although the PRC government has promulgated measures to dispose of the non-performing loans of the large commercial banks and certain other commercial banks and to recapitalize these banks, there is no assurance that the banking industry in the PRC is free from systemic risks. In addition, the PRC government introduced a stimulus package in recent years which sought to boost China's economy by stimulating domestic spending and demand, which led to a rapid increase in bank loans. However, this rapid increase may have resulted from loans being made to less-qualified customers, and the amount of non-performing loans in the PRC banking industry may gradually rise. Consequently, there is no assurance that the development and growth of the PRC banking industry will be sustainable. In particular, a slowdown in the economic growth in the PRC may lead to an increased level of non-performing loans in the PRC banking industry, and may reduce the PRC banking industry's ability to reduce the level of non-performing loans quickly.

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

National credit information databases developed by the PBOC have been operational only since 2006. In addition, limitations on the availability of information and the developing information infrastructure in the PRC means that national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Bank's credit applicants. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. As a result, the Bank's ability to effectively manage its credit risk may be affected, which may adversely affect its business, financial condition and results of operations.

Certain facts and statistics and information relating to the Bank are derived from publications not independently verified by the Bank, 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 it presented are accurately extracted from such sources, such facts, statistics and information have not been independently verified by the Bank, 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

The PRC's economic, political and social conditions, as well as government policies, could affect the Bank's businesses.

A substantial majority of the Bank's businesses, assets and operations are located in the PRC. Accordingly, the Bank's business prospects, financial condition, and results of operations are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC'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.

The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. A substantial portion of productive assets in the PRC is still owned by the PRC government. The government also exercises significant control over the PRC's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Since 1979, the Chinese government has pushed forward a large number of economic reform measures to introduce market forces and promote the establishment of sound corporate governance structure. Such economic reform measures may be adjusted, modified or applied according to different industries and different regions of the country. As a result, the Bank may not benefit from certain of such measures.

The PRC government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and restrain inflation. As measured by GDP, the PRC has been one of the world's fastest growing economies in recent years. China's real GDP growth was 8.1% in 2021 and 3.0% in 2022 respectively. However, the PRC may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed down. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Banking services.

The Bank is also subject to general economic and political conditions that are global in nature, but have repercussions for the PRC's economic and political conditions. For instance, the unfavourable economic and financial conditions globally, such as financial instability in the U.S. and the imposition of new bilateral tariffs between China and the U.S. have also had a material impact on the market conditions in China and may affect the Bank's business, financial condition and results of operations.

PRC monetary policy is set by PBOC in accordance with the macroeconomic environment. In addition, PBOC controls monetary supply through open market operations, and adjustments to the deposit reserve ratio and rediscount rate in order to achieve targeted control over the economy. As commercial banks are a major means to implement monetary policy, changes in monetary policy will affect their operations and profitability. If the Bank cannot timely adjust its operating strategy in response to the changes in monetary policy, its business, financial condition and results of operations may be adversely affected.

The interpretation of the NDRC Administrative Measures (as defined below) may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Notes. Any failure to complete the relevant examination and/registration under the NDRC Administrative Measures within the prescribed time frames may have adverse consequences for the relevant Issuer and/or the investors of the Notes.

The NDRC issued 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)) (the "**NDRC Circular**") on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities or medium to long term loans with a term not less than one year issued or incurred outside the PRC with the NDRC prior to the issue of the securities or drawings under the loans, and notify the particulars of the relevant issues or drawings within ten PRC working days after the completion of the relevant issue or drawing.

Effective from 10 February 2023, Administrative Measures for the Examination and Registration of Medium- and Long-term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法(國家發展和改革委員會令第56號)) (as supplemented, amended or replaced from time to time) and any implementation rules or policies as issued by the NDRC from time to time (the "**NDRC Administrative Measures**") supersedes the NDRC Circular. However, the NDRC Administrative Measures would not affect the effectiveness of the foreign debt registration certificate ("**Certificate**") already obtained by the Bank on 26 August 2022 under the NDRC Circular and the relevant Issuer can still rely on the Certificate to issue the Notes prior to its expiry on 25 August 2023. Under the NDRC Administrative Measures, the Bank shall (i) file or cause to be filed with the NDRC the requisite information and documents within ten PRC business days after each foreign debt issuance and the expiration of the Certificate with respect to the relevant Notes in accordance with the NDRC Administrative Measures, (ii) file or cause to be filed with the NDRC the requisite information and documents within five PRC business days before the end of January and the end of July each year, and (iii) file or cause to be filed the requisite information and documents upon the occurrence of any material event that may affect the enterprise's due performance of its debt obligations. The NDRC Administrative Measures mentions some legal consequences of non-compliance with the pre-issue registration requirement. For example, if the enterprise borrows a foreign debt in violation of the NDRC Administrative Measures, the examination and registration authority shall take disciplinary actions such as holding an interview and giving a public warning against the relevant enterprise and its principal person-in-charge depending on the seriousness of the circumstances, and if intermediary agency knows or should have known that an enterprise is borrowing a foreign debt in violation of the provisions of the NDRC Administrative Measures but still provides the relevant intermediary services to the enterprise, the examination and registration authority shall circulate a notification of violation of regulations, and consult the relevant department on punishing the relevant intermediary agency and relevant liable persons in accordance with the applicable laws and regulations. In the worst case scenario, if pre-issue registration is required but not complied with, it might become unlawful for the relevant Issuer to perform or comply with any of its obligations under the relevant Notes and the relevant Notes might be subject to the enforcement as provided in Condition 10 (*Events of Default*). Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

Similarly, the NDRC Administrative Measures mentions some legal consequences of non-compliance with the post-issue notification requirement. Failure to comply with the NDRC post-issue and continuing filing obligations (such as post-issue filing, pre-issuance approval expiration filing, periodical filing and major event filing, etc.) under Articles 24 and 26 of the NDRC Administrative Measures may result in the relevant entities being ordered to make corrections within a time limit, and in the case of aggravating circumstances or in the case that such corrections are not made within the prescribed time limit, relevant entities and their main person-in-charge will be warned. The aforesaid regulatory violations committed by enterprises shall be publicised on the "Credit China" website and the national enterprise credit information publicity system, among others.

The Bank undertakes to file or cause to be filed with the NDRC within the relevant prescribed timeframes after the relevant Issue Date the requisite information and documents in respect of the relevant Notes in accordance with the NDRC Administrative Measures and any implementation rules or policies as issued by the NDRC from time to time.

However, the NDRC Administrative Measures is new and its implementation may involve significant uncertainty. The administration and enforcement of the NDRC Administrative Measures may be subject to executive and policy discretion of the NDRC. While the NDRC Administrative Measures has set out the legal consequences for debtors and involved professional parties in cases of non-compliance of the NDRC Administrative Measures, the NDRC Administrative Measures is silent on whether any such non-compliance would affect the validity and enforceability of the Notes. There is no assurance that the failure to comply with the NDRC Administrative Measures would not result in adverse consequences on the relevant Issuer's or the Bank's ability to perform in accordance with the Terms and Conditions of the Notes or the enforceability of the Notes.

The PRC legal system could limit the legal protections available to Noteholders.

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations continue to evolve, may be subject to different interpretations and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedent value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protections that are available to Noteholders and can adversely affect the value of their investment.

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 amended on 24 February 2017 and 29 December 2018, and its implementation rules, any gains realised on the transfer of Notes by non-resident enterprise investors may be subject to enterprise income tax if such gains are regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law establishes such capital gain tax rate for non-resident enterprises with no establishment or place of business within the PRC, and such, although with establishment or place of business within the PRC, gaining the income derived from or accrued in the PRC of no de facto relationship with its establishment or place of business at 20% of the gross proceeds, its implementation rules have reduced the rate to 10%. In accordance with the PRC Individual Income Tax Law and its implementation regulations which took effect on 1 January 2019, any capital gain realised by an individual holder who has no domicile and does not stay within the PRC or who has no domicile but has stayed within the PRC for less than 183 days cumulatively within a tax year from transfer of the Notes may be regarded as being derived from sources within the PRC and thus be subject to PRC tax of up to 20%. Furthermore, any individual who has a domicile within the PRC or has no domicile but stayed in the PRC for 183 days or more cumulatively within a tax year may be regarded as being derived from sources within or outside the PRC will be subject to PRC income tax of up to 20%. There remains uncertainty as to whether the gains realised from the transfer of the Notes would be treated as income derived from sources within the PRC and thus be subject to the PRC Enterprise Income Tax and Individual Income Tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law and Individual Income Tax Law and their relevant implementation rules. According to the arrangement between the PRC and Hong Kong SAR, residents of Hong Kong SAR, including enterprise investors and individual investors, will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Notes if such capital gains are not connected with an office or establishment that the Noteholders have in the PRC and all the other relevant conditions are satisfied.

Therefore, if an investor, as a non-resident enterprise or non-resident individual, is required to pay PRC income tax on interest or gains on the transfer of the Notes, the value of relevant Noteholder's investment in the Notes may be materially and adversely affected.

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

The Bank is a company incorporated under the laws of the PRC and a substantial majority of its businesses, assets and operations are located in the PRC. In addition, a substantial majority of the Bank's directors, supervisors and executive officers reside in the PRC and substantially all of their assets are located in the PRC. As a result, it may not be possible to serve legal written process within the United States or elsewhere outside the PRC upon us or such directors, supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. According to the Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "**2006 Arrangement**") (as last amended in 2017), the PRC courts can recognize and enforce foreign judgments in accordance with the principle of reciprocity and the relevant provisions and requirements (including the basic principles of the PRC laws, state sovereignty security and public interest) in the absent of international treaties. In addition, pursuant to the Arrangement of the Supreme People's Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》), if the parties have expressly agreed in writing that the Hong Kong Special Administrative Region (the "**Hong Kong SAR**") Court has exclusive jurisdiction over civil and commercial cases, the Chinese courts can recognise and enforce final judgments in relation to payments made by specific courts in Hong Kong (including the Court of Final Appeal, Court of Appeal, Court of First Instance and District Court).

On 18 January 2019, the Supreme People's Court and the Department of Justice of the Hong Kong Special Administrative Region jointly promulgated the Arrangement for Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Cases by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**2019 Arrangement**") , which will become effective when both parties announce a commencement date after the Supreme People's Court promulgates a judicial interpretation and relevant procedures are completed in the HKSAR. According to the 2019 Arrangement, the 2006 Arrangement shall be repealed when the 2019 Arrangement becomes effective; however, parties concerned who have signed a "choice of court" agreement in writing specified in the 2006 Arrangement before the 2019 Arrangement becomes effective shall remain governed by the 2006 Arrangement.

Other than that, judgments made by courts in the U.S. and other courts in Hong Kong may be hard to be recognised or enforced in the PRC. As a result, recognition and enforcement in the PRC or Hong Kong of judgements of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible.

The bankruptcy laws of the PRC may differ from those of other jurisdictions with which the Noteholders are familiar.

The Bank was incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Bank would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

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

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, SARS, H5N1 influenza, H1N1 influenza, H7N9 influenza or COVID-19 pandemic, may adversely affect the Bank's 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, financial condition and results of operations. In particular, the on-going COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities, which may persist for some time.

In early 2021, vaccination programmes were rolled out in various countries, including the United States, China, the European Union and the United Kingdom. However, the effect of the vaccination programmes on the COVID-19 pandemic remains uncertain, and some countries are experiencing another wave of the COVID-19 pandemic, in some cases with new variants of COVID-19 such as the Delta variant and the Omicron variant. The Omicron variant in particular appears to be highly transmissible and this has resulted in a significant increase in cases globally, including China, where the Bank's primary operations are located.

In 2022, many countries cancelled a number of containment measures which they imposed before, including mandatory business closures, travel restrictions, quarantines, lockdowns, limitations on public gatherings and the suspension of major events. In December 2022, the PRC government cancelled a number of containment measures which it imposed before and there was an unprecedented rise in COVID-19 cases in the PRC. Given the uncertainty of the outbreak and the PRC government's future policy regarding COVID-19, the spread of COVID-19 may be prolonged and worsened, and the Bank may be forced to scale back or even suspend the Bank's operations in the affected areas. In addition, the COVID-19 outbreak and the PRC government's recent policy change regarding COVID-19 may pose risks to the wellbeing of the Bank's employees and the safety of the Bank's workplace, which may materially and adversely affect the Bank's business operation.

There remains substantial uncertainty about the dynamic of the COVID-19 pandemic, which may have potential continuing impact on subsequent periods if the global pandemic and the resulting disruption were to extend over a prolonged period or if a wide spread of COVID-19 happens again in countries where the Bank operates and beyond. In light of the evolving nature of COVID-19 and the uncertainty it has produced around the world, the Bank does not believe it is possible to predict the COVID-19 pandemic's cumulative and ultimate impact on the Bank's future business, results of operations, and financial condition. The extent of the impact of the COVID-19 pandemic on the Bank's business and financial results will depend largely on future developments, including the duration and extent of the spread of COVID-19 both globally and within the PRC, the impact on the PRC and global economies, and governmental or regulatory orders that impact the Bank's business, all of which are highly uncertain and cannot be predicted. To the extent that COVID-19 or any health epidemic harms the domestic and global economies in general, the Bank's results of operations could be adversely affected. There is no assurance that the outbreak will not lead to decreased demand for services the Bank provides; nor is there assurance that the outbreak's adverse impact on the PRC economy and the Bank's customers will not adversely affect the level of non-performing loans. The outbreak may also adversely affect the Bank's ability to keep normal operations and provide uninterrupted services to its customers.

Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Bank's business, financial condition and results of operations. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H5N1 flu, H1N1 flu, H7N9 flu, COVID-19 pandemic or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of these epidemics, will not seriously interrupt the Bank's operations or its customers, which may have a material adverse effect on the Bank's results of operations.

The Bank is subject to risks related to PBOC's changes in filing requirements.

On 11 January 2017, the PBOC issued the Circular of the People's Bank of China on the Macro-prudence 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》) (the "**Cross-border Financing Circular**"), which came into effect on 11 January 2017. The Cross-border Financing Circular established a mechanism aimed at regulating cross-border financing activities conducted by domestic institutions, including domestic enterprises and financial institutions other than the governmental financing platforms and real estate enterprises, based on the capital or net asset of the borrowing entities using a prudent management principle on a macro nationwide scale.

Neither the PBOC nor the SAFE has promulgated implementation rules of the Cross-border Financing Circular as at the date of this Offering Circular. The filing process for the aforesaid regulations and the interpretation and enforcement of the Cross-border Financing Circular thus involve substantial uncertainties. There is also uncertainty as to whether the Issuer will fall under the Cross-border Financing Circular.

RISKS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME

Claims by the Noteholders are structurally/effectively subordinated to other debt.

The Notes are unsecured obligations of the Bank, and payments under the Notes are structurally or effectively subordinated to all secured debt of the Bank to the extent of the value of the assets securing such debt, and to the debt and other liabilities of the Bank's subsidiary companies. The effect of this subordination is that, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Bank, the assets of the affected entity could not be used to pay Noteholders until after:

- all secured claims against the affected entity have been fully paid; and
- if the affected entity is the Bank's subsidiary, all other claims against such subsidiary, including trade payables, have been fully paid.

Failure by the Bank to meet its environmental, social and governance ("ESG") or corporate social responsibility ("CSR") targets may have an adverse effect on the Bank's performance.

The Bank takes its corporate social responsibilities seriously and persists in financial improvement and financial excellence, fully integrates the ESG concept into its daily operation and management and works with stakeholders to create an inclusive, sustainable and resilient future. In line with its philosophy, the Bank has issued several series of ESG related notes (the "**ESG Notes**") under the Programme.

In respect of the Bank's ESG Notes and green finance credit and loans, the Bank may have agreed to obligations relating to reporting and disclosure, environmental and social targets and specified use of proceeds. Furthermore, the Bank also publishes its CSR reports annually, which set out the Bank's implementation strategies, targets and goals and proposed business processes and standards, with respect to ESG and CSR. Any failure by the Bank to meet any of the targets, strategies, goals, processes and standards mentioned above, or any failure by the Bank to satisfy investor or other stakeholder expectations or standards in the execution of its ESG strategies, may affect the value and/or trading of the ESG Notes, and more widely affect the Bank's current and future business performance, results of operations and reputation. These may in turn negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

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

This Offering Circular incorporates the following information published by the Bank from time to time after the date of this Offering Circular, a copy of which can be found on the website of the HKSE:

(i) the most recently published unaudited but reviewed interim consolidated financial statements of the Bank as at, and for the six months ending on, 30 June of each financial year, together with any review reports prepared in connection therewith (the "**Interim Financial Information**"); and

(ii) the most recently published unaudited and unreviewed quarterly consolidated financial statements of the Bank as at, and for the three months ending on, 31 March and as at, and for the nine months ending on, 30 September of each financial year (the "**Quarterly Financial Information**"),

in each case prepared in accordance with the IFRSs.

The Interim Financial Information has been reviewed, but has not been and will not be audited, by the Bank's auditors. The Quarterly Financial Information has not been and will not be audited or reviewed by the Bank's auditors. The Interim Financial Information and the Quarterly Financial Information may not provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The 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.

The Notes are unsecured obligations of the Issuer.

The Notes are the unsecured obligations of the Issuer. As the Issuer may be a branch of the Bank, the repayment of the Notes may be adversely affected if:

- the Bank enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;

- there is a default in payment under the Bank's future secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of the Bank's indebtedness.

If any of these events were to occur, the Bank's assets may not be sufficient to pay amounts due under the Notes.

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

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

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

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

The Agency Agreement may be modified without the consent of Noteholders.

The Terms and Conditions of the Notes also provide that the Fiscal Agent may, without the consent of Noteholders, agree to any modification of the Agency Agreement which is not materially prejudicial to the interests of the Noteholders, is of a formal, minor or technical nature or is made to correct a manifest error as described in Condition 11(b).

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

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

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

The Notes and the Deed of Covenant are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Under the 2006 Arrangement which was signed on 14 July 2006, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. The new 2019 Arrangement was signed on 18 January 2019. Following the promulgation of a judicial interpretation by the Supreme People's Court and the completion of the relevant procedures in the Hong Kong, both sides shall announce a date on which the 2019 Arrangement shall commence. Upon commencement of the 2019 Arrangement, the 2006 Arrangement shall be terminated. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Notes will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside of Hong Kong will be limited.

The Notes may be represented by Global Notes or Global Certificate and holders of a beneficial interest in a Global Note or Global Certificate 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 or Global Certificates. Such Global Notes or Global Certificates 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 or Global Certificate, 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 or Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems and the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream or to the relevant paying agent in the case of the CMU, as the case may be, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate 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 or Global Certificates. Holders of beneficial interests in the Global Notes or Global Certificates 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 or Global Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued in certain circumstances such as 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.

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

Interest rates and indices which are deemed to be or used as "**benchmarks**" (including the euro interbank offered rate ("**EURIBOR**")), are the subject of recent international, national 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.

Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**") was published in the Official Journal of the EU on 29 June 2016 and applied from 1 January 2018. The EU Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the European Union. It, amongst other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuers) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the United Kingdom Financial Conduct Authority ("**FCA**") or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to a rate or index deemed to be a "**benchmark**", in particular, if the methodology or other terms of the "**benchmark**" are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "**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. The euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates. The potential elimination of any benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, 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.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of floating rate Notes is to be determined (other than in respect of Notes for which the Reference Rate is SOFR Benchmark), the Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where such Original Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available. The Conditions provide for certain fallback arrangements in the event that a Benchmark Event occurs. Benchmark Events (as defined in Condition 5(j) (*Benchmark discontinuation*)) include (amongst other things) permanent discontinuation of an Original Reference Rate and the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market. If a Benchmark Event occurs, the Issuer shall use all reasonable endeavours to appoint an Independent Adviser. The Independent Adviser shall endeavour to determine a Successor Rate or Alternative Reference Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Reference Rate to determine the Rate of Interest is likely to result in Notes initially linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Reference Rate for the Original Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Conditions, as necessary to ensure the proper operation of such Successor Rate or Alternative Reference Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Reference Rate is determined by the Independent Adviser, the Conditions also provide that an Adjustment Spread will be determined by the Independent Adviser and applied to such Successor Rate or Alternative Reference Rate. The Adjustment Spread is (i) the spread, formula or methodology which is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body (which may include a relevant central bank, supervisory authority or group of central banks/supervisory authorities), (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 determines is customarily applied to the relevant Successor Rate or the Alternative Reference Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate, or (iii) if no such spread is customarily applied, the spread, formula or methodology which the Independent Adviser or the Issuer determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate, as the case may be. Accordingly, the application of an Adjustment Spread may result in the Notes performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Reference Rate in accordance with the Conditions, in which case the Issuer may determine the Successor Rate or the Alternative Reference Rate and the Adjustment Spread.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner or is unable to determine a Successor Rate or Alternative Reference Rate before the next Interest Determination Date, the Rate of Interest for the next succeeding Interest Period will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Rate of Interest will be the initial Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or has failed to determine a Successor Rate or Alternative Reference Rate in respect of any given Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Reference Rate to apply to the next succeeding and any subsequent Interest Periods, as necessary.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event is likely to result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Reference Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or fails to determine a Successor Rate or Alternative Reference Rate for the life of the relevant Notes, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the floating rate Notes, in effect, becoming fixed rate Notes.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of floating rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the relevant ISDA Definitions. If there is making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market, and a Successor Rate or Alternative Reference Rate is determined, ISDA Determination will not apply. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the floating rate Notes.

Due to the uncertainty concerning the availability of a Successor Rate, Alternative Reference Rate and Alternative Relevant Screen Page, any determinations that may need to be made by the Independent Adviser or Issuer involves a risk that the relevant fallback provisions may not operate as intended at the relevant time. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the floating rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the floating rate Notes.

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

The use of Secured Overnight Financing Rate ("SOFR") as a reference rate is subject to important limitations.

The rate of interest on the floating rate Notes may be calculated on the basis of SOFR (as further described under Condition 5(b)(iii)(C) of the Conditions).

In June 2017, the New York Federal Reserve's Alternative Reference Rates Committee (the "**ARRC**") announced SOFR as its recommended alternative to U.S. dollar London interbank offered rate ("**LIBOR**"). However, the composition and characteristics of SOFR are not the same as those of LIBOR. SOFR is a broad U.S. Treasury repo-financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from LIBOR for two key reasons. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, or regulatory events. For example, since publication of SOFR began in April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or other market rates.

As SOFR is an overnight funding rate, interest on SOFR-based Notes with interest periods longer than overnight will be calculated on the basis of either the arithmetic mean of SOFR over the relevant interest period or compounding SOFR during the relevant interest period. As a consequence of this calculation method, the amount of interest payable on each interest payment date will only be known a short period of time prior to the relevant interest payment date. Noteholders therefore will not know in advance the interest amount which will be payable on such Notes.

Although the Federal Reserve Bank of New York has published historical indicative SOFR information going back to 2014, such prepublication of historical data inherently involves assumptions, estimates and approximations. Noteholders should not rely on any historical changes or trends in SOFR as an indicator of future changes in SOFR.

The Federal Reserve Bank of New York notes on its publication page for SOFR that use of SOFR is subject to important limitations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR at any time without notice. In addition, SOFR is published by the Federal Reserve Bank of New York based on data received from other sources, and the Issuer has no control over its determination, calculation or publication. There can be no guarantee that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of the Noteholders. If the manner in which SOFR is calculated is changed or if SOFR is discontinued, that change or discontinuance may result in a reduction or elimination of the amount of interest payable on the Notes and a reduction in the trading prices of the Notes which would negatively impact the Noteholders who could lose part of their investment.

The Conditions provide for certain fallback arrangements in the event that a SOFR Benchmark Event occurs, which is based on the ARRC recommended language. There is however no guarantee that the fallback arrangements will operate as intended at the relevant time or operate on terms commercially acceptable to all Noteholders. Any of the fallbacks may result in interest payments that are lower than, or do not otherwise correlate over time with, the payments that would have been made on the Notes if SOFR had been provided by the Federal Reserve Bank of New York in its current form. Investors should consult their own independent advisers and make their own assessment about the potential risks in making any investment decision with respect to any Notes linked to SOFR.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes.

Investors should be aware that the market continues to develop in relation to SOFR as a reference rate in the capital markets and its adoption as an alternative to U.S. dollar LIBOR. Market participants and relevant working groups are exploring alternative reference rates based on SOFR (which seek to measure the market's forward expectation of a SOFR rate over a designated term). The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out in the Conditions. In addition, the manner of adoption or application of SOFR in the bond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SOFR. In addition, the development of SOFR as an interest reference rate for the bond markets, as well as continued development of SOFR-based rates, indices and averages for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of Notes referencing SOFR. Similarly, if SOFR does not prove widely used in securities such as the Notes referencing SOFR, investors may not be able to sell such Notes referencing SOFR at all or the trading price of the Notes referencing SOFR may be lower than those of bonds linked to indices that are more widely used.

The use of SOFR as a reference rate for bonds is nascent, and may be subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates. Notes referencing SOFR may have no established trading market when issued, and an established trading market may never develop or may not be very liquid which, in turn, may reduce the trading price of such Notes or mean that investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. Investors should consider these matters when making their investment decision with respect to Notes referencing SOFR.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, PRC or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. 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 may have a lower market value than Notes that cannot be redeemed.

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

Index linked Notes and dual currency Notes have features that are different from Notes that are not index-linked or have a single currency.

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:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

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

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.

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

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

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

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

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

Fixed or floating rate Notes may bear interest at a rate that the 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 or floating rate Notes may be less favourable than the then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its Notes.

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

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

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

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

Credit ratings may not reflect all risks.

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

RISKS RELATING TO THE MARKET GENERALLY

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

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

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

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

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

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

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

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

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

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. 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.

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

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

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

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC, although the PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, where the participating banks cannot source sufficient Renminbi through the above channels, the participating banks will need to source Renminbi from the offshore market 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 Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the 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.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi 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 in control by it in recent years over trade transactions involving the import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. However, remittance of Renminbi into and out of the PRC for settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from or completing specific registrations or filing with the relevant authorities on a case-by-case basis and subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC government.

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

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

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

All payments to investors in respect of Renminbi Notes will be made solely (i) for so long as such Notes are represented by Global Notes or Global Certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and procedures of the relevant clearing system, or (ii) for so long as such Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and regulations. 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).

Investment in the Renminbi Notes is subject to exchange rate risks.

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

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

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

Investment in the Renminbi Notes is subject to interest rate risks.

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

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

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, save for the words in italics and 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 Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in these 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 China Merchants Bank Co., Ltd. (the "**Bank**") or the relevant branch as specified hereon (the "**Issuer**") and are issued pursuant to the fifth amended and restated agency agreement dated 5 June 2023 (as amended, restated or supplemented as at the Issue Date, the "**Agency Agreement**") between the Bank, The Hongkong and Shanghai Banking Corporation Limited as fiscal agent and the other agents named in it and with the benefit of an amended and restated deed of covenant dated 5 June 2023 (as amended, restated or supplemented as at the Issue Date, the "**Deed of Covenant**") executed by the Bank in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrars, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agent**" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "**Registrars**", the "**Transfer Agents**" and the "**Calculation Agent(s)**", and collectively, the "**Agents**". For the purposes of these terms and conditions (these "**Conditions**"), all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

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

Copies of the Agency Agreement and the Deed of Covenant are available for inspection upon prior written request and proof of holdings and identity or electronically via e-mail written request to hkcorporate.trust.queries@hsbc.com.hk during normal business hours (being 9:00 a.m. to 3:00 p.m. local time on weekdays (excluding public holidays)) at the specified offices of each of the Paying Agents, the Registrars and the Transfer Agents.

1 FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon. Notes sold in reliance on Rule 144A under the U.S. Securities Act of 1933 (the "**Securities Act**") will be in minimum denominations of U.S.$250,000 (or its equivalent in other currencies) and integral multiples of U.S.$1,000 (or its equivalent in other currencies) in excess thereof, subject to compliance with all legal and/or regulatory requirements applicable to the relevant currency.

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

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

Registered Notes will be represented by either:

(i) individual Certificates in registered form ("**Individual Certificates**"); or

(ii) one or more unrestricted global certificates ("**Unrestricted Global Certificate(s)**") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act ("**Unrestricted Notes**") and/or one or more restricted global certificates ("**Restricted Global Certificates**", together with Individual Certificates and Unrestricted Global Certificates, "**Certificates**") in the case of Registered Notes sold to "**qualified institutional buyers**" as defined in and in reliance on Rule 144A under the Securities Act ("**Restricted Notes**").

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 relevant register that the Issuer shall procure to be kept by the relevant Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the relevant 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 Conditions 2(f) and 2(g), one or more Registered Notes may be transferred upon the surrender (at the specified office of the relevant 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 relevant Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the relevant Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the relevant Registrar and the Noteholders. A copy of the current regulations will be made available by the relevant Registrar to any Noteholder upon request.

Transfers of interests in the Notes evidenced by Global Certificates will be effected in accordance with the rules of the relevant clearing systems.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes**

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

(d) **Delivery of New Certificates**

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

(e) **Transfer Free of Charge**

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

(f) **Closed Periods**

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (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 before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of 15 days ending on (and including) any Record Date.

(g) **Regulations Concerning Transfers and Registration**

All transfers of Registered Notes and entries on the relevant Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrars. A copy of the current regulations will be mailed (free of charge) by the Registrars to any Noteholder who requests in writing a copy of such regulations.

3 STATUS

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank 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 NEGATIVE PLEDGE

(a) So long as any Note remains outstanding (as defined in the Agency Agreement), the Bank will not, and will ensure that none of its Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

(b) **NDRC Filings**: Where the NDRC Administrative Measures applies to the Tranche of Notes to be issued, so long as any such Note remains outstanding, the Issuer undertakes to file or cause to be filed with the NDRC the requisite information and documents in connection with such Tranche of Notes within the relevant prescribed timeframes in accordance with the NDRC Administrative Measures (each a "**NDRC Filing**", and together the "**NDRC Filings**").

The Agents shall have no obligation to monitor and/or ensure or assist with the completion of the NDRC Filings on or before the relevant deadline referred above or to verify the accuracy, validity and/or genuineness of, or to translate or arrange for translation into English of, any documents in relation to or in connection with the NDRC Filings, or to notify the Noteholders of the completion of the NDRC Filings, and shall not be liable to the Noteholders or any other person for not doing so.

In this Condition 4:

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

"**NDRC Administrative Measures**" means the Administrative Measures for the Examination and Registration of Medium- and Long-term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法(國家發展和改革委員會令第56號)) issued by the NDRC and which came into effect on 10 February 2023 (as supplemented, amended or replaced from time to time) and any implementation rules, reports, certificates, approvals or guidelines as issued by the NDRC from time to time;

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market outside mainland China (for the avoidance of doubt, "**mainland China**" shall not include the Hong Kong and Macau Special Administration Regions or Taiwan); and

"**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.

5 INTEREST AND OTHER CALCULATIONS

(a) Interest on Fixed Rate Notes

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

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

(i) ***Interest Payment Dates***

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

(ii) ***Business Day Convention***

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

(iii) ***Rate of Interest for Floating Rate Notes***

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

(A) *ISDA Determination for Floating Rate Notes*

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

(x) if it is specified hereon either "2006 ISDA Definitions" or "2021 ISDA Definitions" as the applicable ISDA Definitions:

(1) the Floating Rate Option (as defined in the relevant ISDA Definitions) is as specified hereon;

(2) the Designated Maturity (as defined in the relevant ISDA Definitions), if applicable, is a period specified hereon;

(3) the relevant Reset Date (as defined in the relevant ISDA Definitions) has the meaning given to it in the ISDA Definitions unless otherwise specified hereon;

(4) if the specified Floating Rate Option is an Overnight Floating Rate Option (as defined in the relevant ISDA Definitions), Compounding is specified to be applicable hereon and:

a. if Compounding with Lookback is specified as the Compounding Method hereon then (a) Compounding with Lookback is the Overnight Rate Compounding Method (as defined in the relevant ISDA Definitions) and (b) Lookback is the number of Applicable Business Days (as defined in the relevant ISDA Definitions) specified hereon;

b. if Compounding with Observation Period Shift is specified as the Compounding Method hereon then (a) Compounding with Observation Period Shift is the Overnight Rate Compounding Method, (b) Observation Period Shift is the number of Observation Period Shift Business Days (as defined in the relevant ISDA Definitions) specified hereon and (c) Observation Period Shift Additional Business Days (as defined in the relevant ISDA Definitions), if applicable, are the days specified hereon; or

c. if Compounding with Lockout is specified as the Compounding Method hereon then (a) Compounding with Lockout is the Overnight Rate Compounding Method, (b) Lockout is the number of Lockout Period Business Days (as defined in the relevant ISDA Definitions) specified hereon and (c) Lockout Period Business Days, if applicable, are the days specified hereon; and

(5) if the specified Floating Rate Option is an Index Floating Rate Option (as defined in the relevant ISDA Definitions) and Index Provisions are specified to be applicable hereon, the Compounded Index Method with Observation Period Shift (as defined in the relevant ISDA Definitions) shall be applicable and, (a) Observation Period Shift is the number of Observation Period Shift Business Days (as defined in the relevant ISDA Definitions) specified hereon and (b) Observation Period Shift Additional Business Days (as defined in the relevant ISDA Definitions), if applicable, are the days specified hereon;

(y) references in the relevant ISDA Definitions to:

(1) "**Confirmation**" shall be deemed to be references to the relevant Pricing Supplement;

(2) "**Calculation Period**" shall be deemed to be references to the relevant Interest Accrual Period;

(3) "**Termination Date**" shall be deemed to be references to the Maturity Date; and

(4) "**Effective Date**" shall be deemed to be references to the Interest Commencement Date; and

(z) if "2021 ISDA Definitions" is specified as applicable hereon:

(1) "**Administrator/Benchmark Event**" shall be disapplied; and

(2) if the Temporary Non-Publication Fallback in respect of any specified Floating Rate Option is specified to be "**Temporary Non-Publication Fallback – Alternative Rate**" in the Floating Rate Matrix of the 2021 ISDA Definitions, the reference to "**Calculation Agent Alternative Rate Determination**" in the definition of "**Temporary Non-Publication Fallback – Alternative Rate**" shall be replaced by "**Temporary Non-Publication Fallback – Previous Day's Rate**".

(B) *Screen Rate Determination for Floating Rate Notes not referencing SOFR Benchmark*

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or in the case of CNH HIBOR, 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 at 2.30 p.m. (Hong Kong time) 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 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), provided that if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than EURIBOR, HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(C) *Screen Rate Determination for Floating Rate Notes referencing SOFR Benchmark*

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined where the Reference Rate is SOFR Benchmark, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be equal to the relevant SOFR Benchmark as determined by the Calculation Agent on the relevant Interest Determination Date.

The "**SOFR Benchmark**" will be determined based on Simple SOFR Average, Compounded SOFR Average or SOFR Compounded Index (as specified hereon), as follows (subject in each case to Condition 5(k)):

(x) If Simple SOFR Average ("**Simple SOFR Average**") is specified hereon as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be the arithmetic mean of the SOFR reference rates for each U.S. Government Securities Business Day during such Interest Accrual Period, as calculated by the Calculation Agent, and where, if applicable and as specified hereon, the SOFR reference rate on the SOFR Rate Cut-Off Date shall be used for the U.S. Government Securities Business Days in the relevant Interest Accrual Period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the last day of that Interest Accrual Period.

(y) If Compounded SOFR Average ("**Compounded SOFR Average**") is specified hereon as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant Interest Accrual Period (where SOFR Observation Lag, SOFR Payment Delay or SOFR Lockout is specified hereon to determine Compounded SOFR Average) or SOFR Observation Period (where SOFR Observation Shift is specified hereon to determine Compounded SOFR Average).

Compounded SOFR Average shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified as applicable hereon:

(i) SOFR Observation Lag:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_{i-\times USBD}\times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)) and where:

"**$SOFR_{i\text{-}xUSBD}$**" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day(i);

"**Lookback Days**" means such number of U.S. Government Securities Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"**d_o**" for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"**n_i**" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

(ii) SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)) and where:

"**$SOFR_i$**" for any U.S. Government Securities Business Day(i) in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**SOFR Observation Period**" means, in respect of each Interest Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period Date for such Interest Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant SOFR Observation Period;

"$\mathbf{d_o}$" for any SOFR Observation Period, means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$" for any U.S. Government Securities Business Day(i) in the relevant SOFR Observation Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

(iii) SOFR Payment Delay:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)) and where:

"$\mathbf{SOFR_i}$" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**Interest Payment Date**" shall be the number of Interest Payment Delay Days following each Interest Period Date; provided that the Interest Payment Date with respect to the final Interest Accrual Period will be the Maturity Date or the relevant date for redemption, as applicable;

"**Interest Payment Delay Days**" means the number of Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"$\mathbf{d_o}$" for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

For the purposes of calculating Compounded SOFR Average with respect to the final Interest Accrual Period where SOFR Payment Delay is specified hereon, the SOFR reference rate for each U.S. Government Securities Business Day in the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Maturity Date or the relevant date for redemption, as applicable, shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date.

(iv) SOFR Lockout:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)) and where:

"$\mathbf{SOFR_i}$" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i), except that the SOFR reference rate for any U.S. Government Securities Business Day(i) in respect of the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Interest Period Date for such Interest Accrual Period shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"$\mathbf{d_o}$" for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

The following defined terms shall have the meanings set out below for purpose of Conditions 5(b)(iii)(C)(x) and 5(b)(iii)(C)(y):

"**Bloomberg Screen SOFRRATE Page**" means the Bloomberg screen designated "SOFRRATE" or any successor page or service.

"**Reuters Page USDSOFR=**" means the Reuters page designated "USDSOFR=" or any successor page or service.

"**SOFR**" means, with respect to any U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

(i) the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Reuters Page USDSOFR=; or the Secured Overnight Financing Rate published at the SOFR Determination Time on the SOFR Administrator's Website;

(ii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the SOFR reference rate shall be the reference rate published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; or

(iii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(k) shall apply.

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following the relevant U.S. Government Securities Business Day.

(z) If SOFR Compounded Index ("**SOFR Compounded Index**") is specified as applicable hereon, the SOFR Benchmark for each Interest Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or.0987655)) and where:

"**SOFR Index**", with respect to any U.S. Government Securities Business Day, means:

(a) the SOFR Index value as published on the SOFR Administrator's Website on or about 3:00 p.m. (New York time) on such U.S. Government Securities Business Day (the "**SOFR Index Determination Time**"); provided that in the event that the value originally published by the SOFR Administrator on or about 3:00 p.m. (New York time) on any U.S. Government Securities Business Day is subsequently corrected and such corrected value is published by the SOFR Administrator on the original date of publication, then such corrected value, instead of the value that was originally published, shall be deemed the SOFR Index value as of the SOFR Index Determination Time in relation to such U.S. Government Securities Business Day; and

(b) if a SOFR Index value does not so appear as specified in (a) above of this definition, then:

    (i) if a Benchmark Event (as defined in Condition 5(k)) and its related Benchmark Replacement Date (as defined in Condition 5(k)) has not occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to the "SOFR Index Unavailable" provisions in Condition 5(b)(iii)(D); or

    (ii) if a Benchmark Event and its related Benchmark Replacement Date has occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to Condition 5(k).

"**SOFR Index$_{\mathbf{Start}}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date which is the number of U.S. Government Securities Business Days specified hereon preceding the first date of such Interest Accrual Period;

"**SOFR Index$_{\mathbf{End}}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date which is the number of U.S. Government Securities Business Days specified hereon preceding the Interest Period Date relating to such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

"**$\mathbf{d_c}$**" means the number of calendar days in the relevant SOFR Observation Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified hereon; and

"**SOFR Observation Period**" means, in respect of an Interest Accrual Period, the period from (and including) the date which is the number of SOFR Observation Shift Days preceding the first date of such Interest Accrual Period (and in respect of the first Interest Accrual Period, the number of SOFR Observation Shift Days preceding the Issue Date) to, but excluding, the date which is the number of SOFR Observation Shift Days preceding the Interest Period Date for such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date).

The following defined terms shall have the meanings set out below for purpose of this Condition 5(b)(iii)(C):

"**SOFR Administrator**" means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate.

"**SOFR Administrator's Website**" means the website of the SOFR Administrator (currently being, https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind), or any successor source.

"**SOFR Benchmark Replacement Date**" means the Benchmark Replacement Date with respect to the then current SOFR Benchmark.

"**SOFR Benchmark Transition Event**" means the occurrence of a Benchmark Event with respect to the then current SOFR Benchmark.

"**SOFR Rate Cut-Off Date**" has the meaning specified hereon.

"**U.S. Government Securities Business Day**" or "**USBD**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(D) *SOFR Index Unavailable*

If a SOFR Index value is not published on the relevant Interest Determination Date and a Benchmark Event (as defined in Condition 5(k)) and its related Benchmark Replacement Date (as defined in Condition 5(k)) has not occurred with respect to SOFR, then the SOFR Index shall be calculated in accordance with the Compounded SOFR formula and the related definitions as set out below in this Condition 5(b)(iii)(D):

"**Compounded SOFR**" means, for the applicable Interest Accrual Period for which the SOFR Index is not available, the rate of return on a daily compounded interest investment during the relevant Observation Period (with the daily SOFR reference rate as the reference rate for the calculation of interest) and calculated by the Calculation Agent in accordance with the following formula, and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)):

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d_c}$$

where:

"$\mathbf{d_c}$" means the number of calendar days in the relevant Observation Period;

"$\mathbf{d_o}$" means the number of U.S. Government Securities Business Days in the relevant Observation Period;

"**i**" means a series of whole numbers from one to d_o, each representing the relevant U.S. Government Securities Business Days in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Observation Period (each a "**U.S. Government Securities Business Day(i)**");

"$\mathbf{n_i}$" for any U.S. Government Securities Business Day(i) in the relevant Observation Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day(i);

"$\mathbf{SOFR_i}$" for any U.S. Government Securities Business Day(i) in the relevant Observation Period, is equal to the SOFR reference rate in respect of that U.S. Government Securities Business Day(i);

"**Bloomberg Screen SOFRRATE Page**" means the Bloomberg screen designated "SOFRRATE" or any successor page or service;

"**Observation Period**" means, in respect of each Interest Accrual Period, the period from (and including) the date falling a number of U.S. Government Securities Business Days equal to the Observation Shift Days preceding the first date in such Interest Accrual Period to (but excluding) the date falling a number of U.S. Government Securities Business Days equal to the number of Observation Shift Days preceding the Interest Period Date for such Interest Accrual Period;

"**Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified hereon;

"**Reuters Page USDSOFR=**" means the Reuters page designated "**USDSOFR=**" or any successor page or service;

"**SOFR**" means, with respect to any U.S. Government Securities Business Day:

(a) the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Reuters Page USDSOFR=; or the Secured Overnight Financing Rate that appears at the SOFR Determination Time on the SOFR Administrator's Website; or

(b) if the rate specified in (a) above does not appear, the SOFR published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website;

"**SOFR Administrator**" means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate;

"**SOFR Administrator's Website**" means the website of the SOFR Administrator (currently being, https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind), or any successor source;

"**SOFR Determination Time**" means on or about 3:00 p.m. (New York City time) on the SOFR Administrator's Website on the immediately following U.S. Government Securities Business Day; and

"**U.S. Government Securities Business Day**" means any day other than a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(iv) ***Rate of Interest for Index Linked Interest Notes***

The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined 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 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) **Calculations**

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

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**

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

(j) **Benchmark Discontinuation for Floating Rate Notes not referencing SOFR Benchmark**

Where the Original Reference Rate is not SOFR Benchmark, in addition to and notwithstanding the provisions above in Condition 5(b)(iii), if the Issuer determines that a Benchmark Event has occurred in relation to an Original Reference Rate when any Rate of Interest (or the relevant component part thereof) remains to be determined by reference to such Original Reference Rate, then the following provisions shall apply:

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

(ii) if the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine (i) a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate and (ii) in either case an Adjustment Spread and/or any Benchmark Amendments in accordance with this Condition 5(j);

(iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and in either case, an Adjustment Spread, is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and in either case, an Adjustment Spread, 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(j)); provided, however, that if Condition 5(j)(ii) applies and the Issuer (acting in a reasonable manner) is unable to or does not determine a Successor Rate or an Alternative Reference Rate and, in either case, an Adjustment Spread, 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 that applied to such preceding Interest Accrual Period for the Margin that is to be applied to the relevant Interest Accrual Period); for the avoidance of doubt, the proviso in this Condition 5(j)(iii) 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(j);

(iv) if the Independent Adviser or the Issuer (acting in a reasonable manner) determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable), and in either case, an Adjustment Spread, 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 (such amendments, the "**Benchmark Amendments**"), if such changes are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/or Adjustment Spread (as applicable). The Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) shall determine an Adjustment Spread to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and agreed as operationally practicable by the Calculation Agent. For the avoidance of doubt, the Fiscal Agent shall, subject to receipt by the Fiscal Agent of a certificate signed by a duly authorised signatory of the Issuer, at the direction and expense of the Issuer and without consent or approval of the Noteholders, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(j). Noteholder or Couponholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread or the Benchmark Amendments or such other changes, including for the execution of any documents or other steps by the Fiscal Agent (if required). The Fiscal Agent shall not be bound by or be obliged to give effect to any Benchmark Amendments, Successor Rate, Alternative

Reference Rate, Adjustment Spread or such other changes, if in the reasonable opinion of the Fiscal Agent, the same would not be operable or would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend in an adverse manner the rights and/or the protective provisions afforded to it in these Conditions and/or the Agency Agreement. In connection with any such variation in accordance with this Condition 5(j)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading; and

(v) the Issuer shall within five Business Days, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), Adjustment Spread or Benchmark Amendments, give notice thereof to the Fiscal Agent, the Calculation Agent and the Noteholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable), Adjustment Spread or Benchmark Amendments,

provided that the determination of any Successor Rate or Alternative Reference Rate, Adjustment Spread or Benchmark Amendments shall be made in accordance with applicable law. Neither the Agents nor the Calculation Agent shall be responsible or liable for any determinations, decisions or elections made by the Issuer or the Independent Adviser with respect to any Benchmark Amendments or any other changes and shall be entitled to rely conclusively on any certifications provided to it in this regard.

(k) **Benchmark discontinuation for Floating Rate Notes referencing SOFR Benchmark**

The following provisions shall apply if Benchmark Event (SOFR) is specified as applicable hereon:

(i) *Benchmark Replacement*

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the then current Benchmark, the Benchmark Replacement will replace the then current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) *Benchmark Replacement Conforming Changes*

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, any of the Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(k). Noteholders' or Couponholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by any of the Agents (if required). Further, none of the Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard. The Fiscal Agent shall not be bound by or be obliged to give effect to any Benchmark

Replacement Conforming Changes, or such other amendments, if in the opinion of the Fiscal Agent, the same would not be operable or would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or the protective provisions afforded to it in these Conditions and/or the Agency Agreement and/or any documents to which it is a party in any way.

(iii) *Decisions and Determinations*

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(k), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (i) will be conclusive and binding absent manifest error, (ii) will be made in the sole discretion of the Issuer or its designee, as applicable, and (iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party. Neither the Agents nor the Calculation Agent shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee pursuant to this Condition 5(k) or any other changes and shall be entitled to rely conclusively on any certifications provided to it in this regard. The Issuer shall within 5 Business Days, following the determination made pursuant to this Condition 5(k), give notice thereof to the Fiscal Agent, the Calculation Agent and the Noteholders, which shall specify the effective date(s) for such determination.

(iv) *The following defined terms shall have the meanings set out below for purpose of Conditions 5(b)(iii)(C) and 5(k):*

"**Benchmark**" means, initially, the relevant SOFR Benchmark specified hereon; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then current Benchmark, then "**Benchmark**" means the applicable Benchmark Replacement.

"**Benchmark Event**" means the occurrence of one or more of the following events with respect to the then current Benchmark (including any daily published component used in the calculation thereof):

(a) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(b) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(c) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

The occurrence of a Benchmark Event shall be determined by the Issuer or its designees and promptly notified to the Agents and the Calculation Agent. For the avoidance of doubt, neither the Agents nor the Calculation Agent shall have any responsibility for making such determination.

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(a) the sum of:

(A) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then current Benchmark (including any daily published component used in the calculation thereof); and

(B) the Benchmark Replacement Adjustment; or

(b) the sum of:

(A) the ISDA Fallback Rate; and

(B) the Benchmark Replacement Adjustment; or

(c) the sum of:

(A) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and

(B) the Benchmark Replacement Adjustment.

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(a) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement; or

(b) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(c) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time.

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary).

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then current Benchmark (including any daily published component used in the calculation thereof):

(a) in the case of sub-paragraph (a) or (b) of the definition of "Benchmark Event", the later of:

    (A) the date of the public statement or publication of information referenced therein; and

    (B) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(b) in the case of sub-paragraph (c) of the definition of "Benchmark Event", the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

"**designee**" means a designee as selected and separately appointed by the Issuer in writing.

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time, including the 2021 ISDA Interest Rate Derivatives Definitions (as amended or supplemented from time to time).

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark.

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Simple SOFR Average or Compounded SOFR Average is specified hereon) or SOFR Index Determination Time (where SOFR Compounded Index is specified hereon); or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes.

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(l) **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Adjustment Spread**" means a spread (which may be positive, negative or zero) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable), determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original 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 to produce an industry accepted replacement rate for the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as the case may be).

"**Alternative Reference Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the Original 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 Accrual Period.

"**Benchmark Event**", for the purposes of Condition 5(j), means:

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

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

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

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences; or

(v) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or

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

provided that in the case of (ii) and (iii) above, the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, in the case of (iv) above, the Benchmark Event shall occur on the date of the prohibition of use of the Original Reference Rate, and in the case of paragraph (v) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Fiscal Agent and the Calculation Agent. For the avoidance of doubt, the Agents shall not have any responsibility for making such determination.

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than euro and Renminbi, a day (other than a Saturday, Sunday or a public holiday) 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 T2 is operating (a "**TARGET Business Day**"); and/or

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

"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 (x) the number of days in such Determination Period and (y) 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:

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

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

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; 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 under Condition 5(j)(i).

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

"**Interest Amount**" means:

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

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

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

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

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

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

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

"**Original Reference Rate**" means the originally-specified Reference Rate used to determine the Rate of Interest (or any component part thereof) on the Notes.

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

"**Reference 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 any successor or replacement page, section, caption, column or other part of a particular information service).

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

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

"**T2**" means the real time gross settlement system operated by the Eurosystem, or any successor system.

(m) **Calculation Agent**

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these 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, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, willful default or fraud) shall not incur any liability for not doing so, and the Issuer shall (with written notice to the Fiscal Agent) 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 to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 REDEMPTION, PURCHASE AND OPTIONS

(a) Redemption by Instalments and Final Redemption

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

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

(b) Early Redemption

(i) ***Zero Coupon Notes***

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

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

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

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

(ii) ***Other Notes***

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

(c) **Redemption for Taxation Reasons**

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

(d) **Redemption at the Option of the Issuer**

If Call Option is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (which notice shall be irrevocable) and the Fiscal Agent (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 6(d).

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.

The Agents shall not be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption, nor the contents of any compliance report and shall not be liable to the Noteholders or any other person for not doing so.

(e) **Redemption at the Option of Noteholders**

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 30 nor more than 60 days' notice to the Issuer and the Fiscal Agent (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 relevant Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the relevant Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.

(g) **Purchases**

The Issuer and its Subsidiaries (as defined in Condition 4) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) **Cancellation**

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the relevant 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 relevant Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, by transfer to an account denominated in such currency with a Bank; and

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

In this Condition 7(a) and Condition 7(b), "**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 T2.

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

(b) **Registered Notes**

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

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

(iii) In Condition 7(b)(ii), "**registered account**" means (i) in the case of Notes denominated in a currency other than Renminbi, an account in the relevant currency maintained by or on behalf of the Noteholder with a Bank, and (ii) in the case of Notes denominated in Renminbi, the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, in each case, details of which appear on the relevant Register at the close of business on the Record Date.

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

*So long as the Global Certificate is held on behalf of Euroclear Bank SA/NV and Clearstream Banking S.A. or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(c) **Payments in the United States**

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

(d) **Payments subject to Fiscal Laws**

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (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 in respect of such payments.

(e) **Appointment of Agents**

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

The Agents may rely, without liability to Noteholders, on a report, confirmation, opinion or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Agents may accept and shall be entitled to rely (without further investigation or enquiry) on any such report, confirmation, opinion or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Agents and the Noteholders.

Each Noteholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and the Agents shall not at any time have any responsibility for the same and each Noteholder shall not rely on the Agents in respect thereof.

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

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

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

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

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

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

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

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

(g) **Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent on any business day in the location of 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, Sunday or public holiday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

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

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

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

8 TAXATION

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

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

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

As used in these Conditions:

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

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

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

The Agents shall not be responsible or liable for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for (A) determining whether the Issuer or any Noteholder or Couponholder is liable to pay any taxes, duty, charges, withholding or other payment referred to in this Condition 8; or (B) determining the sufficiency or insufficiency of any amounts so paid. None of the Agents shall be responsible or liable any failure by the Issuer, any Noteholder or any other third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9 PRESCRIPTION

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

10 EVENTS OF DEFAULT

If any of the following events ("**Events of Default**") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately due and payable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable unless such Event of Default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(a) **Non-Payment**: the Issuer fails to pay the principal of or any premium (if any) or interest on any of the Notes when due and such failure continues for a period of 7 days; or

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

(c) **Cross-Acceleration**: (i) any other present or future indebtedness for monies borrowed or raised by the Bank, any Relevant Branch or any of the Bank's Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Bank, any Relevant Branch or any of the Bank's Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent; or

(d) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Bank, any Relevant Branch or any of the Bank's Subsidiaries and is not discharged or stayed within 45 days; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Bank, any Relevant Branch or any of the Bank's Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager, administrator or other similar person); or

(f) **Insolvency**: the Bank or any of its Material Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type 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 any part of (or of a particular type of) the debts of the Bank or any of its Material Subsidiaries; or

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

(h) **Illegality**: it is or will become unlawful for the Bank or the relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Covenant; or

(i) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.

The Fiscal Agent shall not be obliged to take any steps to ascertain whether a potential Event of Default or Event of Default has occurred or to monitor the occurrence of any potential Event of Default or Event of Default, and shall not be liable to the Noteholders or any other person for not doing so.

In these Conditions:

"**Material Subsidiary**" means a Subsidiary of the Bank:

(a) whose gross revenue (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose gross profit (consolidated in the case of Subsidiary which itself has consolidated Subsidiaries) represents not less than 5 per cent. of the consolidated gross revenue, the consolidated gross assets, or, as the case may be, the consolidated gross profit of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, provided that:

   (i) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the Bank's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank;

(ii) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenue, gross assets and gross profit (consolidated, if applicable) shall be determined on the basis of pro forma consolidated financial statements (consolidated, if applicable) prepared for this purpose; and

(iii) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (1) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Bank; or

(b) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (a) above;

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

"**Subsidiary**" shall have the meaning set out in Condition 4 above.

11 MEETING OF NOTEHOLDERS AND MODIFICATIONS

(a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders (including by way of conference call or by use of a videoconference platform) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional

Redemption Amount, including the method of calculating the Amortised Face Amount, or (vi) to vary the currency or currencies of payment or denomination of the Notes, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. of the nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

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

(b) **Modification of Agency Agreement**

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

12 REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

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

13 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to 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 required to be given to the Noteholders pursuant to these Conditions shall be (i) (in the case of holders of Registered Notes) mailed to them at their respective addresses in the relevant 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, or (ii) published in a daily newspaper of general circulation in Hong Kong (which is expected to be the South China Morning Post in Hong Kong). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

So long as the Global Note or, as the case may be, the Global Certificate is held in its entirely on behalf of Euroclear Bank SA/NV and Clearstream Banking S.A. any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV and Clearstream Banking S.A. for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

So long as the Global Note or, as the case may be, the Global Certificate is deposited with a sub-custodian for the CMU, notices to Noteholders represented by the Global Note or, as the case may be, the Global Certificate may be given by delivery of the relevant notice to the CMU for communication by the CMU to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

15 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

16 GOVERNING LAW AND JURISDICTION

(a) Governing Law

The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

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

(c) **Service of Process**

Each of the Bank and the relevant Issuer irrevocably agrees to receive service of process at the place of business of the Bank established in Hong Kong in accordance with the Companies Ordinance (Cap. 622) of Hong Kong at 31/F, Three Exchange Square, 8 Connaught Place, Hong Kong in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Bank or the relevant Issuer). If due to any reason the Bank shall cease to have a place of business in Hong Kong, each of the Bank and the relevant Issuer irrevocably agrees to appoint a substitute process agent acceptable to the Agents and shall promptly notify the Agents and the Noteholders of such appointment. Nothing shall affect the right to serve process in any manner permitted by law.

(d) **Waiver of immunity**

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

SUMMARY OF PROVISIONS RELATING TO NOTES WHILE REPRESENTED BY GLOBAL NOTES OR GLOBAL CERTIFICATES

INITIAL ISSUE OF NOTES

Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream and/or as the case may be, the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Registered Notes will be represented by registered Certificates, one definitive Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series or (a) in the case of Notes issued in reliance on Category 3 of Regulation S of the Securities Act, a Temporary Global Certificate or (b) in the case of all other Notes, a Permanent Global Certificate, in respect of the Notes. Interests in Temporary Global Certificates will be exchangeable for interests in a Permanent Global Certificate only after the date falling at least 40 days after the completion of the distribution of the Notes of the relevant Series and upon certification as to non-U.S. beneficial ownership. Registered Notes sold in an "**offshore transaction**" within the meaning of Regulation S will initially be represented by an Unrestricted Global Certificate. Registered Notes sold in the United States to QIBs within the meaning of Rule 144A will initially be represented by a Restricted Global Certificate.

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

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

RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

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

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

EXCHANGE

Temporary Global Notes

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

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the TEFRA C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

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

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

Permanent Global Notes

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

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

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

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

Temporary Global Certificates

Interests in a Temporary Global Certificate will be exchangeable after its Exchange Date, upon certification of non-U.S. person beneficial ownership, for beneficial interests in the related Permanent Global Certificate deposited on its Issue Date with, and registered in the name of a nominee for the Common Depositary for Euroclear and Clearstream. For transfers of Notes represented by Temporary Global Certificates which are Unrestricted Global Certificates or Restricted Global Certificates, please refer to "*Permanent Global Certificates – Unrestricted Global Certificates*" or "*Permanent Global Certificates – Restricted Global Certificates*" in this section.

Permanent Global Certificates

The following will apply in respect of transfers of Notes held in Euroclear or Clearstream or the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

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

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

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

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Notes as set out in "*Transfer Restrictions*".

Partial Exchange of Permanent Global Notes

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

Delivery of Notes

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

Exchange Date

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

AMENDMENT TO CONDITIONS

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

Payments

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

Payments, if any, due on any Temporary Global Certificate prior to the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. In the case of interest falling due on or after the Exchange Date in respect of any portion of a Temporary Global Certificate in respect of which such certification of non-U.S. beneficial ownership has been delivered, payment will be made only to the extent that the Issuer has failed to procure the exchange for a Permanent Global Certificate or for definitive Registered Notes, as the case may be, of that portion of the Temporary Global Certificate. All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the relevant Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

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

Prescription

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

Meetings

The holder of a Global Note or of the Notes represented by a Global Certificate shall (unless such Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Global Note or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

Cancellation

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

Purchase

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

The Option of the Issuer

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

Noteholders' Options

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

Notices

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

PARTLY PAID NOTES

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

FORM OF PRICING SUPPLEMENT

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

[**EU PRIIPs 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, "**EU MiFID II**"); [or] (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**EU Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II[.]/[; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**").][5] Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**EU 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 EU PRIIPs Regulation.]

[**UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); [or] (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA[.]/[; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.][6] Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

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

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

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

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

[**Singapore Securities and Futures Act Product Classification**: Solely for the purposes of its obligations pursuant to Sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act 2001 (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products"]/[capital markets products other than "prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).][7]

Pricing Supplement dated [●]

[China Merchants Bank Co., Ltd.]/[*Branch Issuer*]

(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.$5,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated [●] [and the supplement to it dated [●]] ([together,] the "**Offering Circular**"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. [Copies of the Offering Circular may be obtained from [*address*]].

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular.

7 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.

[*The following language applies where the relevant Series of Notes will be listed on the Hong Kong Stock Exchange:*

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) ("**Professional Investors**") only.

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

HKSE has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on HKSE 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 HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document together with the Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this 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.]

1 . . .	Issuer:		[China Merchants Bank Co., Ltd.]/*[Insert Relevant Branch]*
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)*]
	[(iii)	Use of proceeds:	[●]]
6 . . .	(i)	Specified Denominations:	[●][(1)]
	(ii)	Calculation Amount[(4)]:	[●]
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*][(2)]

9 . . .	Interest Basis:	[[●] per cent. Fixed Rate] [[*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 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)] [Not Applicable]
13 . .	Status of the Notes:	Senior Notes
14 . .	Listing:	[[●]/*Other* (*specify*)/None]
15 . .	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16 . .	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] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year[(3)] [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[(4)]
	(iv) Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate*]
	(v) Day Count Fraction (Condition 5(l)):	[30/360/Actual/Actual – ICMA/ISDA/*Other*] *(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars, Renminbi or Hong Kong dollars, unless the client requests otherwise)*
	(vi) Determination Date(s) (Condition 5(l)):	[[●] in each year/Not Applicable]. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*][(5)]
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]

17 . .	Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Rate[(s)] of Interest:	
	• Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ Screen Rate Determination (SOFR Benchmark) /ISDA Determination/*Other (give details)*]
	• Margin(s):	[+/–] [●] per cent. per annum
(ii)	Interest Period(s):	[●]
(iii)	Specified Interest Payment Dates:	[●]
(iv)	Interest Period Date(s):	[Not Applicable/As defined in the Conditions/*specify dates*] *(Not applicable unless different from Interest Payment Date)*
(v)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*Other (give details)*]
(vi)	Business Centre(s) (Condition 5(l)):	[●]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s):	[The Hongkong and Shanghai Banking Corporation Limited/*Other* (*specify*)]
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	[Applicable/Not Applicable]
	• [Reference Rate:	[●]
	• Interest Determination Date:	[[●] [TARGET] Business Days in [*specify city*] for [*specify currency*] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]
	• Relevant Screen Page:	[●]]
(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	[Applicable/Not Applicable]
	• ISDA Definitions:	[2006 ISDA Definitions]/[2021 ISDA Definitions]
	• Floating Rate Option:	[●]
	• Designated Maturity:	[●]
	• Reset Date:	[●]
	• Compounding:	[Applicable/Not Applicable] (*If not applicable delete the remaining items of this sub-paragraph*)
	o Compounding Method:	[Compounding with Lookback • Lookback: [●] Applicable Business Days] [Compounding with Observation Period Shift • Observation Period Shift: [●] Observation Period Shift Business Days • Observation Period Shift Additional Business Days: [[●]/Not Applicable]] [Compounding with Lockout • Lockout: [●] Lockout Period Business Days • Lockout Period Business Days: [[●]/Applicable Business Days]]
	• Index Provisions:	[Applicable/Not Applicable] (*If not applicable delete the remaining items of this sub-paragraph*)
	o Index Method:	Compounded Index Method with Observation Period Shift • Observation Period Shift: [●] Observation Period Shift Business Days • Observation Period Shift Additional Business Days: [[●]/Not Applicable]]

(x)	Screen Rate Determination (SOFR Benchmark) (Condition 5(b)(iii)(C))	
	• [Reference Rate:	SOFR Benchmark – [Simple SOFR Average/Compounded SOFR Average/SOFR Compounded Index]
	• Compounded SOFR Average Method:	[Not Applicable/SOFR Observation Lag/SOFR Observation Shift/SOFR Payment Delay/SOFR Lockout – *used for Compounded SOFR Average only*]
	• SOFR $\text{Index}_{\text{Start}}$:	[Not Applicable]/[[●] U.S. Government Securities Business Days – *used for SOFR Compounded Index only*]
	• SOFR $\text{Index}_{\text{End}}$:	[Not Applicable]/[[●] U.S. Government Securities Business Days – *used for SOFR Compounded Index only*]
	• Interest Determination Date(s):	[The [●] U.S. Government Securities Business Day prior to the last day of each Interest Accrual Period – *only applicable in the case of Simple SOFR Average/SOFR Observation Lag/SOFR Observation Shift/SOFR Lockout/SOFR Compounded Index*] [The Interest Period Date at the end of each Interest Period, provided that the Interest Determination Date with respect to the final Interest Accrual Period will be the U.S. Government Securities Business Day immediately following the relevant SOFR Rate Cut-Off Date – *only applicable in the case of SOFR Payment Delay*]
	• Lookback Days:	[[●] U.S. Government Securities Business Days – *used for SOFR Lag only*]/[Not Applicable]
	• SOFR Observation Shift Days:	[[●] U.S. Government Securities Business Days – *used for the SOFR Observation Shift or SOFR Compounded Index only*]/[Not Applicable]
	• SOFR Rate Cut-Off Date:	[The date falling [●] Business Days prior to the end of each Interest Accrual Period, the Maturity Date or the date fixed for redemption, as applicable – *used for Simple SOFR Average (if applicable), Compounded SOFR Average – SOFR Payment Delay or SOFR Lockout only*]/[Not Applicable]
	• Interest Payment Delay Days:	[[●] Business Days – *used for SOFR Payment Delay only*]/[Not Applicable]
	• Observation Shift Days (Condition 5(b)(iii)(D) (*SOFR Index Unavailable*)):	[[●] U.S. Government Securities Business Days – *used for SOFR Index Unavailable only*]/[Not Applicable]
(xi)	Minimum Rate of Interest:	[●] per cent. per annum
(xii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiii)	Day Count Fraction (Condition 5(l)):	[●]

	(xiv)	Fallback provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[Benchmark Event/Benchmark Event (SOFR)/*specify if fallback provisions different from those set out in the Conditions*]
18 . .	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(l)):	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
19 . .	Index Linked Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula:	*[Give or annex details]*
	(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv)	Interest Period(s):	[●]
	(v)	Specified Interest Payment Dates:	[●]
	(vi)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*Other (give details)*]
	(vii)	Business Centre(s) (Condition 5(l)):	[●]
	(viii)	Minimum Rate of Interest:	[●] per cent. per annum
	(ix)	Maximum Rate of Interest:	[●] per cent. per annum
	(x)	Day Count Fraction (Condition 5(l)):	[●]
20 . .	Dual Currency Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/Method of calculating Rate of Exchange:	[*Give details*]
	(ii)	Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
	(v)	Day Count Fraction (Condition 5(l)):	[●]

PROVISIONS RELATING TO REDEMPTION

21 . .	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:		[●]
22 . .	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:		[●]
23 . .	Final Redemption Amount of each Note			[●] per Calculation Amount
24 . .	Early Redemption Amount			
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):			[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25 . .	Form of Notes:	[Bearer Notes/Registered Notes] *[Delete as appropriate]* [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time] [Permanent Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Permanent Global Certificate] [Permanent Global Certificate exchangeable for Definitive Certificates on [●] days' notice/at any time][6][7]

26 . .	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	[Not Applicable/*give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(vi) and 19(vii) relate*]
27 . .	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*]
28 . .	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*]
29 . .	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
30 . .	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
31 . .	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32 . .	Other terms or special conditions:	[Not Applicable/*give details*](7)

DISTRIBUTION

33 . .	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
34 . .	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
35 . .	U.S. Selling Restrictions	[Reg. S Category 1/2/3; TEFRA D Rules/TEFRA C Rules/TEFRA Not Applicable; Rule 144A]
36 . .	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.)*
37 . .	Prohibition of Sales to UK 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.)*
38 . .	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

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

GENERAL

47 . .	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of [●], producing a sum of (for Notes not denominated in US dollars):	[Not Applicable/U.S.$[●]]
48 . .	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
49 . .	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]
50 . .	(i) Date of corporate approval(s) for the issuance of the Notes:	[●]
	(ii) Date of any regulatory approval for the issuance of the Notes:	[●]
51 . .	Rating(s):	[Not Applicable]/[The Notes to be issued are [expected to be] rated [●] by [●]] *A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating agency.*

Hong Kong SFC Code of Conduct

52 . .	Rebates:	[A rebate of [●] bps is being offered by the [Issuer] to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
53 . .	Contact email addresses [of the Overall Coordinators] where underlying investor information in relation to omnibus orders should be sent:	[*Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – Overall Coordinators to provide*]/[Not Applicable]
54 . .	[Marketing and Investor Targeting Strategy:	[*Provide details if different from the Offering Circular*]]

[USE OF PROCEEDS

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

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme of China Merchants Bank Co., Ltd..]

[STABILISATION

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

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There][(8)] has been no significant change in the financial or trading position of the Issuer or of the Group since *[insert date of last audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer or of the Group since *[insert date of last published annual accounts]*.]

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ________________________________

Duly authorised

Notes:

(1) 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) 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.

(3) 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."

(4) For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by

multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.05 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.01, HK$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

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

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

(7) Only applicable if permitted by the rules of the relevant clearing system. The limited circumstances in which exchange is permitted are set out under the section "Summary of Provisions Relating to Notes while Represented by Global Notes or Global Certificates – Exchange" in the Offering Circular.

(8) 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.

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

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's consolidated capitalisation and indebtedness as at 31 December 2022. This table should be read in conjunction with the financial statements and the accompanying notes included in this Offering Circular.

	As at 31 December 2022
	(in millions of RMB)
Liabilities[(1)]	
Debt securities issued	
Subordinated bonds issued	19,994
Long-term debt securities issued	120,971
Negotiable interbank certificates of deposit issued	65,719
Certificates of deposit and other debt securities issued[(2)]	15,604
Interest payable	1,533
Total debt securities issued	223,821
Equity	
Share capital	25,220
Other equity instruments	120,446
– Preference shares	27,468
– Perpetual bonds	92,978
Capital reserve	65,435
Investment revaluation reserve	11,815
Hedging reserve	151
Surplus reserve	94,985
General reserve	132,471
Retained earnings	449,139
Proposed profit appropriation	43,832
Exchange reserve	2,009
Total equity attributable to equity holders of the Bank	**945,503**
Non-controlling interests	8,735
– Non-controlling interest	5,948
– Perpetual debt capital	2,787
Total equity	954,238
Total Capitalisation[(3)]	1,178,059

(1) As at 31 December 2022, besides debt securities issued, the Group had borrowing from central banks, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial liabilities at fair value through profit or loss, derivative financial liabilities, amounts sold under repurchase agreements, deposits from customers, salaries and welfare payable, tax payable, contract liabilities, lease liabilities, provisions, deferred tax liabilities, and other liabilities.

(2) Other debt securities issued are notes issued by overseas subsidiaries of the Bank.

(3) Total capitalisation represents the sum of debt issued and total equity.

Save as disclosed in this Offering Circular, there has been no material change to the Group's consolidated capitalisation and indebtedness since 31 December 2022.

USE OF PROCEEDS

Unless otherwise specified in the applicable Pricing Supplement, the Group intends to use the proceeds of each issuance of Notes for the refinancing of existing indebtedness and working capital purposes.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank was incorporated on 11 August 1987 as a joint stock company with limited liability under the Approval on Pilot Establishment of Merchants Bank (關於同意試辦招商銀行的批覆(銀覆[1986]175號)) issued by the PBOC and with registration number She Qi Fu No. 0345 (蛇企副字0345號). Founded in 1987 with its head office in Shenzhen, China, the Bank mainly focuses on the market in China. The Bank's distribution network is mainly distributed in major central cities in the Chinese mainland and some international financial centres such as Hong Kong, New York, London, Singapore, Luxembourg and Sydney. As at 31 December 2022, the Bank had 143 branches and 1,756 sub-branches in mainland China, two branch-level specialised institutions (a credit card centre and a capital operation centre), 2,695 self-service banks, 5,855 cash self-service devices and 12,511 visual counters. The Bank also has a Hong Kong branch, a New York branch and a representative office in the United States, a London branch in the United Kingdom, a Singapore branch, a Luxembourg branch, a representative office in Taipei and a Sydney branch in Australia. As at 31 December 2022, the Bank ranked first among national small- and medium-sized banks in terms of the balance of deposits from retail customers according to data released by the PBOC. As at the date of this Offering Circular, the Bank is the largest listed joint-stock bank in China by market capitalisation.

The growth of the Bank from a regional bank into a national commercial bank with significant asset scale and strength in China is primarily attributable to its resources and efforts. The Bank was listed on the Shanghai Stock Exchange in April 2002 and on the HKSE in September 2006.

The Bank provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Bank have been well received by the market. Retail banking services include the "All-in-one" multi- function debit card, credit card account and payment settlement services, classified wealth management services including the "Sunflower Wealth Management" services and private banking services, retail credit services, CMB APP, CMB Life APP, "All-in-one Net" which is a comprehensive online banking service platform, and other online services. Wholesale banking services include payment and settlement, wealth management, investment and financing and digital services, cash management, sci-tech finance, green finance, inclusive finance, supply chain finance and cross-border finance services, asset management, asset custody and investment banking. The Bank continues to tap further into the living and business circles of customers to provide customers with customised, intelligent and comprehensive solutions for their supply chains and investment chains.

In recent years, the Bank has continued to deepen its strategic transformation and come up with the strategic vision of "building the best value creation bank with innovation-driven development, leading model and distinguished features" based on the internal and external situation and its own development. In line with the trend of steady advancement of China's common prosperity initiative underpinned by the transformation and upgrading of traditional industries and the development and growth of emerging industries, the Bank actively serves the real economy, helps people realise their dreams for a better life, and strives to create more value for customers, employees, shareholders, partners and the society.

As at 31 December 2021 and 2022, the Group had RMB9,249.0 billion and RMB10,138.9 billion in total assets, respectively, and RMB5,570.0 billion and RMB6,051.5 billion in gross amount of loans and advances to customers, respectively. For the years ended 31 December 2021 and 2022, the Group had an operating income of RMB327.4 billion and RMB342.2 billion, respectively, and a net profit of RMB120.8 billion and RMB139.3 billion, respectively. For the year ended 31 December 2022, the Group realised a net profit attributable to shareholders of the Bank of RMB138.0 billion, representing a year-on-year increase of 15.1%. For the year ended 31 December 2022, net operating income[8] was RMB344.7 billion, representing a year-on-year increase of 4.0%, among which, the net interest income was RMB218.2 billion, representing a year-on-year increase of 7.0%. The Group's net non-interest income was RMB126.5 billion for the year ended 31 December 2022, representing a year-on-year decrease of 0.8%. For the year ended 31 December 2022, the Group's ROAA attributable to shareholders of the Bank and ROAE attributable to ordinary shareholders of the Bank were 1.42% and 17.06%, up by 0.06 percentage point and 0.10 percentage point year-on-year, respectively. For the years ended 31 December 2021 and 2022, the net interest spread of the Group was 2.39% and 2.28%, respectively, and the net interest margin of the Group was 2.48% and 2.40%, respectively.

In 2021 and 2022, the Bank received a number of honours and awards from organisations both at home and abroad, including:

- In February 2021, on the list of "The Top 500 Banking Brands 2021" released by The Banker (UK), the Bank ranked 10th with a brand value of USD21.0 billion.

- In June 2021, the Bank won "Overall Best National Private Bank", "Best Private Bank for Intergenerational Wealth Transfer", "Best Private Bank for Product Development" and "Best Private Bank for Family Offices" at the ceremony for the "Asia Private Banking Awards 2021 (China)" held by Asiamoney. In the same month, the Bank was awarded the "Transaction Bank of the Year" and "Best Transaction Bank for International Cash Management" at the ceremony for the "Best Transaction Banks in China Awards 2021" held by Asiamoney.

- In June 2021, the Bank ranked 14th, in terms of tier 1 capital, on the list of "Top 1,000 World Banks 2021" released by The Banker (UK), up by 3 places from the previous year and maintained in top 20 for four consecutive years.

- In July 2021, the Bank received the award of "Best Bank in China" at the "2021 Awards for Excellence" ceremony staged by Euromoney for the third consecutive year, which marked the first "3 Consecutive Championships" in its awarding history.

- In July 2021, the list of Fortune China 500 was announced, on which the Bank ranked the 37th in terms of operating income. The following month, the list of Fortune Global 500 was officially released, on which the Bank appeared for 10 consecutive years, ranking the 162nd in terms of operating income, up by 27 places from the previous year.

- In September 2021, in the "Outstanding Companies Poll" organised by Asiamoney, the Bank was honored as the "Best Listed Company in the Banking Industry in China". In the same month, the Bank won the "Best Corporate and Investment Bank" in a row and the "Best Domestic M&A" awards in the selection of the "China Corporate and Investment Banking Awards 2021" hosted by Asiamoney.

- In September 2021, in the selection of the 11th China Charity Award, the Bank was selected in the "Commendation List for Outstanding Contributions in Fighting against the COVID-19 Pandemic" under the donating enterprise category.

- In September 2021, the US "Global Finance" magazine released the results of the 2021 Sustainable Finance Awards, and the Bank won the "Outstanding Leadership in Sustainable Bonds in the Asia-Pacific Region" award.

8 Net operating income is the sum of net interest income, net fee and commission income, other net income as well as share of profits of joint ventures and associates.

- In October 2021, the Bank won the "Best Retail Bank in China" in "Asia Trailblazer 2021" hosted by Retail Banker International.

- In October 2021, in the selection of "Dimensity Award 2021" organised by Securities Times, the Bank won the "High-quality Development (Comprehensive Award)", "Golden Wealth Management Brand (Zhao Zhao Bao) "and "Outstanding Asset Custody "award.

- In December 2021, the Bank won "Top Three Best Employers", "Most Socially Responsible Employer" and "Most Admired Employer by Women" at the awards ceremony for the "Best Employer in China 2021" jointly organised by Zhaopin.com and Institute of Social Science Survey, Peking University.

- In February 2022, on the list of "The Top 500 Banking Brands 2022" released by The Banker (UK), the Bank ranked 10th with a brand value of USD24.4 billion.

- In February 2022, in the selection results of the "2022 Private Banking and Wealth Management Survey" released by Euromoney, the Bank was once again awarded the "Best Private Bank/Wealth Manager Overall of PRC", which also marked the Bank's 12th time to win such an award.

- In May 2022, in the selection results of the second Annual Sustainable Finance Awards 2022 released by the US-based Global Finance magazine, the Bank won the Award for "Outstanding Leadership in Sustainability Transparency in the Asia-Pacific Region".

- In June 2022, the Bank was awarded the "Best Retail Bank in China" in "Asia Trailblazer Awards 2022" hosted by Retail Banker International.

- In June 2022, at the awards ceremony for the "2022 All-Asia Executive Team" held by the US-based Institutional Investor Magazine, the Bank championed several awards, including "Honored Companies", "Best IR Company", and "Best ESG Company".

- In July 2022, the Bank ranked 11th, in terms of Tier 1 Capital, on the list of "Top 1,000 World Banks 2022" released by The Banker (UK), up 3 places in terms of ranking from the previous year and remaining in top 20 for five consecutive years.

- In July 2022, the Bank received the award of "Best Bank in China" at the "2022 Awards for Excellence" ceremony staged by Euromoney for the fourth consecutive year, which marked the first "4 Consecutive Championships" in its awarding history.

- In August 2022, the list of Fortune Global 500 was officially released, on which the Bank appeared for 11 consecutive years, ranking the 174th in terms of operating income.

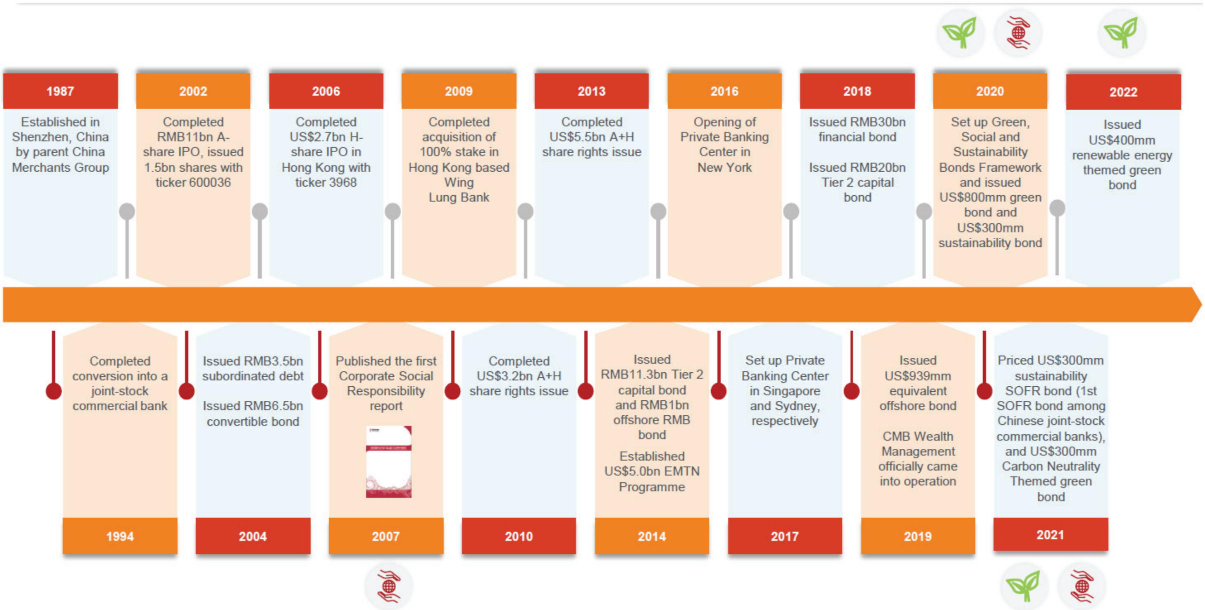
- In August 2022, the results of the "2022 International Excellence in Retail Financial Services Awards" was announced by the Asian Banker Journal, in which the Bank was once again awarded "The Best Wealth Management Bank in China".

- In September 2022, in the latest rating of the "2022 Market Leaders" published by Euromoney, the Bank received the highest ratings in four sectors, namely, corporate banking, corporate social responsibility (CSR), ESG and digital solutions.

- In September 2022, in the selection results of the "Global Finance's 15th Annual China Star" awards released by the US-based Global Finance magazine, the Bank was honored with four awards, namely, "The Best Transaction Service Bank" "The Best Corporate Social Responsibility Bank" "The Best Wealth Management Bank" and "The Best Sustainable Investment Private Bank".

- In December 2022, the Bank won "Top Three Best Employers", "Most Socially Responsible Employer" and "Most Admired Employer by Women" at the awards ceremony for the "Best Employer in China 2022" jointly organised by Zhaopin.com and Institute of Social Science Survey, Peking University

The following chart shows certain events in the Bank's historical development.



CORE COMPETITIVE STRENGTHS

The Bank's core competitive strengths are as follows:

Leading retail finance business with unique competitive advantages

The Bank is one of the earliest among its domestic peers to have prioritised the development of its retail finance business. The Bank has developed a leading position in retail finance business in recent years. By building a comprehensive business management system, a healthy customer structure, a coordinated system of channels and a well-organised product portfolio, the Bank believes it has established its systematic advantages and secured a leading market position. It plans to continue to reinforce and enlarge its core retail businesses such as wealth management, small and micro enterprise business and consumer finance.

For the year ended 31 December 2022, the profit of the retail finance business of the Group maintained its rapid growth, with the profit before tax amounting to RMB94.2 billion, representing an increase of 21.2% as compared with the corresponding period of the previous year. The net operating income from the retail finance business amounted to RMB191.4 billion, representing an increase of 6.9% as compared with the corresponding period of the previous year, and accounting for 55.5% of the net operating income of the Group, up by 1.50 percentage points as compared with the corresponding period of the previous year.

Corporate finance business with specialised and professional operations

The Bank's corporate finance business, such as cash management, trade finance, cross-border finance and mergers and acquisitions financing, continued to achieve a rapid and steady growth and a strong performance. With respect to its M&A financing business, under the unfavourable domestic and overseas situation, the Bank focused on key business areas such as mixed ownership reform of state-owned enterprises, private placements and mutual fund of real estate investment trusts (REITs) and continued to integrate internal and external resources. While meeting the financing needs of customers, the Bank achieved rapid development in the M&A financing business and established comprehensive and in-depth cooperative relationships with a group of leading enterprises in the industry through M&A financing services. As at 31 December 2022, total corporate loans of the Bank amounted to RMB2,097.1 billion, representing an increase of 11.4% as compared with the end of the previous year and accounting for 36.7% of total loans and advances to customers. For the year ended 31 December 2022, the Bank achieved M&A financing of RMB186.4 billion, and the proportion of the balance of M&A loans to the Bank's corporate loan balance hit a record high.

Rapidly developing cross-border finance platform

With regards to its cross-border customers, the Bank has overcome many unfavourable factors in domestic and overseas markets, continuously improved the competitiveness of systematic operation of cross-border business under the main direction of customer operation and expansion, created new advantages in cross-border services with "domestic and overseas integration" and Fintech, reshaped the influence of cross-border finance brands with a new product system of "Cross-Border E Zhao Tong (跨境E招通)", and strengthened the construction of a compliant and stable foreign exchange policy and risk management system with long-termism. As at 31 December 2022, the Bank had 78,877 corporate customers in respect of international settlement, representing a year-on-year increase of 5.8%. Through further promotion of digital operation and management, the Bank has greatly improved the online rate of cross-border finance business, built full-scenario online services of cross-border settlement, transaction, and trade financing. For the year ended 31 December 2022, the number of corporate cross-border online remittances of the Bank was 631,700 times, representing a year-on-year increase of 75.6% and accounting for 75.6% of the total number of corporate cross-border remittances, representing a year-on-year increase of 23.59 percentage points. As at 31 December 2022, the Bank's corporate international settlement amounted to USD408.2 billion, representing a year-on-year increase of 10.4%. As at 31 December 2022, the Group realised net non-interest income of RMB126.5 billion, representing a decrease of 0.8% as compared with the corresponding period of the previous year.

Innovative e-channels and IT platform

With the Bank's continuous investments in Fintech, the Bank took another lead in the industry in terms of Fintech as it successfully completed a full-scale cloud deployment on the basis of non-interruption of operation, non-shutdown of machines and no impact on clients. The Bank empowered business expansion and improved management quality and efficiency through digitalisation. The Bank also exported technological capabilities to serve clients' digital transformation, and due to the application of the Bank's AI-powered intelligent customer service and other technologies, the Bank's staff was relieved from repetitive, time-consuming work equivalent to a workload of over 12,000 individuals.

In terms of Fintech infrastructure, the Bank achieved a stable and seamless migration to the cloud, created a new foundation of digitalisation, and possessed the ability to independently control in core areas. With the industry-leading availability of the core accounting system and backbone network, Phase II of Shenzhen Pinghu Data Centre commenced operation, providing key infrastructure for the Bank's core business. The Bank gave full play to the function of "two middle offices", the data middle-office and technology middle-office. DDH, the home of data developers, was put into operation to improve the development efficiency of comprehensive data. The technology middle-office continued to release shared components and promoted the platform construction of independent intellectual property rights, taking a leading position in the construction and application of domestic low code development platform. "Yun Xiao" (雲效), a one-stop micro-service application design and R&D management platform, was launched to support the implementation of the cloud development paradigm through the tool system, making the R&D process automated, visible and manageable, and improving the quality and efficiency of R&D.

Industry benchmark of high-quality services

The Bank has devised unique service models since its inception and established the service concept of "we are here just for you" through years of practice in the banking business. The Bank attach importance to the customer service experience, proactively promote service upgrading, and always keep its service quality ahead. "Good service" has been the brand for the Bank to attract customers and expand market.

Continuously enhanced brand influence

The Bank built up "CMB" as an excellent financial brand by making sustained product technology innovation, offering high quality services, generating steady operational results and advanced management concepts. Since its inception, the Bank has been enhancing its brand influence and the brand value has rapidly increased. On the List of "Top 1,000 World Banks 2022" released by The Banker (UK), the Bank ranked 11th, up 3 places in terms of ranking from the previous year and ranked in the Top 20 for five consecutive years. The Bank received the award of the "Best Bank in China" by Euromoney once again, which marked the first "4 Consecutive Championships" in its awarding history. The Bank won the "The Best Transaction Service Bank", "The Best Corporate Social Responsibility Bank", "The Best Wealth Management Bank" and "The Best Sustainable Investment Private Bank" released by the US-based Global Finance magazine. The Bank also won "The Best Wealth Management Bank in China" released by the Asian Banker Journal in August 2022.

Experienced management team

The Bank's senior management team is highly experienced with a proven track record of performance. With extensive management knowledge, operating experience, expertise and with relevant professional experience in the industry, the Bank's senior management's capabilities have been critical to its success and their strategic vision and leadership have positioned the Bank for continued growth. The Bank believes that its management team, with a proven track record in delivering sound operational and financial results, is equipped with the critical knowledge and skills required to take advantage of market opportunities, which are expected to continue to improve the Bank's overall performance.

BUSINESS DEVELOPMENT STRATEGIES

The Bank is committed to building the best value creation bank with innovation-driven development, leading model and distinguished features. In light of the advantages of retail banking which is less cyclically relevant, and the advantages of endogenous growth of capital benefiting from the "Light-model Bank", the Bank upholds the philosophy of win-win business and business for common good to grow into a value creation bank. The Bank seeks to maximise the comprehensive value of customers, employees, shareholders, partners and the society, as well as creating a new pattern of high-quality growth, aiming to become a world-class commercial bank. The Bank's strategic focus is centred on building three capacities in wealth management, Fintech and risk management, and also to promote the evolution of organisational culture. Based on the needs of the country and enterprises and the ability of the Bank, the Bank is expected to perform its ESG responsibilities, serve the real economy and meet the needs of people's livelihood to create a new stage for high-quality growth.

The Bank intends to implement the following strategies:

- Expanding wealth management business and accelerating the transformation of the business model. The Bank seeks to improve their customer service system across the entire customer base featuring segmentation and classification-based management and build a customer structure that is in line with China's social development and national economic transformation. With a product portfolio chain based on the Bank's products, the Bank seeks to establish a service system of integrating investment banking and commercial banking and strive to be the principal bank for settlement and wealth management, the principal bank and the first-inquiry bank preferred by the Bank's customers. With the asset and capital organisation chain consolidated with the entire market as resources, the Bank seeks to combine internal and external efforts to enhance the systematisation of asset organisation, build asset management capabilities across different markets, and strengthen the ability to circulate large amount of funds on and off balance sheet. With the goal of collaborative growth, the Bank seeks to build a regional development chain and promote multi-polarisation development to form a development landscape driven by both the whole bank integration and regional differentiation.

- Optimising Fintech and accelerating comprehensive digital transformation. The Bank seeks to comprehensively promote the digital reshaping of financial infrastructure and capability system, customers and channels, businesses and products, management and decision-making, in order to provide a strong impetus for building a value creation bank. The Bank's digital transformation and fintech optimisation is expected to focus on the domains of data, intelligence, platform and ecology.

- Strengthening risk management and building a fortress-style overall risk and compliance management system. Adhering to the prudent risk management concept, using Fintech as the tool, and taking a prudent risk appetite as a guarantee, the Bank seeks to create a "Six All" risk management system covering all customers, all assets, all risks, all institutions, all processes, and all factors to support operation of the value creation bank.

- Pursuing the core values and building the cultural and organisational foundation for a value creation bank. Firstly, the Bank seeks to create a cultural system featuring openness, integration, equality and inclusiveness. Secondly, the Bank is expected to set up an organising team for supporting their strategies and creating value together. Finally, the Bank seeks to set up a social value system for the environment, society and governance.

In 2022, under the strategic vision of "building the best value creation bank with innovation-driven development, leading model and distinguished features", the Bank focused on the value creation chain of "volume growth – revenue growth – profit growth – value growth", while striving to improve its capabilities in wealth management, risk management, and Fintech, so as to support the real economy with high-quality service, facilitate the people to embrace better life, and keep dedicated to creating value for customers, employees, shareholders, partners, and the society as a whole. The Bank implemented its business development strategies as follows:

Firstly, the Bank realised balanced development of "Quality, Efficiency and Scale".

- The Bank adhered to the aforesaid value creation chain throughout the overall business development. First, priority was given to "volume growth" by adequate expansion of customer base and structural adjustment, thus forming scale effect and snowballing effect for business development. The second key step was achieving "revenue growth" by strengthening the deposit and loan pricing management and optimising the intermediary business structure to realise business growth into revenue recognised. Third, the Bank consolidated the foundation of "profit growth" with firm adherence to the bottom line of quality, equally emphasising risk control, risk management and risk operation. Last, by keeping a close eye on the goal of "value growth", the Bank continuously improved the efficiency of capital operation and boosted the level of capital return.

- For the year ended 31 December 2022, the Bank realised the dynamically balanced development of "Quality, Efficiency and Scale". In detail, it maintained stable asset quality, the leading position in risk compensation capacity, the satisfactory operating efficiency as expected, steady profit growth, and a relatively high level of capital adequacy ratio. Also, the Bank's business scale grew steadily, and the customer base, assets and liabilities maintained reasonable growth in quantity and effective improvement in quality. The Bank's operational structure had obvious advantages, where profit contribution by retail finance business exceeded one-half and indicators such as proportion of demand deposits, proportion of net non-interest income and others maintained a relatively good level.

Secondly, the Bank continued to promote the business development of extensive wealth management.

- In line with the explosive growth of residents' demand for wealth management and the long-term trend of narrowing net interest margin, the Bank accelerated model transformation, actively promoted wealth management capacity building for the entire customer base, benchmarked against world-class banks, and expanded and strengthened the wealth management business.

- The Bank strived to become the main wealth management account for customers, and comprehensively promoted the "CMB TREE Asset Allocation Services System" by carrying out the "Original Aspiration Plan (初心計劃)" to improve customers' and employees' experience and systematically improve wealth management ability. As at 31 December 2022, the Bank's retail customers reached 184 million in total, representing an increase of 6.4% as compared with the end of 2021. Total assets under management (AUM) for retail customers amounted to RMB12.1 trillion, representing an increase of 12.7% as compared with the end of 2021. The number of customers holding the Bank's wealth management products reached 43,129,300, representing an increase of 14.1% as compared with the end of 2021. The number of private banking customers exceeded 130,000, and total assets under management for private banking customers reached RMB3.8 trillion, representing an increase of 11.7% as compared with the end of 2021.

- Relying on an open platform to provide diversified products, the Bank introduced high-quality asset management institutions throughout the market, and jointly served the diversified wealth management demands of retail customers, financial institution customers, and corporate customers. As at 31 December 2022, the Bank introduced quality products from a total of 10 wealth management subsidiaries of peer bank to customers, and 139 high-quality asset management institutions to the "Zhao Cai Hao (招財號)", an open platform in CMB APP. "Zhao Cai Hao" has 19.7 million followers, and for the year ended 31 December 2022, "Zhao Cai Hao" has provided wealth management-related information, interaction and activities to customers for more than 413 million times, providing professional investor education and companionship for customers on their investment journeys. For the year ended 31 December 2022, the Bank's sales of third-party asset management products to financial institution customers through "Zhao Ying Tong (招赢通)" platform exceeded RMB770.0 billion, representing a year-on-year increase of 24.8% on the same calibre as compared with the corresponding period of 2021.

- The Bank realised the synergetic "flywheel effect" through business integration and leveraged its comprehensive operational advantage and open as well as integrated organisational advantage to drive the retail "One Body" flywheel and the "One Body with Two Wings" flywheel so that the Group's flywheel revolves more effectively. The Bank deeply promoted the integration of debit cards and credit cards in terms of customer acquisition and operation. As at 31 December 2022, the customers holding both the Bank's debit cards and credit cards accounted for 64.1% of the Bank's credit card customers, up by 1.49 percentage points as compared with the end of the previous year. By deepening the integration of wholesale and retail finance, the Bank acquired 155,000 new enterprise customers in its payroll business for the year ended 31 December 2022. As at 31 December

2022, the coverage rate of private banking services for key enterprises reached 33.6%. The Bank relied on the extensive wealth management to effectively match the mutual needs of funds allocation and assets organisation among customer bases and gave full play to its driving effect on the Group's other segments. As at 31 December 2022, the total scale of the Bank's asset management business ranked among the top in the market, reaching RMB4.4 trillion, representing an increase of 2.3% as compared with the end of the previous year. The Bank's asset custody business volume broke through the RMB20 trillion benchmark, representing an increase of 3.1% as compared with the end of the previous year; and subsidiaries in total contributed RMB2.4 trillion in AUM balance to the Bank.

Thirdly, the Bank implemented the ESG concept in a practical way and comprehensively enhanced the quality and efficiency of serving the real economy.

- Following the transformation and upgrading of the national economy, the Bank focused on directions such as green economy, manufacturing industry, technological innovation, inclusive finance, etc., to continuously innovate its mechanisms, product systems and service models. The Bank also improved the quality and efficiency of serving the real economy. The growth rates of green loans, loans extended to the manufacturing industry, loans extended to technology enterprises and SME inclusive finance loans all exceeded the overall growth rate of the loans of the Bank.

- As at 31 December 2022, the total number of corporate customers reached 2,526,100, representing an increase of 9.0% as compared with the end of 2021. The Bank's balance of green loans was RMB355.4 billion, representing an increase of RMB91.5 billion or 34.7% as compared with the end of 2021. The Bank's balance of loans extended to the manufacturing industry was RMB443.9 billion, representing an increase of RMB123.8 billion or 38.7% compared with the end of 2021, of which medium-term and long-term loans increased by 54.8%. The Bank's balance of loans extended to technology enterprises was RMB295.6 billion, representing an increase of RMB91.5 billion or 44.9% as compared with the end of 2021. The Bank's balance of SME inclusive finance loans was RMB678.3 billion, representing an increase of RMB77.2 billion or 12.9% as compared with the end of 2021. The accounts with the Bank with balance of SME inclusive finance loans totalled 990,700, representing an increase of 77,400 or 8.5% as compared with the end of 2021.

Fourthly, the Bank optimised Fintech to build a comprehensive "Digital CMB".

- Focusing on the target of "online, data, intelligence, platform and ecology", the Bank continued to promote the establishment of "Digital CMB" in terms of customer service, risk management, operational management and internal operation. For the year ended 31 December 2022, the Bank's information technology expenses amounted to RMB14.2 billion, up by 6.6% year-on-year and the ratio of the information technology expenses to the Bank's net operating income was 4.5%. The Bank continued to support construction of new capabilities and exploration of new models with the Fintech Innovation Project Fund. For the year ended 31 December 2022, 577 new Fintech innovation projects were launched, and 489 new projects were put into operation. As at 31 December 2022, the number of the Bank's Fintech innovation projects launched and put into operation reached an aggregate of 3,242 and 2,450, respectively. Meanwhile, Bank continuously improved its talent structure to establish a talent system adaptable to a Fintech bank. As at 31 December 2022, the number of R&D personnel of the Group reached 10,846, representing an increase of 8.0% as compared with the end of the previous year and accounting for 9.6% of the total number of employees of the Group.

- In terms of retail customer service, the Bank continued to improve service quality and efficiency of products, platforms and channels. The monthly active users (MAU) of the CMB APP and the CMB Life APP reached 111 million. The Bank created an APP-centred self-service business model featuring complementary advantages and full coordination with other channels, enabling 24.4 million customers to purchase "Zhao Zhao Bao (朝朝寶)", with a position amount of RMB205.6

billion at the end of 2022. The digitalisation of private banking business accelerated, and the coverage rate of online process for family trust business reached 94.3%. With respect to retail credit business, the Bank optimised the digitalised experience of customers which led to the total number of registered users of the CMB Zhao Dai (招貸) APP, an exclusive service platform for small- and micro-sized customers, reaching 2.7 million. For the year ended 31 December 2022, the credit facility of micro-finance loans applied and granted through the CMB Zhao Dai (招貸) APP reached RMB204.8 billion. The intelligent wealth engine provided the Bank's investment and research with services such as investment and research data support, algorithm analysis tool support and research results sharing, so as to improve the service efficiency for customers. The "Wealth Alpha+" platform, as an investment and research platform empowering the wealth management business across the Bank, has empowered 21,800 employees as of the end of 2022, and provided customers with more than 20 services including fund interpretation and perspective analysis of fund position, benefiting tens of millions of users on average per month, which continuously improved the professionalism of the wealth management service.

- In terms of wholesale customer service, the Bank accelerated the online migration process. The coverage rate of online basic services provided by the Bank to corporate customers reached 95.7%. The percentage of online financing business increased from 67.3% to 82.1% and the percentage of online foreign exchange business increased from 33.3% to 65.5%. The Bank facilitated industrial digitalisation with products such as Treasury Management Cloud (財資管理雲), Xin Fu Tong (薪福通), Invoice Cloud (發票雲) and Sale Cloud (銷售雲). The Bank released Xin Fu Tong (薪福通) version 4.0 which accumulatively served 695,000 enterprises in total; the number of Invoice Cloud customers was 278,900, representing an increase of 162.0% as compared with the end of 2021.

- In terms of risk management, the Bank has made extensive use of Fintech to enhance its digital risk control capability. The Bank's intelligent risk control engine accumulated enterprise-level risk control capabilities in a modular manner, and the Bank continuously expanded the coverage of risk control and improved the efficiency of risk identification, judgement and analysis. The intelligent risk control platform named "Libra" enhanced transaction risk management and control capabilities and guarded the asset security of customers with the digital technology. For the year ended 31 December 2022, the percentage of fraud and account takeover amounts by non-cardholders was lowered to 0.6 in ten millionths. The Bank established a digital and intelligent monitoring and warning system to realise warning information sharing and joint risk prevention and control at the Group-level and continued to intensify access and application of internal and external data to enhance its capability of intelligent risk control. For the year ended 31 December 2022, corporate loans newly granted through the "online risk control platform" amounted to RMB197.7 billion.

- In terms of operation management, the Bank empowered its employees via data in various operational analysis tasks. The Bank improved the employees' ability and experience of data access. The data application barrier has been further lowered, and the coverage rate of big data services has reached more than 50% of all employees in the Bank, efficiently empowering the employees to do various operation analysis. The Bank continuously integrated and optimised the existing data products to create the "digital and intelligent retail (數智零售)", a scenario-based data platform for unified retail lines which conducts real-time monitoring of key businesses and continuously empowers the digital operation and management of the Bank's extensive wealth management business. As at 31 December 2022, the number of monthly active users on the platform reached 12,300.

- In terms of internal operation, the Bank continued to enhance the automation and intelligence of business processing. The Bank promoted the optimisation of the credit process, which was reflected by an average of six hours per transaction saved for account managers through the remote loan granting, increasing the efficiency by 32% as compared to the traditional process. The intelligent operation engine, which is specialised in solving problems in the process and operation, makes full use of digitalisation to improve the automation and intelligence of operations and continuously facilitates to reduce labour costs and improve customer service experience. By leveraging the intelligent application in scenarios such as the intelligent customer service, intelligent process, voice quality inspection and the Conch RPA (Robot Process Automation), the Bank's staff were relieved from repetitive, time-consuming work equivalent to a workload of over 12,000 individuals during 2022.

- The Bank continued to build a digital operation model, and further upgrading the new digital infrastructure for the future. The Bank has successfully completed cloud migration in three years, and stepped into the cloud era in an all-round way. The Bank broke down the barriers across systems under the mainframe architecture, and comprehensively restructured the business system with "micro-services", so that new businesses and new ideas can be merged and verified promptly. At the same time, with capacity expansion and computing improvement, resilient resource supply can be arranged for the high-concurrency and high-traffic activities, thereby realising on-demand resource allocation anytime and anywhere. For the year ended 31 December 2022, the Bank has completed the smooth and intact migration to the cloud for all retail customers and wholesale customers and realised the full transition from "traditional technology architecture" to "cloud architecture".

- The Bank further deepened the construction of data middle-office and technology middle-office, and lowered the barriers to application development and data access, allowing technology to become the underlying capabilities well used by the Bank's employees. The Bank continuously optimised the data access environment and improved data access experience. The Bank accelerated the promotion of open and shared technology, built a low-code development system, improved research and development efficiency, so as to quickly respond to business needs. As at 31 December 2022, there were 4,655 shared components in the technology middle-office of the Bank, and the cumulative number of applications released under the low-code development system exceeded 6,500.

Fifthly, the Bank built a fortress-style overall risk and compliance management system.

- By building the "Six-All" risk management system covering "all customers, all assets, all risks, all institutions, all processes and all factors", the Bank strengthened unified customer risk management and established the "four-in-one" concentration risk management system by integrating limit management, credit approval officer management for customers with large transaction value, risk management and control review, and risk monitoring so as to further optimize the exposure credit facility management over group customers.

- In order to strengthen risk management for extensive wealth, the Bank established rules and regulations, improved processes and enhanced management for underwriting, agency sales, custody, consultations, and customer transactions in financial market and other businesses which were closely related to customer investment and financing services.

- In order to strengthen risk prevention and mitigation in key areas, the Bank took various approaches to reduce and dispose of risk assets, enhanced the risk compensation capacity and strengthened the ability to respond to non-credit risks such as foreign exchange-related risks, stakeholder risks, and reputation risks.

- In order to strengthen construction of risk management capability, the Bank put forth efforts to enhance the ability of risk perception, the basic ability of "pre-loan investigation, loan review and post-loan inspection", and the capability to control risk in a digital manner and to dynamically adjust risk policies.

- In order to strengthen internal control compliance, the Bank created a compliance culture of "compliance first, compliance creates value, compliance starts at the top", and continuously strengthened management and control of sanction and money laundering risks, as well as implemented regulatory compliance requirements in a more proactive and efficient manner.

Sixthly, the Bank thoroughly promoted organisational reform and cultural construction.

- The Bank continued to promote organisational reform to better serve and create value for customers. The Bank launched group financial services and explored the integration of wholesale and retail finance at a deeper level. The Bank boosted and promoted the coordinated management of sub-branches with comprehensive functions, strengthened the construction of comprehensive capabilities, and combined the application of the comprehensively functioned position mechanism to form integrated management and comprehensive service capabilities for corporate banking business, retail banking business, and operations at the branch level, and further released organisational vitality while improving operating efficiency. The Bank also strengthened and expanded sci-tech finance, serving the new development model featuring "technology + industry + finance". The Bank has piloted sci-tech finance sub-branch building in six tier-1 branches of Beijing, Shenzhen, Shanghai, Nanjing, Hangzhou and Hefei and one tier-2 branch of Jiaxing so as to create the featured business focusing on sci-tech finance. The Bank further improved the inclusive financial business system and promoted the development of inclusive financial business with new structure, new model, new connotation, and new mechanism. The Bank optimised the organisational structure and functions of risk management across the Bank, strengthened comprehensive risk management capabilities, and consolidated the foundation for high-quality growth.

- By consistent adherence to the core value of "being customer-centric and creating value for customers", the Bank formulated the "CMB Customer Service Value Proposition" and "Negative List of Core Values" to improve the consensus, capability and effectiveness of the whole Bank in practising values from both positive and negative aspects. The Bank vigorously promoted the CMB culture, polished the golden brand of service with a practical and powerful consumers' rights and interests protection mechanism, achieved a response rate of 98% within one hour of complaints, increased efforts to trace the source of rectification, and effectively solved the major issues that were mainly complained about by customers. The Bank also strengthened the construction of work ethics emphasising "service, progress, pragmatism, innovation and agility", and promoted management enhancement with good spiritual outlook and working style.

THE GROUP'S BUSINESS OPERATIONS

The Group's principal activities are the provision of corporate and personal banking services, conducting treasury businesses, and the provision of asset management and other financial services. The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. Since 2016, in order to adapt to the client and product line coordination mechanism, the Group was converted into wholesale finance business and retail finance business and other business segment. The profits and losses of the treasury were allocated to two business lines proportionally. After adjustment for the main business segments of the Group, the reporting for the segments was as follows:

- Wholesale finance business: The financial services for the corporate clients, government agencies and financial institutions include loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business such as placement and repurchase, asset custody business, financial market business, and other services.

- Retail finance business: The provision of financial services to retail customers includes loan and deposit service, bank card service, wealth management services, private banking and other services.

- Other Business: Other business covers investment properties, subsidiaries (except for CMB Wing Lung Bank Limited and CMB Financial Leasing Co., Ltd.), associates and joint ventures. None of these segments meets any of the quantitative thresholds so far for segments division. For the year ended 31 December 2022, CMB Financial Leasing Co., Ltd. was reallocated from the other business segment to the wholesale financial business segment.

The following table sets forth the operating results of each segment of the Group for the periods indicated.

	For the year ended			
	2021		2022	
Item (in millions of RMB)	**Profit before tax by segment**	**Percentage (%)**	**Profit before tax by segment**	**Percentage (%)**
Retail finance	77,709	52.4	94,178	57.0
Wholesale finance	67,386	45.5	67,149	40.7
Other businesses	3,078	2.1	3,786	2.3
Total	**148,173**	**100.0**	**165,113**	**100.0**

Note: During the year of 2022, the Group reallocated CMB Financial Leasing Co., Ltd. from the other business segment to the wholesale financial business segment. The comparative figures were re-presented accordingly.

Retail Finance

The Group is one of the earliest among its domestic peers to have prioritised the development of its retail finance business. By building a comprehensive business management system, a healthy customer structure, a coordinated system of channels and a well-organised product portfolio, the Group believes it has established its systematic advantages and secured a leading market position. Meanwhile, the Group believes it possesses outstanding competitive advantages in terms of certain core retail businesses such as wealth management, small and micro enterprise business and consumer finance.

For the year ended 31 December 2022, the profit from the retail finance business of the Bank maintained rapid growth, with profit before tax from the retail finance business of the Bank amounting to RMB92.7 billion, representing an increase of 20.5% as compared with the corresponding period of the previous year. Net operating income from the retail finance business amounted to RMB188.5 billion, representing an increase of 6.3% as compared with the corresponding period of the previous year and accounting for 60.0% of the net operating income of the Bank. Among the income from retail finance, the net interest income amounted to RMB129.3 billion, representing an increase of 11.5% as compared with the corresponding period of the previous year and accounting for 68.6% of the net operating income from retail finance. Net non-interest income from the retail finance business amounted to RMB59.1 billion, representing a decrease of 3.6% as compared with the corresponding period of the previous year while accounting for 31.4% of the net operating income from retail finance and 57.1% of the net non-interest income of the Bank. For the year ended 31 December 2022, the retail finance business of the Bank recorded a fee income of RMB21.3 billion from retail bank cards, representing an increase of 10.6% as compared with the corresponding period of the previous year. The Bank's fee and commission income from retail wealth management was RMB29.6 billion, accounting for 52.1% of the net fee and commission income from retail finance.

Retail Customers and Total Assets Under Management from Retail Customers

For the year ended 31 December 2022, under the complex and severe external market environment at home and abroad, the Bank restructured the asset allocation system, kept on promoting product creation and design and refined management, made full use of Fintech to improve operating efficiency and strengthened customer companionship. Customer group expansion and operation still achieved good results. The number of retail customers and the assets under management (AUM) from retail customers maintained stable growth.

As at 31 December 2022, the Bank had 184 million retail customers (including debit and credit card customers), representing an increase of 6.4% as compared with the end of the previous year, among which, the number of Golden Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 4,143,400, representing an increase of 12.8% as compared with the end of the previous year. The balance of total assets under management from the Bank's retail customers amounted to RMB12,123.0 billion, representing an increase of 12.7% as compared with the end of the previous year, among which, the balance of total assets under management from the Golden Sunflower-level and above customers amounted to RMB9,866.6 billion, representing an increase of 11.7% as compared with the end of the previous year, and accounting for 81.4% of the balance of total assets under management from retail customers of the Bank. The balance of deposits from retail customers of the Bank amounted to RMB2,955.8 billion, representing an increase of 36.3% as compared with the end of the previous year. As at 31 December 2022, the demand deposits accounted for 65.0% of the daily average balance of deposits from retail customers of the Bank. As at 31 December 2022, a total of 188,000,000 All-in-one Cards (including Class-II cards) had been issued by the Bank for retail customers, up by 6.2% as compared with the beginning of the year.

Wealth Management

The Bank launched its wealth management services in 2002 to meet the growing needs of affluent customers in China. The Bank's Sunflower wealth management services are generally provided to the Bank's Sunflower VIP customers. Such services include, among other things, dedicated one-on-one financial consulting services, dedicated Sunflower wealth management centres, VIP rooms and VIP counters, provision of timely wealth management information and special discounts for certain of the Bank's products and services. The Bank's wealth management customers also enjoy other services provided by many of the Bank's partners, including, among others, airports, hotels, restaurants, shopping centres and fitness club services in China.

In order to better meet domestic investors' increasingly diversified demand for wealth management, the Bank endeavoured to improve the wealth management experience of customers and sharpen its brand image as a wealth management bank through creating professional wealth management research and support system, developing a professional customer asset management system, improving its customer management and asset allocation capabilities and establishing a comprehensive wealth management product line. As at 31 December 2022, the Bank had 43,129,300 customers who held the Bank's wealth products, representing an increase of 14.1% as compared to the end of 2021.

Given the background of slowing global economic growth, the Bank took the initiative to address the market changes proactively and adjusted its business strategies in a timely manner. As at 31 December 2022, the Bank recorded RMB3,138.4 billion in the balance of retail wealth management products, representing an increase of 4.5% as compared with the end of 2021. In 2022, affected by the market, the fluctuation of the net value of wealth management products exacerbated, which resulted in significant drop of risk appetite of customers and thus contributed to the slowing growth of the scale of wealth management products as compared to the previous year. The Bank's sales of agency non-monetary mutual funds amounted to RMB335.1 billion, representing a decrease of 44.9% as compared with the corresponding period of the previous year. The decrease was mainly due to the impact of the macroeconomic environment and the performance of the capital markets, and the sales volume of equity fund products declining on a year-on-year basis. The Bank recorded RMB112.5 billion in agency distribution of trust schemes, representing a decrease of 72.9% as compared with the corresponding period of the previous year, mainly due to the fact that the Bank actively adjusted its business direction under the policy background of "returning to the origin of finance", "reform of trust business classification", and other policy backgrounds. The Bank recorded RMB72.4 billion in premiums from agency distribution of insurance policies, representing a decrease of 6.1% as compared with the corresponding period of the previous year. The decrease was mainly due to the fact that the Bank continued to optimise the product structure and increased the promotion of regular payment business with high value contribution, while the lump-sum payment business with high premium contribution slowed down. For the year ended 31 December 2022, the Bank recorded a fee and commission income from retail wealth management business of RMB29.6 billion, among which income from agency distribution of insurance policies amounted to RMB12.2 billion, income from agency distribution of funds amounted to RMB6.9 billion, income from agency sales of wealth management services amounted to RMB6.4 billion, income from agency distribution of trust schemes amounted to RMB3.9 billion, and other income amounted to RMB0.4 billion.

For the year ended 31 December 2022, under the national goal of firmly promoting "common prosperity for all", the Bank continued to strengthen the advantages of its wealth management professional services and online services, actively promote the platform of wealth management, assist customers in achieving asset preservation and appreciation, and make wealth management accessible to all people. Firstly, the Bank offered new products to satisfy the differentiated demands of the customers. It proactively expanded the partner circle with the newly admitted companies as follows: 3 public offering fund companies, 2 wealth management subsidiaries of peer bank, and 2 insurance companies. The Bank also promoted the admission and agency sales of individual pension products which is the third pillar of the pension system. As at 31 December 2022, the Bank had admitted and performed agency sales of 121 individual pension fund products, 3 individual pension insurance products, and 10 individual pension wealth management products. Secondly, the Bank upgraded and launched "CMB TREE Asset Allocation Service System". For the year ended 31 December 2022, the Bank focused on the customers' wealth management service journey to forge asset allocation service procedures, and based on the classification of customers, allocated large-scale assets and subclass assets, kept dynamic examination, and realised balance, in order to better satisfy the customers' demands of pursuing "safe, stable, and professional accompany" and make wealth management services professional and warm. As at 31 December 2022, the Bank had 8.1 million customers who conducted asset allocation under such system, representing an increase of 16.1% as compared with the end of the previous year. Thirdly, the Bank established a competitive online wealth product matrix preliminarily. In order to set a competitive light-model wealth product matrix, the Bank started with the low-threshold products such as "Zhao Zhao Bao" and "Zhao Zhao Ying No. 2", guided users to make progress in the investment demands, and explored upgrading operation models. By forging more comprehensible and acceptable online investment scenario, the Bank formed a stable investment product matrix of non-monetary mutual funds with "month-quarter-half-year" brand series as the core. By creating a scenario-based matrix, the Bank satisfied diversified investment demand of aggressive investment users. With the Internet insurance business preliminarily built the progressive product matrix of "Gift Insurance – Scenario Insurance – Value Insurance", the Bank launched "Hui Min Bao (惠民保)" Service Platform among industry peers, realising the rapid growth of category and customer coverage. For the year ended 31 December 2022, the repurchase rate of wealth trading customers reached 54.6%, representing a year-on-year increase of 2.73 percentage points. Fourthly, the Bank jointly established online operation ecology with partners and improved the comprehensive service capacity for wealth management. It provided partners with practical tools and function models including but not limited to pictures & texts, short videos, and live streaming services to promote and perfect the construction of the wealth ecology. As at 31 December 2022, 139 asset management agencies with industrial representativeness used "Zhao

Cai Hao", an open platform of wealth management business of the Bank. As at 31 December 2022, "Zhao Cai Hao" had a total of 19,730,000 followers, and provided customers with services of over 413 million times during the same year. Fifthly, the Bank proactively addressed the fluctuation in the net value of the products caused by the market turmoil. On the one hand, the Bank assisted customers to acquire new investments in response to the challenging macroeconomic environment. On the other hand, the Bank focused more on customer experience in respect of product creation and supply. In order to better meet the needs of customers for allocation of stable products, the Bank enabled the supply of stable wealth management products accounting for more than 70% throughout the year.

The Bank adheres to the core philosophy of assets allocation, pursue diversified and balanced development and minimise market fluctuation risk. On the other hand, the Bank maintains close attention to the market and customer changes and makes flexible adjustment to the corresponding strategies generally under the core operating idea of "pursue for solid growth of wealth management business, strengthen insurance business, and flexibly operate funds based on actual conditions (理財穩固增量、保險聚焦發力、基金依勢而動)".

Private Banking

The Bank continued to promote the transformation and upgrading of the private banking business, strengthened the comprehensive service capacity building of "individual, family, enterprise and society" in private banking, and further increased the core competitiveness advantage of the private banking business. Firstly, the Bank strengthened the acquisition of customers. The Bank enhanced business collaboration with subsidiaries and third-party cooperative institutions, and fully promoted the integration of wholesale and retail finance as the model for customer acquisition. Meanwhile, the Bank identified potential customers empowered by digitalisation, and built a new growth curve for the private banking customer group. Secondly, the Bank deepened customer operations and strengthened the construction of assets allocation capability. Under the background of sharp fluctuations in the capital market for the year ended 31 December 2022, the Bank adjusted the asset allocation structure of customers, increased the introduction of stable wealth management products, and mitigated the impact of market fluctuations. Meanwhile, the Bank promoted counter-cyclical allocation of equity products at proper times and increased the allocation value of customer assets. Thirdly, the Bank strengthened the full life-cycle management of products. The Bank further improved the management mechanism of pre-sale service, in-sale service and after-sale service of products, advanced the construction of product risk management system, and supported the development of business. Fourthly, the Bank accelerated the digitalised transformation of private banking. The Bank implemented digitalisation throughout the full process of customer acquisition, development, operation, management, and service and built an all-scenario and omni-channel online service system for private customers to comprehensively improve customer experience and business efficiency.

As at 31 December 2022, the Bank had 134,800 private banking customers (retail customers of the Bank with minimum total daily average assets of RMB10 million per month), representing an increase of 10.4% as compared with the end of the previous year. Total assets under management from private banking customers amounted to RMB3,792.4 billion, representing an increase of 11.7% as compared with the end of the previous year. Total assets per account amounted to RMB28.1 million. As at 31 December 2022, the Bank has established a high-end customer service network consisting of 184 private banking centres in 92 domestic cities and 6 overseas cities.

Credit Cards

The Bank's credit cards provide multiple services and functions, including traditional credit card services, such as overdraft payments, cash advances, revolving credit, instalment services and order purchases. The Bank's dual-currency credit cards are accepted globally through the VISA, MasterCard or JCB system. The Bank remained committed to the credit card business vision of being "the best provider of payment experience, the best expert in consumer finance and the leader in diversified marketing platform in China". The Bank continuously pushed forward management reform and built a differentiated competitive edge for CMB credit cards through comprehensive innovation.

As at 31 December 2022, the Bank had issued an aggregate of 102.7 million active credit cards, and there were 70.0 million active credit card users. The balance of credit card loans was RMB884.4 billion, representing an increase of 5.3% as compared with the end of the previous year. Credit card transactions of the Bank amounted to RMB4,836.2 billion, representing an increase of 1.5% as compared to 2021. Interest income from credit cards amounted to RMB64.0 billion, representing an increase of 7.3% as compared with the previous year. Non-interest income from credit cards amounted to RMB28.1 billion, representing an increase of 3.6% as compared with the previous year.

For the year ended 31 December 2022, the Bank continued to promote the transformation strategy of "stable and low volatility" for its credit card business, further optimising its customer base and asset structure and forming a more stable and robust asset portfolio. Meanwhile, the Bank adhered to the principle of risk prudence, strictly implemented the asset classification policy which classified all credit card loans overdue for more than 60 days as non-performing loans. At the same time, the Bank strengthened the collection efficiency and enhanced the risk resistance capacity. However, due to the impact of the macro environment, the risk indicators have fluctuated periodically. As at 31 December 2022, the ratio of non-performing credit cards was 1.8%, representing an increase of 0.12 percentage point from the end of the previous year. Looking ahead, credit card risks will remain under pressure in the short term. Amid the stabilising economy, there will be room for credit card risks to decrease. The Bank will arrange various strategic deployments according to changes in the external risk situation. On the one hand, the Bank will insist on focusing on value customer development, continue to deepen the adjustment of the customer base and the asset structure, and promote the high-quality growth of the credit card business. On the other hand, the Bank will deploy consumer marketing activities in advance, including the operation in popular overseas destinations to facilitate the growth of credit card consumption and loans.

During 2022, the Bank continued to promote credit card product innovation and service upgrading. Firstly, the Bank consolidated the multi-channel integrated customer acquisition model and strengthened the acquisition of high-quality customers and gained deep insights into the interests and needs of younger customers. The Bank also launched Douyin co-branded credit card and Genshin co-branded credit card, which won wide recognition and love among young customers. Secondly, the Bank applied a combination of measures to boost consumption. Under the growing momentum of online transactions, the Bank improved customer payment experience through "One-click Binding" and other functions, and also combined consumption hotspots such as "Labour Day", "618", and "Double Eleven" to launch activities such as "Daily Consumption Voucher" and "Cashback Rebate for Mobile Payment" to facilitate consumption recovery. Thirdly, the Bank strengthened the layout of auto instalment products, expanded the depth and breadth of cooperation with new energy brand merchants, and created a new energy special section within the two major APPs of CMB Life APP and CMB APP under the theme of green and low carbon. The one-stop experience of viewing cars-selecting cars-test driving has achieved growth in business. Fourthly, the Bank improved the level of intelligent services, upgraded from "customers looking for services" to "services looking for customers", continued to expand the boundaries of active service scenarios, and comprehensively advanced the service interaction efficiency, experience and value. Fifthly, the Bank strengthened the Fintech infrastructure, launched the credit card core system 3.0, and realised cloud migration of the credit card host. Relying on the financial transaction cloud platform independently developed by the Bank, the new system has better scalability and stability and offers customers a better experience such as "scenario-based limit" and "cardless delivery". In addition, the Bank further deepened the operation of the CMB Life APP.

Retail Loans

The Bank provides various loan products to its retail banking customers. Since 2006, the Bank has offered personal revolving loans, personal business loans, and commercial mortgage loans and has developed a quite comprehensive retail loan product line, including various multi-functional products, such as "borrow and return at leisure," "Easy Consumption," "Easy Transfer" and "Fixed interest" to meet the needs of the Bank's customers. The Bank was among the first banks in the PRC to use a score card to screen borrowers, improving its loans process, increasing operating efficiency and establishing a unified brand image.

As at 31 December 2022, the total retail loans of the Bank amounted to RMB3,109.7 billion, representing an increase of 5.7% as compared with the end of the previous year and accounting for 54.4% of the Bank's total loans and advances to customers, down by 1.64 percentage points as compared with the end of the previous year. In particular, total amount of the Bank's retail loans (excluding credit card loans) reached RMB2,225.3 billion, representing an increase of 5.9% as compared with the end of the previous year, accounting for 38.9% of total loans and advances to customers of the Bank and representing a decrease of 1.10 percentage points as compared with the end of the previous year.

As to business development, during 2022, the demand for residential mortgage loans decreased. The Bank actively implemented the national policies, adhered to the city-specific policy, supported the residents' reasonable needs for their own homes, and maintain the sound development of residential mortgage loan business. At the same time, while making efforts to control and manage risks and maintaining stable asset quality, the Bank increased the inclusive loans granted to small- and micro-sized enterprises and consumer finance business. As to micro-finance loans business, the Bank strictly implemented various regulatory requirements, relied on fintech to accelerate product and service innovation and continuously improved the quality and efficiency of financial services for small and micro-sized enterprises for better financial support to the real economy. As to consumer loans business, the Bank insisted on identifying quality customers to meet the demand for consumer financing in a reasonable manner and supported the recovery and expansion of consumption. As at 31 December 2022, the Bank recorded a balance of residential mortgage loans of RMB1,379.8 billion, representing an increase of 1.1% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB629.6 billion, representing an increase of 12.3% as compared with the end of the previous year. The balance of consumer loans amounted to RMB202.2 billion, up by 29.6% as compared with the end of the previous year. As at 31 December 2022, the Bank had 12,140,500 retail loan (excluding credit card loans) customers, representing an increase of 24.0% as compared with the end of the previous year. The rapid expansion of customer base was mainly attributable to the use of online platforms to acquire customers.

As to the quality of assets, the Bank continued to downgrade loans overdue for more than 60 days to non-performing loans and adjusted all loans of the borrowers with overdue or other risk signals within and outside the Bank to the asset classification standards for special-mentioned loans in strict accordance with regulatory requirements. As at 31 December 2022, the balance of the Bank's retail special-mentioned loans (excluding credit cards) amounted to RMB13.9 billion, the ratio of special-mentioned loan was 0.6%, representing an increase of 0.27 percentage point as compared with the end of the previous year, among which the balance of non-overdue special-mentioned loans accounted for nearly 70%. As at 31 December 2022, the balance of non-performing retail loans (excluding credit card loans) amounted to RMB12.4

billion, with the ratio of non-performing loan of 0.6%, representing an increase of 0.07 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 65.3% of the Bank's new non-performing retail loans formed for the year ended 31 December 2022, the loan-to-value ratio of the above mortgage and pledged loans as at 31 December 2022 was 38.3%. The Bank's position is that the risk of new non-performing retail loans is under control given that the majority of these new non-performing retail loans were fully secured by collateral.

As to risk management, the slowdown of economic growth and the adjustment of the real estate market brought challenges to the quality of retail credit assets. The Bank continued to deepen the construction of the risk control system in combination with the changes in market conditions, effectively improved risk management capabilities, and maintained the overall stability of asset quality. Firstly, the Bank adjusted the retail credit policies and management strategies in combination with the changes in market conditions, and continuously optimised the business structure. Secondly, risk model's ability to identify various risk signals was improved through increased data mining and enrichment. Thirdly, the Bank strengthened the digital post-loan management, improved the full-life cycle dynamic monitoring and management for customers, so as to ensure stable asset quality. Also, the Bank further strengthened the whole chain management of properties, cooperated with government and regulatory authorities to protect the rights and interests of housing consumers, and promoted the stable and healthy development of the real estate market.

Wholesale finance

The Bank contributed to the development of the real economy with its integrated service concept of "investment banking and commercial banking" and transformed itself from a capital provider to a capital organiser in order to provide three-dimensional, all-round and multi-level financing support to corporate clients. As at 31 December 2022, the Bank's balance of aggregate financing products to corporate customers ("**FPA**") was RMB5,118.0 billion, representing an increase of RMB382.1 billion over the beginning of 2022, among which the balance of traditional financing was RMB2,798.2 billion, representing an increase of RMB357.0 billion over the beginning of 2022. The balance of non-traditional financing was RMB2,319.7 billion, representing an increase of RMB25.1 billion over the beginning of the year. The balance of non-traditional financing accounted for 45.3% of the balance of FPA, representing a decrease of 3.12 percentage points over the beginning of 2022, which was mainly due to the decrease of balance of financing wealth management business over the beginning of the year arising from the business structure adjustment and market conditions.

For the year ended 31 December 2022, the Bank achieved profit before tax from wholesale finance of RMB62.4 billion, representing an increase of 1.7% as compared with the corresponding period of the previous year. The net operating income from wholesale finance of the Bank was RMB127.9 billion, representing a decrease of 2.5% as compared with the corresponding period of the previous year, and accounting for 40.7% of the net operating income of the Bank. Among them, net interest income of wholesale finance business amounted to RMB86.5 billion, accounting for 67.7% of the net operating income of wholesale finance. Net non-interest income of wholesale finance amounted to RMB41.3 billion, representing a decrease of 5.6% as compared with the corresponding period of the previous year, and accounting for 32.3% of the net operating income of wholesale finance business, and 39.9% of the net non-interest income of the Bank.

Wholesale Customers

The Bank has established a professional and focused corporate customer service system with segmentation and classification management for strategic customers, regional customers, institutional customers, inter-bank customers, cross-border customers and basic customers. In 2022, the Bank kept on focusing on professional operations of strategic customers of the Head Office and branches, acquisition of high-quality corporate customers and in-depth operations of existing customers. As at 31 December 2022, the total number of corporate customers of the Bank was 2,526,100, up by 9.0% as compared with the end of 2021. The number of newly acquired corporate customers during the year ended 31 December 2022 was 376,300, contributing daily average deposits of RMB201.3 billion. Among them, 23,500 newly acquired corporate depositors contributed daily average deposits of more than RMB500,000.

With regards to its strategic customers, the Bank optimised and upgraded its strategic customer service model, mobilised bank-wide resources, deepened its overall understanding of customers and their industries through systematic operation of the enterprise itself and its industrial chain and investment chain, promoted the acquisition of strategic customers and led to the innovation of the industrial service model and the breakthrough of business. As at 31 December 2022, the number of the strategic customers under the Head Office of the Bank was 340, representing an increase of 14 as compared with the end of the previous year, while the daily average balance of deposits amounted to RMB1,028.1 billion, representing an increase of 10.9% as compared with the beginning of the year, and the balance of loans amounted to RMB910.4 billion, representing an increase of 17.1% as compared with the beginning of the year. As at 31 December 2022, the Bank had 6,829 branch-level strategic customers with a daily average balance of deposits amounting to RMB700.8 billion, and the balance of loans amounted to RMB318.2 billion.

With regards to regional customers, the Bank proactively responded to the nation's major regional development strategy and industrial cluster development strategy. By researching and tapping into the regional markets, the Bank pushed forward the characteristic operation of 14 branches in key regions among the Yangtze River Delta, Greater Bay Area and Chengdu-Chongqing Region, expanded the coverage of quality customers in the regions and promoted the sustained growth and structural optimisation of the customer bases. The Bank managed to meet the comprehensive financial needs of regional customers in terms of financing, settlement and corporate treasury management in virtue of the integrated service of investment banking and commercial banking, especially increasing its support to customers from such fields as competitive industries with characteristics, green economy, quality manufacturing, old and new infrastructure, self-controllable industries in the regions so as to facilitate the development of regional customers. As at 31 December 2022, the balance of corporate loans of the branches in the above key regions amounted to RMB687.5 billion, representing an increase of RMB106.2 billion from the end of the previous year, accounting for 32.8% of the total corporate loans. The increased loans accounted for 49.4% of the total incremental corporate loans.

With regards to its institutional customers, the Bank actively served institutional customers at all levels and of all aspects. Relying on the platform role of institutional customers, the Bank strived to build a value creation bank. With regards to serving the State-level government authorities, the Bank deepened cooperation in terms of policies, qualifications, systems, data and other aspects, gave full play to the role of the general management platform, and promoted and empowered the integrated operation of the Bank and its subsidiaries. With regards to serving the local governments and competent authorities, the Bank provided comprehensive services of "financing of intelligence + financing of capital + financing of technology (融智+融資+融科技)", and focused on solving practical problems such as government investment and financing, planning consultation, housing security, labour security, convenient services, industrial structure optimisation, etc. As at 31 December 2022, the Bank had 48,500 institutional customers, with an average daily deposit balance of RMB1,034.5 billion.

With regards to its financial institution customers, the Bank explored the platform value and financial value of financial institution customers and adopted the strategy of providing bank-wide services. The Bank successfully explored the platform-based operation of financial institutions to help the development of retail and other wholesale businesses and the improvement of operation and management. Through the platform-based operation of customer groups such as securities traders, policy banks, and mutual funds, the Bank helped the acquisition and operation of corporate customers, gave full play to the Bank's brand advantages, improved the distribution coverage of financial institution customers, and achieved the introduction of high-quality retail customers through the channels among financial institutions.

With regards to cross-border customer base, the Bank overcome many unfavourable factors in domestic and overseas markets, continuously improved the competitiveness of systematic operation of cross-border business under the main direction of customer operation and expansion, created new advantages in cross-border services with "domestic and overseas integration" and fintech, reshaped the influence of cross-border finance brands with a new product system of "Cross-Border E Zhao Tong (跨境E招通)", and strengthened the construction of a compliant and stable foreign exchange policy and risk management system with long-termism. As at 31 December 2022, the Bank had 78,877 corporate customers in respect of international settlement, representing a year-on-year increase of 5.8%.

With regards to its basic customers, the Bank explored the corporate basic customer expansion model based on "people + digitalisation" to provide digital operation services for millions of micro, small, and medium sized enterprise customers by establishing a centralised operation mechanism, a first-level operation paradigm and a digital operation system. The Bank has innovated and explored the corporate real-time business opportunity capture and active service mode, optimised the multichannel collaborative service process, achieved the system automatic recommendation of services and products, and improved the service breadth and efficiency. For the year ended 31 December 2022, the Bank served 37.1 million times for corporate customers through various online channels, and had 1,075,600 corporate customers for withholding transactions, representing a year-on-year increase of 9.9%. The transaction amount was RMB2.0 trillion, representing a year-on-year increase of 34.0%.

Corporate Customer Deposits

For the year ended 31 December 2022, the Bank focused on the capital diversion business opportunities in the key business sectors of the market, expanded low-cost capital source channels, and achieved high-quality and stable growth of corporate deposits. As at 31 December 2022, corporate customer deposit balance was RMB4,318.7 billion, representing an increase of 9.5% as compared with the end of the previous year. The daily average balance was RMB4,259.2 billion, representing an increase of 13.1% as compared with the previous year. Demand deposits accounted for 60.6% of the average daily balance of corporate customers' deposits, representing a decrease of 1.74 percentage points as compared with the previous year. For the year ended 31 December 2022, the average cost rate of corporate customer deposits was 1.7%, representing an increase of 10 basis points as compared with the previous year.

Corporate Loans

As at 31 December 2022, total corporate loans of the Bank amounted to RMB2,097.1 billion, representing an increase of 11.4% as compared with the end of the previous year and accounting for 36.7% of the Bank's total loans and advances, and representing an increase of 0.82 percentage point as compared with the end of the previous year. Among them, the balance of the medium- and long-term loans to domestic companies amounted to RMB1,326.9 billion, representing an increase of 7.9% as compared with the end of the previous year and accounting for 65.7% of the total loans to domestic companies, and representing a decrease of 2.98 percentage points as compared with the end of the previous year. The non-performing loan ratio of its corporate loans was 1.25%, representing a decrease of 0.06 percentage point as compared with the end of the previous year.

As at 31 December 2022, the balance of the Bank's loans granted to national standard domestic large enterprises amounted to RMB931.5 billion, representing an increase of 13.5% as compared with the end of the previous year, accounting for 46.1% of its total loans granted to domestic companies, up by 0.27 percentage point as compared with the end of the previous year. The Bank's non-performing loan ratio for loans granted to national standard domestic large enterprises was 0.90%, down by 0.24 percentage point as compared with the end of the previous year. The balance of the Bank's loans granted to national standard domestic medium-sized enterprises amounted to RMB556.0 billion, representing an increase of 3.4% as compared with the end of the previous year, and accounting for 27.5% of its total loans granted to domestic companies, down by 2.51 percentage points as compared with the end of the previous year. The non- performing loan ratio for loans granted to national standard domestic medium-sized enterprises was 2.06%, up by 0.62 percentage point as compared with the end of the previous year. The balance of the loans granted to domestic national standard small- and micro-sized enterprises amounted to RMB386.9 billion, representing an increase of 20.4% as compared with the end of the previous year, accounting for 19.2% of its total loans granted to domestic companies, up by 1.21 percentage points as compared with the end of the previous year. The non-performing loan ratio for loans granted to domestic national standard small- and micro-sized enterprises was 1.00%, down by 0.25 percentage point as compared with the end of the previous year. The balance of other domestic loans classified based on national standards[9] was RMB145.1 billion, representing an increase of 31.8% as compared with the end of the previous year, accounting for 7.2% of domestic corporate loans, representing an increase of 1.04 percentage points as compared with the end of the previous year, and the non-performing loan ratio was 1.4%, representing a decrease of 1.70 percentage points as compared with the end of the previous year.

In 2022, the Bank actively responded to the national policy guidance, steadily optimised the corporate loan structure, focused on the high-quality manufacturing industry, green economy, technology innovation, inclusive finance and other fields to increase financial support and investment and actively expanded the loan business under the scenarios of state-owned enterprises' mixed-ownership reform and listed companies' refinancing. The Bank adhered to the positioning of "houses are for living in and not for speculative investment" and steadily and orderly promote the development of real estate business. For the key regulatory areas such as local government financing platforms, the loan release control was strictly implemented in accordance with the regulatory guidance. As at 31 December 2022, the balance of the corporate loans extended to the manufacturing industry was RMB443.9 billion, representing an increase of RMB123.8 billion as compared with the end of the previous year, accounting for 21.2% of the total corporate loans. The balance of green loans was RMB355.4 billion, representing an increase of RMB91.5 billion as compared with the end of the previous year, accounting for 17.0% of the total corporate loans. The balance of loans to strategic emerging industries was RMB302.3 billion, representing an increase of RMB83.2 billion as compared with the end of the previous year, accounting for 14.4% of the total corporate loans.

Bill Business

Bill discounting refers to the purchase of a commercial bill (including banker's acceptance drafts and commercial acceptance drafts) at a discount. Bill discounting is a form of short-term financing provided to corporate customers. The Bank generally limits its bill discounting to bills with a remaining maturity of less than six months. The Bank primarily purchases bank acceptance bills as well as corporate acceptance bills from a small number of pre-approved large companies with high credit ratings. The Bank may re-discount these bills with the PBOC or other financial institutions authorised to conduct bill discounting businesses, in order to obtain additional liquidity.

9 Such loans include loans made by domestic institutions to overseas and offshore customers, domestic non-enterprise customers and individual industrial and commercial households.

For the year ended 31 December 2022, the Bank actively responded to market changes, put forward new ideas for the development of bill business, vigorously strengthened its ability to operate bills and serve customers, and realised a comprehensive transformation from product-oriented to customer-oriented comprehensive services. For the year ended 31 December 2022, the number of customers of bill business of the Bank was 143,369 with a year-on-year increase of 1.8%, among which over 100,000 were micro-, small- and middle-sized customers, accounting for over 70% of the total. The volume of direct bill discounting business was RMB1,518.7 billion, representing a year-on-year increase of 21.4%, ranking second in the market (data from the China Banking Association), of which the volume of commercial acceptance bill discounting business was RMB174.1 billion, ranking first in the market (data from the Commercial Bank Bill Business Association). For the year ended 31 December 2022, the number of customers of online bill discounting business of the Bank was 22,918 with a year-on-year increase of 27.1%, of which small and medium-sized enterprises accounted for 95.9%. The online bill discounting business volume was RMB419.4 billion, representing a year-on-year increase of 32.3%. As at 31 December 2022, the Bank's bill discounting balance was RMB513.9 billion, representing an increase of 19.8% as compared with the end of the previous year.

The Bank keeps on strengthening the investment and research integration mechanism and the trading strategy of flow management and market timing and optimises the trading mechanism of Head Office and branch cooperation and discounting and inter-bank discounting linkage. For the year ended 31 December 2022, the discounted bills transferred to other financial institutions amounted to RMB1,450.8 billion, representing a year-on-year increase of 16.2%, ranking second in the market (data from the China Banking Association).

The Bank keeps on implementing the rediscounting policy of the People's Bank of China, actively supports enterprise financing and serves the real economy through rediscounting. For the year ended 31 December 2022, the business volume of bill rediscounting amounted to RMB206.7 billion, representing a year-on-year increase of 16.6%. As at 31 December 2022, the Bank's rediscounting balance was RMB82.5 billion, representing an increase of 26.1% as compared with the end of the previous year, ranking first in the market (data from the China Banking Association).

Transaction Banking Business

In 2022, the Bank adhered to the three business scenarios of corporate treasury management, sales and procurement, focused on the actual needs of enterprises in digital transformation and delivered the achievements of its Fintech innovations to enhance its capability to serve customers.

The Bank also actively explored the integrated digital services for enterprises under the scenario of "integration of business and finance", and provided services such as account management, billing management, investment, and wealth management, budget management, financing management, and international business through the CBS + treasury management open platform of the Bank, to meet the medium- and large-sized enterprises' demands for finance management upgrading and digital transformation. Through the "Cloud-based Direct Connect (雲直聯)" mode, the Bank speeded up the connection between its business systems and the ERP, OA, expense control system, and supply chain financial platform applied in the business operations, so as to facilitate enterprises to directly use the Bank's financial services. As at 31 December 2022, the number of active users of Cloud-based Direct Connect reached 128,700, representing an increase of 27.8% as compared with the end of the previous year. In response to the demand for digital upgrade of corporate finance and taxation and informatisation management of files, the Bank provided non-financial services such as contract management, invoice management, and intelligent reviewing, and leveraged its Fintech capabilities to help enterprises improve their management efficiency. As at 31 December 2022, the number of Invoice Cloud customers reached 278,900, representing an increase of 162.0% as compared with the end of the previous year.

With respect to the corporate sales, the Bank helped enterprises collect capital through multiple-channels and manage their capital after collection by creating a "Corporate Cashier (企業收銀台)". The Bank provided standardised and personalised account services, capital collection, and reconciliation services based on different sales models. The Bank also actively carried out the service for group-based management, franchise, and platform enterprises, and it also continued to promote the collection service program named "One Entire Bank for One Customer (全行服務一家)". For the year ended 31 December 2022, the customers of corporate collection products reached 62,700, representing a year-on-year increase of 71.7%. The accumulated transaction amount of corporate collection products was RMB4.3 trillion[10], representing an increase of 17.1% as calculated on the same basis of the previous year.

In respect of the procurement payment and short-term financing needs of corporate customers, the Bank continued to optimise online payment products and the letters & certificates issuance business, enhance the convenience of online operation, enrich the "Shan Dian Series" products of domestic trade financing, and improve the efficiency of financing and lending. For the year ended 31 December 2022, the letters & certificates issuance business transactions of the Bank amounted to RMB405.3 billion, representing a year-on-year increase of 41.3%. The domestic trade financing business volume amounted to RMB930.1 billion, representing a year-on-year increase of 19.8%.

Cross-border Finance Business

For the year ended 31 December 2022, the Bank continued to enrich the connotation of cross-border finance services, delivered the product service system from the perspective of customers, and highlighted the five-in-one comprehensive service advantages of "domestic and foreign, local and foreign currencies, offshore and onshore, online and offline, and investment and commercial banking" around the full-life operation cycle and full scenario needs of customers. As at 31 December 2022, the Bank's corporate international settlement amounted to USD408.2 billion, representing a year-on-year increase of 10.4%.

The Bank enhanced the operation of characteristic customers and key scenario operations in cross-border finance business, made full use of both domestic and foreign markets and resources, continued to build a full-licence operation system for three types of non-resident accounts, focused on overseas trade, investment and financing, entity operation and treasury platforms for customers "going global", and strengthened the operation of high-quality customer groups in the capital market with overseas listed companies as the core. Through scenario-based special research, list-based marketing, and project-based operation, the Bank provided a package of comprehensive customer management plans.

By further promoting digital operation and management, the Bank has greatly improved the online rate of cross-border finance business, built full-scenario online services of cross-border settlement, transaction, and trade financing through the iterative optimisation of product functions, and made every effort to build an "international business zone" for online enterprise banking, to expand customer groups in a "people + digitalisation" service mode. The efficiency, quality, and experience of customers in handling business have been comprehensively improved. For the year ended 31 December 2022, the number of corporate cross-border online remittances of the Bank was 631,700 times, representing a year-on-year increase of 75.6% and accounting for 75.6% of the total number of corporate cross-border remittances, representing a year-on-year increase of 23.59 percentage points.

The Bank strengthened the construction of a comprehensive risk management system for cross-border finance to ensure the steady development of business. The Bank also focused on strengthening credit risk monitoring, improving the refined management of anti-money laundering strategies, highlighting country risk and market risk management, and maintaining "zero occurrence" of fraud-related risk events and sensitive risk events related to newly opened accounts.

10 Due to the increase in the withholding business of water, electricity and gas for corporate collection products in such period, the year-on-year data were adjusted based on the same calibre.

Inclusive Finance Business

The development of inclusive finance is an important measure for the Bank to actively serve the real economy. To the Bank, inclusive finance is necessary to achieve high-quality and sustainable development under the new economic landscape, and an active choice by the Bank to explore potential market opportunities and create differentiated competitive advantages. In this context, the Bank established the Inclusive Finance Department in November 2022. Through measures such as increasing resource investment, improving systems and mechanisms, and innovating products and services, the Bank actively implemented the principle of "Daring to Lend, Willing to Lend, Able to Lend, and Agree to Lend". Centring on the two key objectives of "expanding coverage and increasing volume", the Bank focused its inclusive finance offerings across three main lines comprising of supply chain and scenario-based finance, sci-tech finance, and small- and micro-sized enterprises finance. The Bank also explored a new four-in-one model of customer, product, risk, and operation, improved the five supports of team, brand, resource, assessment, and collaboration, and built a long-term mechanism for inclusive finance development. As at 31 December 2022, the loan balance of inclusive small-sized and micro-sized enterprises of the Bank amounted to RMB678.3 billion, representing an increase of RMB77.2 billion or 12.9% as compared with the end of 2021, 3.93 percentage points higher than the overall loan growth rate of the Bank. The number of inclusive small-sized and micro-sized enterprises with loan balance was 990,700, representing an increase of 77,400 or 8.5% as compared with the end of 2021. For the year ended 31 December 2022, the Bank newly issued inclusive loans of RMB476.2 billion for small-sized and micro-sized enterprises, with an average interest rate of 5.2%, down by 13 basis points year-on-year.

With regard to its supply chain and scenario-based finance, the Bank continued to empower the industrial chain of leading enterprises in various industries and help small- and medium-sized enterprises on the chain to solve financing problems. Firstly, the Bank gave full play to the existing advantages of its supply chain business of "One Entire Bank for One Customer (全行服務一家)" and online products, continuously improved the user experience and strove to cover more customer groups. As at 31 December 2022, the Bank has launched a total of 247 projects under this model, extended its services to 22,903 small- and medium-sized enterprises, of which 18,842 enterprises were granted financing support, with the amount of granting loans of RMB268.5 billion. Secondly, based on the specialisation, the Bank customised industry solutions around energy, new retail, communication, automobile, and other industries. For the year ended 31 December 2022, the business volume of the Bank's supply chain financing amounted to RMB662.0 billion, representing a year-on-year increase of 8.2%, serving 5,572 core enterprises, and 33,260 upstream and downstream customers.

With regard to its sci-tech finance, the Bank has provided products and services based on the needs of science and technology enterprises in four scenarios namely, capital, industry, digitalisation, and talent through the pilot project involving 6+1 branches, including six first-level branches in Beijing, Shenzhen, Shanghai, Nanjing, Hangzhou, and Hefei and one second-level branch in Jiaxing. As at 31 December 2022, the balance of loans extended to technology enterprises by the Bank amounted to RMB295.6 billion, representing an increase of RMB91.5 billion or 44.9% as compared with the end of the previous year. With regard to its Qian Ying Zhan Yi (千鷹展翼) service system, focusing on the listing service needs of science and technology innovation enterprises, the Bank provided comprehensive listing service solutions for customers of to-be-listed enterprises with the listing service ecological partners such as exchanges, governments, intermediaries and private equity, participated in and supported the 11th China Innovation and Entrepreneurship Competition, and brought investment and private technology products and services to participating enterprises. As at 31 December 2022, the number of customers served by Qian Ying Zhan Yi (千鷹展翼) system of the Bank reached 32,106.

Investment Banking Business

In 2022, the Bank drove business innovation with product innovation, with refined management continuing to deepen, risk management achieving remarkable results, and the investment banking business developing steadily.

With respect to its bond underwriting business, the Bank strove to build an all-round service system for bond issuance enterprises to serve customers in direct financing. For the year ended 31 December 2022, the bonds with the Bank as the lead underwriter amounted to RMB675.0 billion, and debt financing instruments of non-financial enterprises ranked third in the market in terms of scale (based on the data from the National Association of Financial Market Institutional Investors), among which the perpetual bond ranked first, the Asset-Backed Note (ABN) ranked second, and the green bond ranked third. At the same time, the Bank actively implemented the national industrial policy, launched innovative products such as science and technology innovation notes and sustainable development bonds, and its underwriting scale ranked among the top in the industry.

With respect to its M&A financing business, the Bank overcame the unfavourable factors of the shrinking M&A transaction market, further improved the business system, and strengthened the ability to organize high-quality assets. For the year ended 31 December 2022, the Bank achieved M&A financing of RMB186.4 billion, and the proportion of the balance of M&A loans to the corporate loan balance hit a record high. Many major projects with market influence were implemented, which enhanced the brand influence of the Bank in the M&A market.

With respect to its corporate wealth management business, the Bank continued to improve the product system, expanded multi-type asset management cooperation institutions, and enriched products with different maturity and risk-return characteristics. For the year ended 31 December 2022, the Bank's average daily balance of corporate wealth management products was RMB385.0 billion.

With respect to its market transactions (matching services) business, the Bank vigorously carried out matching business based on the capital preference of licenced financial institutions under the "One Bank, Two Commissions (一行兩會)" to meet the financing needs of industrial customers and support the development of the real economy. For the year ended 31 December 2022, the business volume of market transactions (matching services) of the Bank increased by 5.4% year-on-year.

Financial Institutions Business

The Bank intensified the construction of channels and enhanced value contribution from its financial institutions customers through deepening comprehensive cooperation with its customer base of financial institutions and also proactively responded to changes in the market conditions and regulatory policies and adjusted the structure of the business. These measures allowed the Bank to maintain its leading position among its peers in terms of the cross-border interbank RMB business.

With respect to its financial institution asset and liability business, the Bank continued to deepen the services of financial institution customers and expand high-quality financial institution customers. For the year ended 31 December 2022, the daily average balance of financial institution deposits of the Bank amounted to RMB663.6 billion. Among them, the daily average balance of financial institution demand deposits from fund clearing, settlement and depository service amounted to RMB598.9 billion.

With respect to its depository service, the Bank's security and future margin depository services were in stable operation, conducting cooperation with 105 securities companies in third-party depository services and 15,474,800 customers were secured as at 31 December 2022. In addition, the Bank entered into cooperation with 93 securities companies on margin trading and short selling business, securing 547,100 customers as at 31 December 2022. Also, the Bank entered into cooperation with 58 securities companies on stock options business, securing 43,900 customers as at 31 December 2022, and entered into cooperation with 141 future companies on fund transfer, securing 361,300 customers as at 31 December 2022.

With respect to the businesses on interbank online service platform, through the interbank online service platform "Zhao Ying Tong (招赢通)", the Bank provided financial institutions with online sales and trading services of various products and assets throughout the market, and positive progress has been made in business operations for the year ended 31 December 2022. As at 31 December 2022, the number of financial institution clients on the "Zhao Ying Tong" platform of the Bank reached 3,067, and for the year ended 31 December 2022, the online business volume amounted to RMB1,737.9 billion, increasing by 9.4% as compared with the end of the previous year. Among them, the online sales volume of third-party asset management products amounted to RMB774.2 billion, representing a year-on-year increase of 24.8% in accordance with the same calibre.

Asset management business

As at 31 December 2022, the total asset management business of CMB Wealth Management Company Limited, China Merchants Fund Management Co., Ltd., Cigna & CMB Asset Management Company Limited and CMB International Capital Holdings Corporation Limited, all being subsidiaries of the Bank, amounted to RMB4.4 trillion, representing an increase of 2.3% as compared with the beginning of the year, among which the balance of wealth management products under management by CMB Wealth Management Company Limited amounted to RMB2.7 trillion, representing a decrease of 4.0% as compared with the end of the previous year. The scale of assets management business of China Merchants Fund Management Co., Ltd. amounted to RMB1.5 trillion, representing an increase of 10.4% as compared with the beginning of the year. The scale of asset management business of Cigna & CMB Asset Management Company Limited amounted to RMB164.7 billion, representing an increase of 78.5% as compared with the beginning of the year. The scale of asset management business of CMB International Capital Holdings Corporation Limited amounted to RMB104.3 billion, representing an increase of 7.1% as compared with the end of the previous year.

In 2022, the Bank adhered to the development concept of "safeguarding customers' wealth with loyalty, securing steady and sustainable growth with integrity and innovation". CMB Wealth Management Company Limited explored a high-quality growth model from the perspective of long-term development based on the practice of inclusive finance. In terms of promoting business transformation, it continued to push forward with product rectification. As at 31 December 2022, the balance of its new products amounted to RMB2.6 trillion, accounting for 95.9% of the balance of the total wealth management products, while the reduction progress of individual assets of the remaining old products was faster than the rectification plan. As for cash products, the Bank realized a stable transformation in accordance with the requirements of the New Cash Regulation. In terms of improving risk management, CMB Wealth Management Company Limited coordinated and promoted establishment of risk management system catering for various levels and categories focusing on management of credit risk, market risk and other five risks, and strengthened concentration risk control for single credit entity and enhanced risk alerts and active management for key areas. Strict internal risk control measures were implemented, and systems such as consumer rights protection shall be established and improved to protect the rights and interests of investors. In terms of enriching its product system, CMB Wealth Management Company Limited focused on meeting customers' diversified financial needs, and had developed more than 110 series of products. Moreover, CMB Wealth Management Company Limited have cooperated with China Merchants Bank again for launching the convenient wealth management service of "Ri Ri Bao (日日寶)" after the successful launch of "Zhao Zhao Bao (朝朝寶)", while continuously issuing pension wealth management products and strengthening the sales of scenario-based products, resulting in enhancement of customer loyalty. In terms of promoting Fintech empowerment, the technology platform (Harbour System) independently developed by CMB Wealth Management Company Limited has moved from an operational platform to an analytical platform as a whole, which has significantly improved the efficiency of investment research, risk control, and operation, and won the Shenzhen Fintech Initiative Award and the recognition of industry experts. In terms of deepening cooperation with JPMorgan Asset Management (Asia Pacific) Limited, CMB Wealth Management Company Limited has invested in 53 products of the mutual funds and dedicated fund accounts of JPMorgan Asset Management (Asia Pacific) Limited and its related parties. At the same time, the two sides gave full play to their respective advantages in the fields of fixed income and global equity investment, jointly issued four multi-asset financial products, and carried out in-depth exchanges in investment research, risk analysis, technology application, and other aspects.

In 2022, China Merchants Fund Management Co., Ltd. anchored the main line of "high-quality" development and strived to promote the "contrarian growth" of the Bank's business. As at 31 December 2022, the scale of non-monetary mutual funds reached RMB560.9 billion, representing an increase of 2.3% as compared with the end of the previous year. In terms of enhancing capabilities of investment and research, it continued to promote the integration of investment and research systems, further improved the investment management system, enhanced the building of platform systems for investment and research, and strengthened in-depth research and investment and research interaction in the form of industrial chain groups. In terms of deepening customer operation, it actively promoted channel and customer base development, accelerated the expansion of the pension annuity business, strengthened customer operation and after-sales service follow-up, provided its customers with professional market analysis and investment insight in a timely manner under the condition of increasing market fluctuations, and guided rational investment and long-term investment. In terms of improving product layout, according to the new changes in the capital market, it actively and appropriately adjusted the product strategy. The Bank also launched the first batch of innovative products in many industries such as the Beijing Stock Exchange 50 Index, the policy-based financial bond ETF and the Carbon-Neutral ETF. The scale of newly issued products during 2022 ranked among the top in the industry. At the same time, it continued to vigorously develop public REITs business and realized the winning of bids for multiple projects of different asset categories. In terms of promoting digital transformation, it continued to increase investment in science and technology, focused on the improvement of self-development ability and innovation ability, and took a solid step in digital transformation. In terms of strengthening the internal control mechanism, it continued to adhere to the steady operation tradition, focused on improving risk control measures, strengthened daily liquidity risk management, improved the scientific level of the compliance audit, and consolidated the foundation of anti-money laundering measures, and as a result, no major risk compliance incidents have occurred during 2022.

In 2022, Cigna & CMB Asset Management Company Limited integrated into the strategic layout of the Group and the flywheel of the parent bank with three major businesses, namely "insurance fund entrustment, debt-guaranteed investment plan, and portfolio asset management products", and exerted its special expertise, dislocation development, and complementary advantages in the value cycle chain of extensive wealth management, striving to become an asset management institution that is good at managing long-term funds and has core competitiveness. In terms of insurance fund fiduciary business, it actively responded to the low-interest rate environment and the violent fluctuations in the capital market, adjusted allocation and investment strategies in a timely manner around the fiduciary objectives and in line with market changes, and took multiple measures to steadily improve the scale and income and served the main business of life insurance. As at 31 December 2022, the scale of insurance funds under entrusted management was RMB108.9 billion, representing an increase of 26.5% as compared with the end of the previous year. In terms of product creation, it strove to develop special expertise in debt-guaranteed investment banking business with focus on top-quality customers while accelerating the creation of alternative capital management products and portfolio capital management products, thereby driving the flywheel of asset organization with long-term capital investment and effectively served the national strategy and the real economy with the special advantages of insurance asset management. In terms of operation and risk management, it focused on the construction of the five core investment capabilities, i.e. "asset allocation capability, comprehensive risk management capability, internal and external manager selection capability, insurance bond investment banking capability, and Fintech capability", while enhancing the expertise of refined management, strengthening comprehensive risk management, aiming to improve overall efficiency by fostering organizational culture.

In 2022, CMB International Capital Holdings Corporation Limited was committed to leveraging its professional ability of asset organization and cooperated with the Head Office and branches of the Bank to provide integrated services of investment banking + commercial banking for its customers. The asset management business leaps into the first echelon of the industry featuring private equity investment. In terms of domestic equity investment fund business, the investment efficiency, talent attraction, and industry influence continued to improve. A total of thirteen domestic and overseas projects were listed during 2022. In terms of overseas asset management business, it continued to promote its fund-raising efforts in an unfavourable market environment, and successfully withdraw its equity projects from the secondary market at opportune times, so as to create returns for investors. It initiated the establishment of Aquila Acquisition Corporation, the first special purpose acquisition company in Hong Kong which completed listing and funds raising in Hong Kong during 2022, which has strengthened the Group's brand advantage in the innovative business at home and abroad. For the year ended 31 December 2022, in accordance with statistics from Bloomberg, CMB International Capital Holdings Corporation Limited ranked second among all investment banks in terms of market share of IPO underwriting in Hong Kong and ranked first among all Chinese funded banks.

Asset Custody Business

As at 31 December 2022, the balance of assets under custody of the Bank was RMB20.1 trillion, representing an increase of 3.1% as compared with the end of the previous year. For the year ended 31 December 2022, the Bank realised a custodian fee income of RMB5.7 billion, representing a year-on-year increase of 6.5%.

For the year ended 31 December 2022, with the goal of striving to become the first-inquiry custodian bank for customers with the strongest core competitiveness, the Bank continued to optimise the structure of custodian business, gradually promoted the centralisation, automation, and intelligentisation of its business operations, with its capability of customer acquisition and offering comprehensive service in custody business improved continuously, thereby enhancing the influence of its custodian brand.

Firstly, the Bank adhered to the high-quality growth of custody business and consolidate the advantages of key businesses. In terms of mutual funds, for the year ended 31 December 2022, the Bank managed a total of 195 newly issued mutual funds, with a total establishment scale of RMB204.8 billion, ranking first in the industry in terms of both number and size according to the data from WIND, and the year-on-year growth of custodian fee income of mutual funds ranked first in the industry based on the data from the China Banking Association. As at 31 December 2022, the balance of insurance assets under custody amounted to RMB2.2 trillion, representing an increase of 34.9% as compared with the end of the previous year, ranking fifth in the industry and one ranking higher than the previous year according to the data from the China Banking Association.

Secondly, the Bank seized market opportunities and made key breakthroughs in innovative products. For the year ended 31 December 2022, the Bank continued to maintain the custody advantage of public REITs. As at 31 December 2022, 24 public REITs have been launched in the market, of which 11 were under the custody of the Bank, which secured the Bank to rank first in terms of market share. In terms of the third-pillar pension, the Bank has deeply participated in the implementation of the national policies relating to individual pension funds. Among the first batch of 7 exclusive commercial pension insurance products, 3 of them were managed by the Bank, with a market share of 43%. The Bank vigorously developed the emerging cross-border businesses and successfully implemented the overseas securities investment custody business of the first private equity fund QDII (qualified domestic institutional investor) product in China and the first QDLP (qualified domestic limited partner) custody business in Guangdong, Hainan, and other places.

Thirdly, the Bank continued to optimise the custody + service system with technology empowerment and enhanced the custody experience for the customers. The Bank actively used AI technology to ensure efficient response of custody business, created a "custody plus 2.0 (託管+2.0)" value-added service platform, further optimised and improved investment and research service functions, and established a new custody service system featuring "asset protection, resource linking, operation outsourcing, and digital services".

Financial markets business

With respect to bond investment, for RMB bond investment, based on the overall judgement of the downward fluctuation of bond market interest rates in early 2022, the Bank took the initiative in the first half of the year to increase investment, maintained high positions in accounts, extended the duration, further improved the subject qualification of credit debentures, and optimised the portfolio structure. Through continuous band trade and moderate leverage strategy, the Bank increased investment income, reduced positions in time in the second half of the year and gradually shortened the duration to lock in income. In terms of foreign currency bond investment, the Bank shortened the duration of the foreign currency bond portfolio at the beginning of 2022, seized the opportunity of credit spread fluctuation, increased the scale of foreign currency bond investment in the fourth quarter, and increased the allocation of foreign currency bonds at the high yield point. For the year ended 31 December 2022, the Bank further deepened the digital transformation of investment and trading business, continuously enriched the quantitative trading factor library of fixed income, continuously optimised the duration adjustment strategy of interest rate bonds, realised the firm operation of the forward automatic market-making strategy of standard bonds. At the same time, the Bank actively constructed pricing benchmarks such as real-time yield curves and interest rate risk factor models and promoted the construction of an automatic market-making system for cash bonds.

With respect to foreign exchange transactions, for the year ended 31 December 2022, the Bank enhanced research and judgement on the economic situations, inflation and monetary policies of major countries in the world, adhered to the steady operation concept, flexibly adjusted the trading strategies under different market conditions, and obtained relevant market making and returns on trading transactions.

With respect to precious metals trading, the Bank closely followed the main line of market trading, flexibly used a variety of trading instruments, timely adjusted trading strategies, and obtained returns on investment transactions.

With respect to customer transaction business, the Bank continued to strengthen service capacity, compiled and issued the 2022 White Paper on Enterprise Exchange Rate Risk Management in China, continuously guided customers to establish the concept of neutral management of exchange rate risk, and customised exchange rate risk management plans for customers in combination with their main business scenarios. At the same time, it actively used Fintech to serve customers, promoted the construction of online transactions and international business zones, and improved customer service efficiency and reduced the hedging costs of enterprises through digital means. The "CMB Hedging (招銀避險)" service system was further enriched, and both the number of corporate derivative customers and the trading volumes continued to grow.

For the year ended 31 December 2022, the interbank trading volumes of RMB exchange swaps amounted to USD759.4 billion. The trading volumes of transaction services to the corporate customers amounted to USD222.0 billion. In addition, the Bank continued to actively participate in the two-way opening up of the bond market, provided high-quality services for overseas investors, and was awarded the "Northbound Top Market Maker" by Bond Connect Company Limited.

Distribution Channels

The Bank provides products and services via multiple distribution channels. The Bank's distribution channels are mainly divided into physical distribution channels and e-banking channels.

Physical Distribution Channels

The efficiently operated distribution network of the Bank is mainly distributed in major central cities in the Chinese mainland and some international financial centres such as Hong Kong, New York, London, Singapore, Luxembourg and Sydney. As at 31 December 2022, the Bank had 143 branches and 1,756 sub-branches in China, two branch-level specialised institutions (a credit card centre and a capital operation centre), 2,695 self-service banks, 5,855 cash self-service devices and 12,511 visual counters. The Bank also has a Hong Kong branch ("**Hong Kong Branch**"), a New York branch ("**New York Branch**") and a representative office in the United States, a London branch in the United Kingdom, a Singapore branch ("**Singapore Branch**"), a Luxembourg branch ("**Luxembourg Branch**"), a representative office in Taipei and a Sydney branch in Australia ("**Sydney Branch**").

The Bank also has a number of wholly-owned subsidiaries including CMB Wing Lung Bank Limited and CMB International Capital Holdings Corporation Limited in Hong Kong.

Major retail e-banking channels

CMB APP:

In 2019, the Bank released CMB APP 8.0, launched innovative financial services such as online financial planning and voice bookkeeping, and extensively introduced leading enterprises in the fields of content, life, convenience, and travel as its partners to build a non-financial ecosystem and create a better financial life for users.

In 2022, the Bank kept on deepening its services for core financial scenario around the extensive wealth management to promote the continuous improvement of customer experience of CMB APP. The Bank also kept on improving the construction of the digital middle office system and consolidating the underlying capacity of the retail customer base for hierarchical and classified management. The Bank deepened the business exploration of the open ecosystem of wealth, actively cooperated with external institutions, expanded the service boundary of CMB APP, built the asset allocation capability represented by "CMB TREE assets allocation service system" to provide customers with customised wealth service plans, launched intelligent accompanying mechanism to improve user investment experience, accelerated the iterative upgrading of smart services such as "AI Xiao Zhao" and improve the service model of "people + digitalisation".

As at 31 December 2022, the cumulative number of users of CMB APP amounted to 188 million. In 2022, the maximum number of daily active users of CMB APP reached 18,037,100 and the number of logins to the CMB APP was 7.4 billion in the year, with a monthly average individual login of 9.9. The number of monthly active users was 66,862,000 as of the end of 2022. In 2022, CMB APP had 1.8 billion transactions and a total transaction amount of RMB52.9 trillion, down by 7.7% and 11.3% respectively, as compared with the corresponding period of 2021.

CMB Life APP for credit card:

In 2020, based on CMB Life APP, the Bank steadily promoted the construction of credit card service, financial products, content ecosystem, life with automobile and other scenarios, and continued to strengthen the connection of CMB Life APP with the main business of credit cards as well as with the users and merchants. During the fight against the pandemic, the Bank used Fintech to launch the "CMB Anti-pandemic Life Circle (小招喵的抗疫生活圈)" on CMB Life APP to provide customers with intelligent customer service, online repayment, online education and other financial and life services at home. The Bank initiated the "Forerunners' Alliance (逾越者聯盟)" through CMB Life APP for the merchants to facilitate the recovery of various consumer sectors such as catering, automobiles and e-commerce, taking concrete actions to overcome difficulties with cooperative merchants. During the routine pandemic prevention and control period, the Bank continued to optimise the customer base management system of CMB Life APP to improve the operating capabilities of CMB Life APP through various marketing activities.

In 2022, CMB Life App was comprehensively upgraded by the Bank. The Bank explored customer needs in a deep-going way, optimised the navigation bar of the main interface and provided new products and services such as account checking and repayment, all-scenario accompanying customer service, consumption report and handheld live broadcast, to better connect the life, consumption and finance of hundreds of millions of users. Brand marketing activities such as "Cashback" and "10 Yuan Storm" were carried out to attract tens of millions of customers. The Bank effectively promoted credit card consumption through efficient and large-scale customer mobilisation, closely connecting with customer operation.

As at 31 December 2022, the cumulative number of users of CMB Life App amounted to 137 million. In 2022, the maximum number of daily active users of CMB Life App reached 6,723,400 and the number of monthly active users was 43,841,300 as of the end of 2022. In terms of user engagement, CMB Life App was in the front rank among other credit card Apps in the banking industry.

Network operation service

The Bank's Network Operation Service Centre provides instant, comprehensive, prompt, professional, and caring services to its customers through such as telephone, network and video.

By deepening the application of "people + digitalisation", the Bank improved the adaptability of customer services, gives priority to guiding customers to use intelligent self-service to quickly handle simple and standardised businesses, provides direct and convenient services for customers who need manual services and provides efficient, high-quality, warm elderly-oriented service experience for elderly customers. The Bank conscientiously practiced social responsibility, ensured uninterrupted service delivery through the service mode of "home office + on-site office", and gave priority to providing customers in areas affected by natural disasters and other factors with "much-needed business". In 2022, the remote online omni-channel manual service connection rate was 98.0%, the remote online omni-channel manual service response rate of 20 seconds was 94.9%, and the remote online omni-channel customer satisfaction rate was 98.5%. With "people + digitalisation" as the new engine, the Bank has continued to increase the driving force of Fintech, further broadened the usage of online service scenarios, improved the intelligent robot operation system and accelerated the development of intelligent services. In 2022, the proportion of intelligent self-service in remote response consulting services was 81.4%.

Smart service system

The Bank continued to optimise its smart service network with the two major Apps, being “CMB APP” and “CMB Life APP” as the core, covering Network Operation Service Centre and visual counters at its outlets. In 2020, the Bank further enhanced the AI service and closed-loop service capabilities of “Financial Advisor Xiao Zhao (小招理財顧問)”, the smart customer service assistant of CMB APP and “Assistant Xiao Zhao (小招助理)”, the smart customer service assistant of CMB Life APP, accelerated the “scenario-based transformation” of the service ecosystem and continued to develop smart service products for its customers. In 2022, the Bank further strengthened the AI-powered intelligent customer service capability and closed-loop service level of Xiao Zhao of CMB APP and the intelligent customer service of CMB Life App, provided customers with high-quality intelligent service products. The Bank kept on polishing the AI Xiao Zhao platform-level products, connected the various scenarios of the App to help upgrade the service, initially completed the integration with Xiao Zhao customer service, provided full hosting and auxiliary response functions and empowered the customer manager to operate. As of the end of 2022, AI Xiao Zhao served a total of 12.1 million users. The Bank adheres to the decentralised strategy of credit card service interaction, actively uses AI and big data to accurately match customer demands, flexibly connect service channels, explore active service mode and provide efficient and convenient service access for customers.

Major wholesale online channels

In 2022 the Bank promoted the “Light-model Bank” plan 2.0 of wholesale online channels, creating “out-of-the-box” service capabilities, and improving its “humanised” experience. With the two major service channels of online corporate banking and CMB Corporate App, the Bank continuously improved the “easy-to-use, intelligent and open” digital service platform, offering service portals for users with different roles in the enterprise, and offering opening of standardised service packages for new account-opening customers, greatly simplifying the opening process. As at 31 December 2022, the Bank had 2,392,500 wholesale customers on the online channels, with a coverage rate of 94.7%. More than 90% of corporate business was handled online via the online corporate banking or CMB Corporate App and the number of monthly active customers of the wholesale online channel reached 1.5 million, representing a year-on-year increase of 8.2%. As at 31 December 2022, the total number of wholesale online channel transactions of the Bank reached 326 million, representing a year-on-year increase of 3.8%, and total value of transactions amounted to RMB174.7 trillion, representing a year-on-year increase of 14.6%.

Major Overseas Branches

Hong Kong Branch

The Bank established its Hong Kong Branch in 2002. As a full-licenced bank and a registered institution with the Securities and Futures Commission, the Hong Kong Branch may engage in comprehensive commercial banking businesses. With regard to corporate banking, the Hong Kong Branch provides diversified corporate banking products and services, such as deposit-taking, settlement, trade financing, bilateral loans, syndicated loans, cross-border M&A portfolio solutions, asset management and asset custody, and engages in transaction of funds, bond trading and foreign exchange trading with financial institutions, and conducts funds clearing and asset transfer with financial institution customers. With respect to retail banking, the Hong Kong Branch provides cross-border personal banking services and private wealth management services for individual customers in Hong Kong and mainland China. The featured products include the “Hong Kong All-in-one Card” and “Hong Kong Bank-Securities Express”.

For the year ended 31 December 2022, the Hong Kong Branch optimised its business structure, focused on customer group construction, expanded and strengthened its advantageous businesses such as custody and wealth management, and strictly grasped compliance and risk management, achieving the coordinated development of quality and efficiency. For the year ended 31 December 2022, Hong Kong Branch achieved the net operating income of HKD2.9 billion.

New York Branch

Established in 2008, the New York Branch represents the first branch of Chinese banks approved in the U.S. since the US Foreign Bank Supervision Enhancement Act in 1991. The New York Branch is located in a global financial centre, being committed to establishing a cross-border financial platform characterised by coordination between China and the U.S., so as to offer diversified and all-round banking services for the companies and high-net-value private banking customers in China and the U.S. Such services mainly include deposit-taking, settlement, foreign exchange transactions, international documents, trade financing, bilateral loans, syndicated loans, working capital financing, M&A financing, privatisation financing and fund financing. The Bank actively builds a global service network for private customers and provides high-quality non-financial value-added services for high-net-worth private customers on the premise of compliance and stability.

For the year ended 31 December 2022, the New York Branch actively adjusted its business strategies according to the bank-wide strategic objectives with the goal of creating a platform for providing global services, adhered to the bottom line of compliance and kept on improving its overall risk management capability. For the year ended 31 December 2022, New York Branch achieved the net operating income of USD96.5 million.

Singapore Branch

Established in 2013, the Singapore Branch of the Bank is positioned as a significant cross-border financial platform in Southeast Asia. Based in Singapore and expanding to Southeast Asia, the Singapore Branch, which focusing on two major businesses, namely cross-border finance and wealth management, strives to provide all-round one-stop solutions for cross-border finance to the Chinese companies "going global" and the companies "brought in" located in Singapore and other Southeast Asian countries. Its main services and products include deposit-taking, settlement, foreign exchange transactions, trade financing, syndicated loans, M&A financing and delisting financing. In terms of wealth management business, the Private Banking (Singapore) Centre was officially launched in April 2017 to provide private banking products and value-added services with integrated investment and financing solutions, such as cash management, asset allocation and heritage of wealth to high-net-value customers.

For the year ended 31 December 2022, Singapore's economy remained stable and progressive, but the overall international macro situation remained complex and volatile. According to the strategic objectives of the whole bank, Singapore Branch actively and steadily carried out cross-border finance and wealth management business and assisted the branch's characteristic operation with regional advantages. For the year ended 31 December 2022, Singapore Branch achieved the net operating income of USD20.7 million.

Luxembourg Branch

Established in 2015, the Luxembourg Branch of the Bank is positioned as an important cross-border financial platform in continental Europe, providing comprehensive cross-border financial one-stop solutions to the Chinese companies "going global" and the companies "brought in" located in Europe. Its main services and products include deposit-taking, lending, project financing, trade financing, M&A financing, M&A consulting, bond underwriting and asset management. It is committed to building a business platform in Europe by combining the advantages of the Head Office and European characteristics.

For the year ended 31 December 2022, the Luxembourg Branch worked hard to overcome the impact of the Russian-Ukraine conflict, high inflation and other factors, focused on the bank-wide strategic customers, actively sought new business growth points and made efforts to increase income and save expenses. For the year ended 31 December 2022, Luxembourg Branch achieved the net operating income of EUR31.5 million.

London Branch

Established in 2016, the London Branch of the Bank is the first branch approved to be established in the United Kingdom among all the PRC joint-stock commercial banks, providing comprehensive cross-border financial one-stop solutions to Chinese companies "going global" and leading companies "brought in" located in the UK. The main services and products of the London Branch include deposit-taking, settlement, foreign exchange transactions, trade financing, bilateral loans, syndicated loans and M&A financing. The London Branch actively builds a global service network for private banking customers and provides high-quality non-financial value-added services for high-net worth private banking customers on the premise of compliance and stability.

For the year ended 31 December 2022, the London Branch adjusted its business development strategies, deepened the transformation of business and customer group structure, worked hard to overcome the adverse effects of external environmental changes such as continuous interest rate increase and industrial policy adjustments and maintained compliance and stable operation. For the year ended 31 December 2022, London Branch achieved the net operating income of USD11.4 million.

Sydney Branch

Established in 2017, Sydney Branch is the first branch approved to be established in Australia among all the PRC joint-stock commercial banks. Based on the resource endowments of Australia and New Zealand, as well as China-Australia economic and trade and investment exchanges, Sydney Branch is committed to providing two-way cross-border financial services for the bank-wide strategic customers and high-quality top-tiered customers of Australia and New Zealand and deeply cultivates characteristic cross-border products, mainly including: deposit-taking, settlement, foreign exchange transactions, trade financing, M&A financing and commitment business, project financing, syndicated loans and fund financing. The branch will actively build a global service network for private banking customers and provides high-quality non-financial value-added services for high-net-worth private banking customers on the premise of compliance and stability.

For the year ended 31 December 2022, Sydney Branch adhered to the high-quality growth path and promoted business development with high-quality asset organisation. For the year ended 31 December 2022, Sydney Branch achieved the net operating income of AUD47.9 million.

Major Subsidiaries

Business of CMB Wing Lung Bank Limited

Founded in 1933, CMB Wing Lung Bank Limited has a registered capital of HK$1.2 billion, and is a wholly owned subsidiary of the Bank in Hong Kong. The principal operations of CMB Wing Lung Bank Limited and its subsidiaries comprise deposit-taking, lending, private banking and wealth management, investment, securities, credit cards, E-banking, "CMB WLB Wintech (招商永隆銀行一點通)" mobile banking, global cash management, syndicated loans, corporate loans, documentary bills, leasing and hire purchase loans, foreign exchange, insurance agency, mandatory provident fund, insurance brokerage and general insurance underwriting, property management and trustee, nominee and asset management services. As at 31 December 2022, CMB Wing Lung Bank Limited has one head office, 28 branches and private banking centres in Hong Kong, four branches and sub-branches in mainland China, one branch in Macau, one branch in Los Angeles and one branch in San Francisco in the United States, as well as one representative office in Bangkok, Thailand.

For the year ended 31 December 2022, CMB Wing Lung Group realised net profit attributable to shareholders of HK$3.0 billion and a net operating income of HK$7.6 billion, of which net interest income was HK$5.6 billion and net non-interest income was HK$2.0 billion. The cost-to-income ratio was 38.0%.

As at 31 December 2022, the total assets of CMB Wing Lung Group amounted to HK$397.5 billion. Total equity attributable to shareholders amounted to HK$44.5 billion. Total loans and advances to customers (including trade bills) amounted to HK$203.9 billion. Deposits from customers amounted to HK$301.6 billion. The loan-to-deposit ratio was 65.4%. The non-performing loan ratio (including trade bills) was 1.1%.

CMB Financial Leasing Co., Ltd.

CMB Financial Leasing Co., Ltd. was a wholly-owned company established by the Bank in 2008 with a registered capital of RMB12 billion. It meets the needs of the lessee to purchase equipment, promote sales, revitalise assets, balance tax burden and improve financial structure through ten major financial solutions relating to aviation, shipping, energy, infrastructure, equipment manufacturing, environment, health, culture and tourism, public transport, logistics, intelligent interconnection, integrated circuit and leasing industry.

As at 31 December 2022, CMB Financial Leasing Co., Ltd. had total assets of RMB260.2 billion and net assets of RMB29.4 billion. CMB Financial Leasing Co., Ltd. realised a net profit of RMB3.3 billion for the year ended 31 December 2022.

CMB International Capital Holdings Corporation Limited

CMB International Capital Holdings Corporation Limited, established in 1993, is a wholly owned subsidiary of the Bank in Hong Kong, with a registered capital of HK$4.1 billion. Currently, the business scope of CMB International Capital Holdings Corporation Limited and its subsidiaries mainly covers corporate finance, asset management, wealth management, global market business and structured finance.

As at 31 December 2022, CMB International Capital Holdings Corporation Limited had total assets of HK$50.8 billion, and net assets of HK$11.9 billion. For the year ended 31 December 2022, it realised a net profit of HK$459 million.

CMB Wealth Management Company Limited

CMB Wealth Management Company Limited was officially opened in 2019, and its business scope includes issuing financial products, providing financial advisory and consulting services and other businesses approved by the CBIRC. In May 2022, according to the Reply of the China Banking and Insurance Regulatory Commission on Matters Related to the Capital Increase and Share Increase and Change of Registered Capital of CMB Wealth Management Co., Ltd.* (《中國銀保監會關於招銀理財有限責任公司增資擴股及變更註冊資本有關事宜的批覆》) (YBJF [2021] No. 920), CMB Wealth Management Company Limited completed the relevant legal change procedures such as capital increase and share increase and change of industrial and commercial registration, and the registered capital increased from RMB5 billion to RMB5.6 billion, The Bank and JPMorgan Asset Management (Asia Pacific) Limited hold 90% and 10% shares respectively.

As at 31 December 2022, the total assets of CMB Wealth Management Company Limited amounted to RMB18.1 billion, and its net assets amounted to RMB16.9 billion. For the year ended 31 December 2022, it realised a net operating income of RMB5.8 billion and a net profit of RMB3.6 billion.

China Merchants Fund Management Co., Ltd.

Established in 2002, China Merchants Fund Management Co., Ltd. has a registered capital of RMB1.3 billion. As at 31 December 2022, the Bank held 55% of China Merchants Fund Management Co., Ltd.'s equity interests. The business scope of China Merchants Fund Management Co., Ltd. covers fund establishment, fund management and other operations approved by the CSRC.

As at 31 December 2022, China Merchants Fund Management Co., Ltd. had total assets of RMB12.3 billion and net assets of RMB8.2 billion. As at 31 December 2022, the scale of assets management business of China Merchants Fund Management Co., Ltd. amounted to RMB1.5 trillion. For the year ended 31 December 2022, China Merchants Fund Management Co., Ltd. realised a net profit of RMB1.8 billion.

Cigna & CMB Asset Management Company Limited

Cigna & CMB Asset Management Company Limited was established in October 2020 with a registered capital of RMB500 million and is an indirectly owned subsidiary of the Bank, which is owned as to 87.3% and 12.7% by CIGNA & CMB Life Insurance ("**CIGNA & CMB Life**"), a joint venture of the Bank, and CMB International Capital Holdings Corporation Limited, a subsidiary of the Bank, respectively. The scope of business of Cigna & CMB Asset Management Company Limited includes entrusted management of client's funds, issuance of insurance asset management products and asset management related consultation business.

As at 31 December 2022, the total assets of Cigna & CMB Asset Management Company Limited amounted to RMB775 million, with net assets of RMB604 million and a net profit of RMB68 million for the year ended 31 December 2022.

CMB Merchants Bank (Europe) Co., Ltd.

CMB Merchants Bank (Europe) Co., Ltd. was established in 2021 with a registered capital of €50 million. It is a wholly owned subsidiary of the Bank in Europe and is the regional headquarters of the Bank in continental Europe. CMB Merchants Bank (Europe) Co., Ltd. provides customers with diversified financial products and services such as cross-border financing, M&A finance, private banking, investment management, financial markets, bond underwriting, trade financing, and operates and allocates the global assets of enterprises and individuals.

As at 31 December 2022, CMB Merchants Bank (Europe) Co., Ltd. had total assets of €46 million and net assets of €45 million.

Major Joint Ventures

CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance, a joint venture of the Bank, was established in Shenzhen in 2003, with a registered capital of RMB2.8 billion. As at 31 December 2022, the Bank held 50% of CIGNA & CMB Life Insurance's equity interests. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at 31 December 2022, the total assets of CIGNA & CMB Life Insurance amounted to RMB130.8 billion, and its net assets amounted to RMB9.6 billion. For the year ended 31 December 2022, CIGNA & CMB Life Insurance realised a net profit of RMB730 million.

Merchants Union Consumer Finance

Merchants Union Consumer Finance, a joint venture of the Bank, was established in Shenzhen in 2015, with a registered capital of RMB10.0 billion. Merchants Union Consumer Finance is mainly engaged in the granting of personal consumption loans. As at 31 December 2022, the Bank directly holds 50% equity interest of Merchants Union Consumer Finance. Merchants Union Consumer Finance is mainly engaged in the granting of personal consumer loans.

As at 31 December 2022, the total assets of Merchants Union Consumer Finance amounted to RMB164.3 billion, and its net assets amounted to RMB17.1 billion. For the year ended 31 December 2022, Merchants Union Consumer Finance realised a net profit of RMB3.3 billion.

INFORMATION TECHNOLOGY, RESEARCH AND DEVELOPMENT

In 2022, the Bank accelerated the digital transformation. While successfully completed the three-year cloud migration project, the Bank strengthened the construction of key systems, ensured the continuous growth of scientific and technological output, further accelerated the delivery speed, and supported the high-quality growth of "Digital CMB".

In terms of Fintech infrastructure, the Bank achieved a stable and seamless migration to the cloud, created a new foundation of digitalisation, and possessed the ability to independently control in core areas. With the industry-leading availability of the core accounting system and backbone network, Phase II of Shenzhen Pinghu Data Centre commenced operation, providing key infrastructure for the Bank's core business. The Bank gave full play to the function of "two middle offices", the data middle-office and technology middle-office. DDH, the home of data developers, was put into operation to improve the development efficiency of comprehensive data. The technology middle-office continued to release shared components and promoted the platform construction of independent intellectual property rights, taking a leading position in the construction and application of domestic low code development platform. "Yun Xiao" (雲效), a one-stop micro-service application design and R&D management platform, was launched to support the implementation of the cloud development paradigm through the tool system, making the R&D process automated, visible and manageable, and improving the quality and efficiency of R&D.

The Bank accelerated the promotion of new technology applications and deepened the construction of intelligent applications by comprehensively enhancing the expansion ability of intelligent customer service and building a bank-wide intelligent recording and auditing middle office and introduced the Bank's digital products. RPA+ (Robotic Process Automation), with independent intellectual property right, evolved from an automation tool to a digital workforce with the basic ability to listen, read, write and act. Since the digital RMB service was launched on 4 January 2022, the Bank has been actively exploring its integration with business and improving customer service capabilities. Now, the digital RMB service is available through multiple channels and business scenarios such as CMB APP, counter, online corporate banking, CMB Corporate APP and Xin Fu Tong (薪福通), and cooperates with them to work out digital RMB service solutions. Blockchain applications were promoted, effectively enhancing the recovery rate of non-performing flash loans.

In terms of business system construction, the Bank released CMB APP 11.0, and launched the digital collection "Xiao Zhao Miao (小招喵)". The Bank also strengthened the construction of an open wealth management platform, attracting external institutions to settle in, and creating a new ecosystem of extensive wealth management. The wholesale wealth management platform launched "Zhao Ying Tong (招赢通)" version 2.0, achieving the connection with "Yin Ji Tong (銀基通)". The Bank accelerated the promotion of online business and improved the online migration rate of compliance account management, corporate derivative business, financing business and foreign exchange business in financial markets. The Bank strengthened the construction of online risk control platform, made a breakthrough in credit-centric data risk control, and built a complex risk control model system and the self-governance capacity for tax data. The new generation of bill business system was put into operation, making the Bank one of the first batch of pilot institutions of the Commercial Paper Exchange Corporation Limited, and enabling it to be the leader in entering the era of "Equally Divided Bills32". The Bank released Custody Plus (託管+) 2.0 to empower customer investment and help the custody business grow further. A data ecosystem of positive cycle was formed with the promotion of constructing four engines: smart marketing engine, smart operation engine, smart risk control engine and smart wealth engine. The Bank continued to upgrade key systems such as corporate customer relationship management (CRM) platform, retail customer manager work platform W+, and centralised operation platform, empowering frontlines to improve work efficiency.

Serving the digital transformation of enterprises with the ideology of "technology for all", the Bank released "Xin Fu Tong (薪福通)" 4.0 to facilitate the digital transformation of corporate clients. The Bank also launched the standard version of "Wealth and Asset Management Cloud (財資管理雲)", "Invoice Cloud (發票雲)" that fully supported billing in both paper and electronic forms, and "E Can Tong (E餐通)" that focused on meal allowance and other services to further improve the quality and efficiency of corporate client management.

The Bank reinforced the digital transformation of branches to support their innovative business development and personalised operation. Full roll-out of the overseas branch backbone system was completed. Phase I of CMB Wing Lung Bank Empowerment Plan was fully implemented, enabling CMB Wing Lung Bank Limited to achieve significant results in various areas such as service channels, customer business, operation, risk management, business management, big data and software engineering management, and forming a sustainable empowerment situation of platform sharing and application synergy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ESG Review

The Bank adheres to the concept of social responsibility of "originating from society and repaying society", takes "being committed to sustainable finance, promoting sustainable value and contributing to sustainable development" as the sustainable development goal, integrates the concept of ESG into the daily operation and management of the Bank. The Bank is also expected to constantly improve the sustainable development management mechanism, fully communicate with stakeholders and strive to achieve higher quality, more efficient, fairer, more sustainable and safer development.

In 2022, the Bank actively responded to climate change and vigorously promoted the development of green finance, comprehensively served the real economy and supported the improvement of people's livelihood, continuously improved the accessibility of financial services and used Fintech tools to enable customers to obtain low-cost and affordable financial services anytime and anywhere. The Bank also paid high attention to information security, privacy protection and consumer rights protection, created a high-quality working environment for employees and realised the effective connection between consolidating the achievements of poverty alleviation and rural revitalisation.

In 2022, the Bank achieved the social contribution value of RMB15.8 per share, and the total amount of external donations of the Bank was RMB94.8 million.

Green Finance

In 2022, the Bank released the Green Development Plan of China Merchants Bank (2022 Edition), which was the Bank's first special plan for green development. This development plan described the Bank's long-range vision and path for green development, and seeks to build the Bank's overall framework for green development in three dimensions including green finance business, green risk management and green operation system. This development plan has become a programmatic document for the Bank's green development and transformation.

In 2022, the Bank increased support for green industries, and initially sorted out policies for 10 major industries and included such industries into the newly developed green sectors according to the results of "Dual Carbon" research and relevant regulatory requirements for classification of green industries. The Bank also strictly controlled credit granting for industries with "high pollution and high energy consumption" by revising the environmental protection and energy and material consumption requirements in the credit policies for high-pollution and high-energy consumption industries, adding a negative list of backward production process, equipment and products and also to clarify prohibited matters. The Bank implemented the "one-vote veto" system and firmly compressed and withdrew credit for enterprises with bad environmental performance and huge social risks.

In terms of green credit, the Bank vigorously developed green credit business and invested funds in energy conservation and environmental protection, clean production, clean energy, ecological environment, green upgrade of infrastructure, green services etc. For the year ended 31 December 2022, the Bank executed the first "ESG performance-linked loan" in the wind power equipment industry in China, to provide full life-cycle financial services for power projects driven by new energy, and cooperated with third-party professional institutions to accurately select carbon emission reduction projects, scientifically measure carbon emission reduction benefits of projects and well conduct reporting and information disclosure of carbon emission reduction support tools. As at 31 December 2022, the Bank's balance of green loans was RMB355.4 billion, representing an increase of RMB91.5 billion or 34.7% as compared with the end of the previous year, higher than the average growth rate in corporate loans. For the year ended 31 December 2022, the Bank granted RMB18.7 billion of carbon emission reduction loans to 181 projects with a weighted average interest rate on loans of 3.6%, resulting in an annual carbon emission reduction of 3.6 million tons of CO2 equivalent. For the year ended 31 December 2022, CMB Financial Leasing Co., Ltd., a subsidiary of the Bank, granted green loans of RMB38.4 billion, with a business balance of RMB105.4 billion at the end of the period and presenting a growth of 16.9% as compared with the end of the previous year.

In terms of green bonds, in 2022, the Bank issued two green bonds and one green credit asset-backed securities domestically with a total issuance size of RMB16.5 billion and one green bond abroad with an issuance size of USD400 million. The Bank served as leading underwriter for 37 green bonds and underwrote RMB39.2 billion in those bonds. For the year ended 31 December 2022, the Bank ranked first among national small and middle banks in terms of the amount of green debt financing instruments (including carbon-neutral) that the Bank served as leading underwriter for (data from the National Association of Financial Market Institutional Investors).

In terms of green wealth management, the Bank introduced 6 ESG wealth management products issued and managed by third-party institutions, with products mainly investing in omni-green industries. As at 31 December 2022, CMB's agency sales amounted to RMB947 million. CMB Wealth Management Company Limited, a subsidiary of the Bank, took the initiative to introduce wealth management products with ESG concept, and issued 3 ESG themed products with an existing size of RMB1.4 billion as at 31 December 2022.

In terms of green investment, China Merchants Fund Management Co., Ltd., a subsidiary of the Bank, has been actively practicing the ESG investment concept and paying attention to the layout of green finance products. For the year ended 31 December 2022, the Bank successfully won the bid for sustainable investment products for the national social security fund, and issued CMB smart energy hybrid fund and the first carbon neutral ETF in the industry on Shanghai Environment and Energy Exchange. As at 31 December 2022, there were 8 existing ESG-related products, with an existing size of RMB3.7 billion and a size growth of 150.5% as compared with the end of the previous year. CMB Wealth Management Company Limited, a subsidiary of the Bank, gave priority to supporting investment in green bonds, with a balance of RMB28.1 billion invested in green bonds as at 31 December 2022.

In terms of green consumption, the Bank built several new energy vehicle brand zones on CMB APP and CMB Life Platform APP to support customers to browse new energy vehicle model information online, learn about the auto instalment loan limit with one click, make appointments for test drives at stores, etc., publicising new energy brands for millions of times throughout the year. The Bank has built its offline comprehensive service teams specialising in new energy vehicle instalment loans to provide service support to new energy vehicle stores around the clock. The Bank provides exclusive one-to-one VIP services to all customers who apply for new energy vehicle instalment loans, and advocates and encourages green consumption.

EMPLOYEES

As at 31 December 2022, the Group had 112,999 employees (including dispatched employees). The classification of its employees by profession is: 18,746 employees in corporate finance, 51,526 employees in retail finance, 6,495 employees in risk management, 16,478 employees in operation management, 10,846 employees in research and development, 1,000 employees in administrative and logistical support, and 7,908 employees in comprehensive management. The classification of its employees by educational background is: 25,546 employees with master's degrees and above, 72,346 employees with bachelor's degrees and 15,107 employees with junior college degrees or below. The classification of the Group's employees by gender is 48,939 males and 64,060 females.

LEGAL PROCEEDINGS

For the last 12 months prior to the date of this Offering Circular, none of the Bank or any of its subsidiaries had been involved in any material litigation, arbitration or similar proceedings, and the Bank is not aware that any such proceedings are pending or threatened.

RECENT DEVELOPMENTS

Quarterly Financial Information as at and for the Three Months Ended 31 March 2023

On 26 April 2023, the Group announced its unaudited IFRS financial results as at and for the three months ended 31 March 2023. The Group also reported additional financial and operating indicators. The unaudited consolidated quarterly interim financial information as at and for the three months ended 31 March 2022 and 2023 set forth in the First Quarterly Report was prepared on the same basis as the audited consolidated financial statements for the year ended 31 December 2022 and has not been reviewed by the Bank's auditors. Consequently, such consolidated quarterly interim financial information and the First Quarterly Report 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.

The following table sets forth, for the periods indicated, the Group's unaudited consolidated statement of profit or loss and other comprehensive income.

	For the three months ended 31 March	
	2023	**2022**
	(unaudited)	**(unaudited)**
	(Expressed in millions of Renminbi unless otherwise stated)	
Interest income	93,344	86,286
Interest expense	(37,935)	(31,822)
Net interest income	**55,409**	**54,464**
Fee and commission income	27,317	30,845
Fee and commission expense	(2,238)	(2,150)
Net fee and commission income	**25,079**	**28,695**
Other net income	**9,344**	**8,256**
Operating income	**89,832**	**91,415**
Operating expenses	(27,323)	(26,109)
Operating profit before impairment losses	**62,509**	**65,306**
Expected credit losses	(16,421)	(21,523)
Share of profits of joint ventures	529	397
Share of profits of associates	264	187
Profit before tax	**46,881**	**44,367**
Income tax	(7,655)	(8,058)
Net profit	**39,226**	**36,309**

	For the three months ended 31 March	
	2023	**2022**
	(unaudited)	**(unaudited)**
	(Expressed in millions of Renminbi unless otherwise stated)	
Attributable to:		
Shareholders of the Bank	38,839	36,022
Non-controlling interests	387	287
Earnings per share		
Basic and diluted earnings per share (RMB Yuan)	1.54	1.43
Net profit for the period	**39,226**	**36,309**
Other comprehensive income, net of tax		
Items that will be reclassified subsequently to profit or loss		
Share of other comprehensive income from equity-accounted investees that will be reclassified subsequently to profit or loss	466	(794)
Fair value change on financial assets measured at fair value through other comprehensive income	(1,473)	(3,226)
Net changes in expected credit losses of financial assets measured at fair value through other comprehensive income	(1,626)	2,955
Cash flow hedge: net movement in hedging reserve	(36)	62
Exchange difference on translation of financial statements of foreign operations	(935)	(355)
Items that may not be reclassified subsequently to profit or loss		
Fair value gain on equity instruments measured at fair value through other comprehensive income	277	50
Other comprehensive income for the period, net of tax	(3,327)	(1,308)
Attributable to:		
Shareholders of the Bank	(3,255)	(1,273)
Non-controlling interests	(72)	(35)
Total comprehensive income for the period	**35,899**	**35,001**
Attributable to:		
Shareholders of the Bank	35,584	34,749
Non-controlling interests	315	252

The following table sets forth, as at the dates indicated, the Group's unaudited consolidated statement of financial position.

	As at 31 March 2023	As at 31 December 2022
	(Expressed in millions of Renminbi unless otherwise stated)	
Assets		
Cash	12,171	15,209
Precious metals	2,233	2,329
Balances with central bank	585,469	587,818
Balances with banks and other financial institutions	102,385	91,346
Placements with banks and other financial institutions	265,788	264,209
Amounts held under resale agreements	153,641	276,676
Loans and advances to customers	6,080,449	5,807,154
Financial investments at fair value through profit and loss	520,659	423,467
Derivative financial assets	12,677	18,671
Debt investments at amortised cost	1,611,527	1,555,457
Debt investments at fair value through other comprehensive income	821,288	780,349
Equity investments designated at fair value through other comprehensive income	18,255	13,416
Interest in joint ventures	14,737	14,247
Interest in associates	10,021	9,597
Investment properties	1,255	1,268
Property and equipment	104,736	99,919
Right-of-use assets	17,175	17,553
Intangible assets	3,152	3,402
Goodwill	9,999	9,999
Deferred tax assets	92,925	90,848
Other assets	68,210	55,978
Total assets	**10,508,752**	**10,138,912**
Liabilities		
Borrowings from central bank	195,122	129,745
Deposits from banks and other financial institutions	572,043	645,674
Placements from banks and other financial institutions	245,488	207,027
Financial liabilities at fair value through profit or loss	51,294	49,144
Derivative financial liabilities	11,641	18,636
Amounts sold under repurchase agreements	128,654	107,093
Deposits from customers	7,832,912	7,590,579
Salaries and welfare payable	23,476	23,866
Tax payable	23,111	19,458
Contract liabilities	6,621	6,679
Lease liabilities	12,700	13,013
Provisions	22,303	22,491
Debt securities issued	265,472	223,821
Deferred tax liabilities	1,480	1,510
Other liabilities	126,673	125,938
Total liabilities	**9,518,990**	**9,184,674**

	As at 31 March 2023	As at 31 December 2022
	(Expressed in millions of Renminbi unless otherwise stated)	
Equity		
Share capital	25,220	25,220
Other equity instruments	120,446	120,446
Including: Preference shares	27,468	27,468
Perpetual bonds	92,978	92,978
Capital reserve	65,435	65,435
Investment revaluation reserve	9,460	11,815
Hedging reserve	115	151
Surplus reserve	94,985	94,985
Regulatory general reserve	132,689	132,471
Retained profits	487,760	449,139
Proposed profit appropriations	43,832	43,832
Exchange reserve	1,145	2,009
Total equity attributable to shareholders of the Bank	**981,087**	**945,503**
Non-controlling interest	8,675	8,735
Including: Non-controlling interest	5,952	5,948
Perpetual debt capital	2,723	2,787
Total equity	**989,762**	**954,238**
Total liabilities and equity	**10,508,752**	**10,138,912**

The following table sets forth, for the periods indicated, selected items from the Group's unaudited consolidated cash flow statement.

	For the three months ended 31 March	
	2023	2022
	(unaudited)	(unaudited)
	(Expressed in millions of Renminbi unless otherwise stated)	
Net cash (used in)/generated from operating activities before income tax payment	(7,732)	10,673
Income tax paid	(4,886)	(5,122)
Net cash used in investing activities	(91,875)	(163,390)
Net cash generated from/(used in) financing activities	43,944	(64,766)
Decrease in cash and cash equivalents	**(60,549)**	**(222,605)**
Cash and cash equivalents as of 1 January	567,198	801,754
Add: Effects of foreign exchange rate changes on cash and cash equivalents	(1,709)	(726)
Cash and cash equivalents as of the end of the period	**504,940**	**578,423**

Analysis of capital adequacy ratios as at 31 March 2023

The Bank continued to optimize its business structure and enhance capital management, and has satisfied all capital requirements of the China Banking and Insurance Regulatory Commission (hereinafter referred to as the "**CBIRC**") in 2022. The capital adequacy ratio of the Bank generally remained stable.

As at 31 March 2023, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced measurement approach were 17.39% and 15.34%, respectively.

The Group	As at 31 March 2023	As at 31 December 2022
	(in millions of RMB, except for percentages)	
The capital adequacy ratios under the Advanced Measurement Approach[(1)]		
1. Net core Tier 1 capital	836,054	799,352
2. Net Tier 1 capital	956,500	919,798
3. Net capital	1,084,290	1,037,942
4. Core Tier 1 capital adequacy ratio	13.41%	13.68%
5. Tier 1 capital adequacy ratio	15.34%	15.75%
6. Capital adequacy ratio	17.39%	17.77%
Information on leverage ratio[(2)]		
7. Balance of on-balance and off-balance sheet assets after adjustment	12,013,884	11,569,842
8. Leverage ratio	7.96%	7.95%

(1) The "Advanced Measurement Approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012 (same as below). In accordance with the requirements of the Advanced Measurement Approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include the Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Bank shall include all the domestic and overseas branches and sub-branches of the Bank. As at 31 March 2023, the Group's subsidiaries for calculating its capital adequacy ratio included CMB Wing Lung Bank Limited, CMB International Capital Holdings Corporation Limited, CMB Financial Leasing Co., Ltd., CMB Wealth Management Company Limited, China Merchants Fund Management Co., Ltd., CIGNA & CMB Asset Management Company Limited and CMB Merchants Bank (Europe) Co., Ltd.. During the parallel run period when the Advanced Measurement Approach for capital measurement is implemented, a commercial bank shall use both the Advanced Measurement Approach and other approaches to calculate capital adequacy ratios, and comply with the capital floor requirements. The capital floor adjustment coefficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third year (i.e. 2017) and subsequent years during the parallel run period.

(2) Since 2015, the leverage ratio shall be calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" promulgated by the former CBRC on 12 February 2015. The leverage ratios of the Group were 8.0%, 8.0% and 7.6% respectively as at the end of 2022, the end of the third quarter and the end of the second quarter of 2022.

As at 31 March 2023, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the Weighted Approach were 14.41% and 12.99%, respectively.

The Group	As at 31 March 2023	As at 31 December 2022
The capital adequacy ratios under the Weighted Approach *(Note)*		
1. Tier 1 capital adequacy ratio	12.99%	13.25%
2. Capital adequacy ratio	14.41%	14.68%

Note: The "Weighted Approach" refers to the Weighted Approach for credit risk, the Standardised Measurement Approach for market risk and the Basic Indicator Approach for operational risk in accordance with the relevant provisions of the "Capital Rules for Commercial Banks (Trial)" issued by the former CBRC on 7 June 2012.

FUNDING AND CAPITAL ADEQUACY OF THE BANK

FUNDING

As at 31 December 2022, total deposits from customers of the Group amounted to RMB7,535.7 billion, representing an increase of 18.7% as compared with the end of the previous year. Deposits from customers, accounting for 82.1% of the total liabilities of the Group, were the major funding source of the Group.

The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	As at 31 December 2022		As at 31 December 2021	
	Amount	**Percentage**	**Amount**	**Percentage**
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Corporate customer deposits				
Demand	2,762,671	36.66	2,652,817	41.80
Time	1,668,882	22.15	1,406,107	22.15
Subtotal	4,431,553	58.81	4,058,924	63.95
Deposits from retail customers				
Demand	1,983,364	26.32	1,557,861	24.54
Time	1,120,825	14.87	730,293	11.51
Subtotal	3,104,189	41.19	2,288,154	36.05
Total deposits from customers	**7,535,742**	**100.00**	**6,347,078**	**100.00**

In 2022, the percentage of daily average balance of the demand deposits to that of the total deposits from customers of the Group was 61.6%, representing a decrease of 2.82 percentage points as compared with the previous year. Among which, the daily average balance of corporate demand deposits accounted for 60.0% of that of the corporate deposits, representing a decrease of 1.75 percentage points as compared with that of the previous year, and the daily average balance of retail demand deposits accounted for 64.4% of that of the retail deposits, representing a decrease of 5.08 percentage points as compared with that of the previous year. The Bank attributed the increase in customer investments in time deposit products, which led to a decrease in the percentage of demand deposits, to capital market volatility.

The following table sets out a breakdown of the Group's customer deposits by remaining maturity for the periods indicated:

	As at 31 December 2022		As at 31 December 2021	
	Amount	**Percentage**	**Amount**	**Percentage**
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Demand	4,746,035	62.98	4,185,788	65.95
Within 1 month	384,557	5.10	315,077	4.96
1 to 3 months	393,284	5.22	316,452	4.99
3 months to 1 year	861,631	11.43	719,506	11.34
1 to 5 years	1,115,153	14.80	809,176	12.75
Over 5 years	35,082	0.47	1,079	0.01
Total	**7,535,742**	**100.0**	**6,347,078**	**100.0**

CAPITAL ADEQUACY

The Bank kept on optimising its business structure and strengthening capital management. For the year ended 31 December 2022, the Bank met various capital requirements of the CBIRC with sufficient capital buffer. Following the release of the "Assessment for Systemically Important Banks" in 2022, the PBOC and the CBIRC released the list of domestic systemically important banks in 2022. The Bank was in the third group of the list and needed to meet additional regulatory requirements such as the additional capital adequacy ratio of 0.75% and the additional leverage ratio of 0.375%. As at 31 December 2022, the Bank's capital adequacy ratio, leverage ratio, liquidity and other operating indicators at all levels were maintained at a high level, which met additional regulatory requirements.

As at 31 December 2022, the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of the Group under the Advanced Measurement Approach were 13.68%, 15.75% and 17.77% respectively, representing an increase of 1.02, 0.81 and 0.29 percentage point respectively, as compared with the end of the previous year.

The following table sets forth certain information about the Group's Tier 1 capital and risk-weighted assets, as well as the Group's capital adequacy ratios for the periods indicated.

	As at 31 December 2022	**As at 31 December 2021**
	(in millions of RMB, except for percentages)	
The Group		
Capital adequacy ratios under the Advanced Measurement Approach[(1)]		
Net core Tier 1 capital	799,352	704,337
Net Tier 1 capital	919,798	831,380
Net capital	1,037,942	972,606
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	5,491,072	5,037,500
Of which: Credit risk weighted assets	4,823,836	4,441,186
Market risk weighted assets	89,200	60,296
Operational risk weighted assets	578,036	536,018
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	5,841,685	5,563,724
Core Tier 1 capital adequacy ratio	13.68%	12.66%
Tier 1 capital adequacy ratio	15.75%	14.94%
Capital adequacy ratio	17.77%	17.48%
Information on leverage ratio[(2)]		
Balance of adjusted on- and off-balance sheet assets	11,569,842	10,394,899
Leverage ratio	7.95%	8.00%

(1) The "Advanced Measurement Approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012 (same as below). In accordance with the requirements of the Advanced Measurement Approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include the Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Bank shall include all the domestic and overseas branches and sub-branches of the Bank. As at 31 December 2022, the Group's subsidiaries for calculating its capital adequacy ratio included CMB Wing Lung Bank Limited, CMB International Capital Holdings Corporation Limited, CMB Financial Leasing Co., Ltd., CMB Wealth Management Company Limited, China Merchants Fund Management Co., Ltd., CIGNA & CMB Asset Management Company Limited and CMB Merchants Bank (Europe) Co., Ltd.. During the parallel run period when the Advanced

Measurement Approach for capital measurement is implemented, a commercial bank shall use both the Advanced Measurement Approach and other approaches to calculate capital adequacy ratios, and comply with the capital floor requirements. The capital floor adjustment coefficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third year (i.e. 2017) and subsequent years during the parallel run period.

(2) Since 2015, the leverage ratio shall be calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" promulgated by the former CBRC on 12 February 2015. The leverage ratio of the Group was 8.00%, 7.64% and 8.07% respectively as at the end of the third quarter, the end of the half year and the end of the first quarter of 2022.

As at 31 December 2022, the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of the Bank under the Advanced Measurement Approach were 13.23%, 15.42% and 17.51% respectively, representing an increase of 1.08, 0.83 and 0.28 percentage points respectively, as compared with the end of the previous year.

The following table sets forth certain information about the Bank's Tier 1 capital and risk-weighted assets, as well as the Bank's capital adequacy ratios for the periods indicated.

	As at 31 December 2022	**As at 31 December 2021**
	(in millions of RMB, except for percentages)	
The Bank		
Capital adequacy ratios under the Advanced Measurement Approach		
Net core Tier 1 capital	701,033	617,403
Net Tier 1 capital	817,387	741,627
Net capital	927,881	875,859
Risk weighted assets (without taking into consideration the floor requirements during the parallel run period)	4,925,532	4,530,952
Of which: Credit risk weighted assets	4,330,955	4,002,933
Market risk weighted assets	69,000	39,049
Operational risk weighted assets	525,577	488,970
Risk weighted assets (taking into consideration the floor requirements during the parallel run period)	5,299,237	5,082,896
Core Tier 1 capital adequacy ratio	13.23%	12.15%
Tier 1 capital adequacy ratio	15.42%	14.59%
Capital adequacy ratio	**17.51%**	**17.23%**

RISK MANAGEMENT OF THE BANK

OVERVIEW

The Bank adhered to a solid and prudent risk culture and risk preferences under the principles of "Comprehensive, Professional, Independent and Balanced Management", and was dedicated to building a fortress-style overall risk and compliance management system under the value creation chain highlighting the "volume growth – revenue growth – profit growth – value growth". The Risk and Compliance Management Committee of the Head Office is responsible for reviewing and determining the most significant bank-wide risk management policies on risk preferences, strategies, policies and authorisations approved by the Board of Directors.

In 2022, in the face of the complex and volatile economic environment at home and abroad and the rising risk of bank operation, the Bank followed the requirements of a "Six All" risk management system, focused on the improvement of risk management ability, and actively responded to and prevented various risks.

Credit risk management

Credit risk refers to the risk arising from a bank's borrowers or counterparties failing to perform its obligations as agreed. Adhering to its management philosophy of "Quality Goes First Based on Compliance and Risk Control (合規為根、風險為本、質量為先)", and with the goal of "fostering a leading risk management bank", the Bank promoted the risk management culture of "staying healthy, rational, proactive and comprehensive (穩健、理性、主動、全員)", stuck to the concept of balanced returns and risks and the prudent business strategy in which risks can ultimately be covered by capital, implemented a unified credit risk preference, optimised the life-cycle credit risk management processes, continuously upgraded credit risk management tools, and fully improved risk management standard, so as to prevent and reduce credit risk loss.

In 2022, the Bank paid close attention to the macroeconomic and financial situation, strictly adhered to the bottom line of risk and ensured that the quality of the assets is stable. Firstly, the Bank thoroughly implemented its requirements for building a fortress-style overall risk and compliance management system, constantly improved the construction of the extensive wealth risk management system and carried out differentiated management for different types of businesses. Secondly, the Bank constantly improved industry awareness, improved credit policies and guided the construction of a reasonable customer structure, relying on industry self-organisation, implementing the "different policies for different industries" list system operation of asset business, fully promoting the high-quality asset investment in relevant fields such as new energy, green economy, high-quality track manufacturing, regional characteristic industries and independent and controllable industries and optimising the customer structure. Thirdly, the Bank strictly guarded against risks in key areas and held fast to the bottom line of risks, establishing a risk monitoring system coordinated by the Head Office and branches for customers of transactions with large amounts, carrying out systematic risk screening for key customer groups on the basis of "different policies for different categories" and for key customers on the basis of "different policies for different accounts", improving the refinement level of risk management and ensuring that asset quality remained a leading edge. Fourthly, the Bank strengthened the disposal of non-performing loans, implementation of cash settlement, write-off of bad debts, deduction and settlement, implementation of a list-based key projects management approach and improving the quality and efficiency of settlement. Fifthly, the Bank strengthened the construction of institutional teams and improved the ability of basic risk management, strengthening the construction of risk management capacity of overseas branches and subsidiaries, promoting the implementation of "nerve endings mechanism" in the front office and keeping on consolidating the foundation of risk management. Sixthly, the Bank improved the foundation of digital risk control and deepened the application of Fintech. The credit cloud project ended successfully. The Bank comprehensively promoted the digitalisation of credit business and strengthened the application of risk measurement technology.

Management of large-scale risk exposure

In accordance with the "Management Measures for Large-Scale Risk Exposure of Commercial Banks" (CBIRC Order 2018 No. 1) (《商業銀行大額風險暴露管理辦法》(銀保監會2018年1號令)) issued by the CBIRC, large-scale risk exposure refers to the credit risk exposure (including various credit risk exposures in the banking book and trading book) to a single customer or a group of related customers of a commercial bank that exceeds 2.5% of its net Tier 1 capital. The Bank has incorporated large-scale risk exposure management into its overall risk management system, continued to improve customer credit management requirements, continued to streamline risk exposure measurement rules, dynamically monitored changes in large-scale risk exposures by way of Fintech, and reported regularly on large-scale risk exposure indicators and related management work to regulatory authorities, so as to effectively control customer concentration risks. As at 31 December 2022, other than customers with regulatory exemption, single non-financial institution customers, group non-financial institution customers, single financial institution customers and group financial institution customers of the Bank that reached the standards of large-scale risk exposure were all in compliance with the regulatory requirements.

Country risk management

Country risks represent the risks of economic, political and social changes or developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to fulfill their obligations to banks, or incur loss to commercial presences of the Bank in that country or region, or other losses to the Bank in that country or region.

The Bank strictly implemented relevant regulatory requirements and followed the principles of soundness and prudence, established a country risk management system compatible with strategic objectives, risk profile and complexity, and incorporated country risk management into its overall risk management system so as to promptly identify, measure, evaluate, monitor, report, control and mitigate country risks, assess the country risk ratings in a regular manner and implement limit management, while guiding business to tilt in favour of low-risk countries or regions. Major matters involving country risk management strategies and policies were submitted to the Board for consideration and approval.

In 2022, the global geopolitical conflict intensified, and in the face of increasingly complex and volatile international political and economic situation, the Bank dynamically updated the country risk rating according to the risk changes and strictly restricted the growth of high-risk country business. As at 31 December 2022, the Bank's country risk exposure was mainly concentrated in low-risk and relatively-low-risk countries or regions, and sufficient country risk reserve was calculated and withdrawn according to the regulatory provisions. The country risk would not have a significant impact on the Bank's business operation.

Market risk management

The Bank's market risk arises from trading book and banking book, and the interest rate risk and exchange rate risk are the major market risks faced by the Bank.

Interest rate risk management

- *Trading book*

  The Bank uses volume indicators, market risk value indicators (VaR, covering interest rate risk factors of various currencies and durations relating to trading book business), interest rate stress testing loss indicators, interest-rate-sensitive indicators and accumulative loss indicators, to measure, monitor and manage the interest rate risk of trading book. The interest rate risk factors used for risk measurement cover all businesses under the trading book, and are comprised of around 200 interest rate indicators or bond yield curves. VaR includes general VaR and stressed VaR, which are both calculated using the historical simulation method and adopt a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. The interest rate stress testing scenarios include the parallel move, steep move and twisted change of interest rates at various degrees and various unfavorable market scenarios designed on the characteristics of investment portfolios. Among which, the extreme interest rate scenario may move up to 300 basis points and cover the extremely unfavorable conditions of the market. Major interest rate sensibility indicator reflects the duration of bonds and the change in the market value of bonds and interest rate derivatives PV01 (when an interest rate fluctuates unfavourably by 1 basis point). As for daily risk management, the annual scope of authorisation and the market risk limits for the interest rate risk businesses under the trading book are set in accordance with the risk appetite, operation plan and risk prediction of the Board of Directors at the beginning of the year for which the Market Risk Management Department is responsible for daily monitoring and continuous reporting.

In 2022, U.S. dollar and RMB interest rates experienced high volatility, and the RMB interest rate fluctuated within a narrow range as a whole. In general, the one-year fixed deposit RMB interest rate declined but rebounded in November 2022 given a change in market expectations. Due to the persistently high inflation in the United States, the U.S. dollar interest rate rose sharply due to the seven consecutive interest rate hikes by the Federal Reserve, and the long-term and short-term interest rates were significantly inverted. The investment portfolio of the Bank's trading book mainly consists of RMB bonds, and a generally prudent investment strategy and targeted risk control measures are adopted to ensure that all interest rate risk indicators of the trading book fall within the target range.

• *Banking book*

In accordance with external regulatory requirements and internal banking book interest rate risk management policies, the Bank has continuously improved its banking book interest rate risk management system and governance structure. The Bank has also put in place an interest rate risk identification, measurement, monitoring, control and reporting process. The Bank mainly adopts the re-pricing gap analysis, duration analysis, benchmark-correlated analysis, scenario simulation and other methods to measure and analyse the interest rate risk of banking book on a monthly basis. The re-pricing gap analysis mainly monitors the distribution of re-pricing duration and mismatch of assets and liabilities; the duration analysis monitors the duration of major product types and the change in the duration gap of assets and liabilities of the whole Bank; the benchmark-correlated analysis assesses the benchmark risk existing between different pricing benchmark interest rate curves, as well as between the different duration points on each of such curves based on the benchmark-correlated coefficients calculated using our internal models; the scenario simulation is the major approach for the Bank to conduct interest rate risk analysis and measurement, which comprises a number of ordinary scenarios and stress scenarios, including the interest rate benchmark impact, the parallel move and the change in the shape of yield curves, the extreme changes in interest rates in history, and the most possible changes in interest rates in the future as judged by experts and other scenarios. The net interest income (NII) for the future one year and the changes in economic value of equity (EVE) indicator are calculated through simulation of the scenario of changes in interest rates. The NII fluctuation ratio and the EVE fluctuation ratio of certain scenarios are included into the interest rate risk limit system of the whole Bank. In addition, the internal limit indicator system is included into the standardised measurement indicators set out in the Guidelines on the Management of Interest Rate Risk of Banking Book of Commercial Banks (Revised) issued by the CBIRC.

Adhering to a neutral and prudent interest rate risk preference, the Bank pays close attention to changes in the external environment and internal interest rate risk exposure structure, predicts and analyses interest rate trends based on macro-quantitative models and experts' research and judgement, proactively deploys active interest rate risk management strategies and adjusts them flexibly. In 2022, the Bank constantly monitored and analysed various interest rate risks, especially the gap risk in the context of the loan prime rates downturn and the benchmark risk caused by inconsistent changes of deposit and loan interest rates, and adjusted the structure of assets and liabilities on the balance sheet and hedge interest rate derivatives off the balance sheet to manage risks. As at 31 December 2022, the Bank's on- and off-balance-sheet management measures were carried out as planned, the interest rate risk level was controlled within the annual interest rate risk control target range, and various indicators including the stress test results were kept within the limits and warning values. The banking book interest rate risk was generally controllable.

Exchange rate risk management

- *Trading book*

  The Bank uses risk exposure indicator, market risk value indicator (VaR, covering foreign exchange rate risk factors of various currencies related to transactions on the trading book), the exchange loss indicator under stress test, option-sensitive indicator and accumulated loss indicator to conduct risk measurement and monitoring management. As for risk measurement, the selected exchange rate risk factor is applied on spot prices, forward prices and volatilities in all transaction currencies under the trading book. Market value risk indicators comprise general market value at risk and stress market value at risk, and are calculated using historical simulation based on a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. Exchange rate stress test scenarios cover 5%, 10%, 15% or more adverse changes in every transaction currency against RMB, and changed volatility of foreign exchange options. Major option-sensitive indicators include Delta, Gamma, Vega and other indicators. For daily management, the Bank set annual limits on authority associated with exchange rate risks under the trading book and relevant market exposure at the beginning of the year according to the risk appetite, business planning and risk forecast of the Board of Directors, and delegated the Market Risk Management Department to perform daily monitoring and on-going reporting.

  In 2022, the RMB exchange rate depreciated by approximately 15% in the middle of 2022 before rebounding to an overall year-on-year depreciation of approximately 9%. The Bank mainly obtained spread income through foreign exchange business of customers, and used the system to dynamically monitor the trading exposure, and strengthened the monitoring of the changes of limit index values such as sensitivity index and stop loss. All exchange rate risk indicators of the trading book of the Bank were within the target range as at 31 December 2022.

- *Banking book*

  The Bank mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, and other methods for measurement and analysis of exchange rate risk of banking book of the Bank. The foreign exchange exposure measurement uses the short-sided method, the correlation approach and the aggregation approach; scenario simulation and stress test analysis are two important exchange rate risk management tools of the Bank for managing foreign exchange rate risk in respect of fluctuation of all currency exchange rates, including the standard scenario, historical scenario, forward scenario and stress scenario, such as spot and forward exchange rate fluctuations and historical extreme exchange rate fluctuations of various currencies, each scenario could simulate the impact on the Bank's profit or loss. The effects of certain scenarios on the profit and loss and its percentage to net capital as a limit indicator are taken as reference in the daily management. The Bank conducts back-testing and assessment on relevant model parameters on a regular basis to verify the effectiveness of measurement models.

The Bank regularly measures and analyses foreign exchange exposure of banking book and scenario simulation results, monitors and reports exchange rate risk on a monthly basis under its quota limit framework, and adjusts its foreign exchange exposure accordingly based on the trend of foreign exchange movements, so as to mitigate the relevant foreign exchange risk of banking book. The Audit Department of the Bank is responsible for overall auditing of the Bank's exchange rate risk.

In 2022, the Bank paid close attention to exchange rate movements, took initiative to analyse the impact of exchange rate changes in light of the macroeconomic conditions at home and abroad, and proposed a balance sheet optimisation program as a scientific reference for the management's decision-making. In addition, the Bank increased its efforts to monitor and analyse foreign exchange exposure and imposed a stringent control over the scale of foreign exchange risk exposure. A prudent approach to exchange rate risk was favoured. As at 31 December 2022, the size of the banking book of the Bank's foreign exchange exposure was at a relatively low level. The exchange rate risk of the Bank is generally stable with all the core limit indicators, general scenarios and stress testing results satisfying the regulatory limit requirement.

Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or failed internal procedures, incompetent personnel or IT systems, or external events. In view of the various aspects and wide range of operational risks, the Bank's operational risk management will, based on the principles of cost-revenue matching and input-output balance, vigorously strengthen the establishment of operational risk management system, implement internal control system, continue to carry out various businesses steadily and reduce or prevent operational risk losses with a certain level of cost. In the process of operational risk management, within the risk limits set by the Board of Directors, the Bank will, through measures such as further improving the risk management mechanism, strengthening risk prevention and control in key areas, conducting risk monitoring and pre-warning, improving assessment and evaluation mechanism, and cultivating operational risk prevention culture, so as to further improve operational risk management capabilities and effectiveness, and prevent and reduce operational risk losses.

In 2022, the Bank constantly improved the operational risk management system with the goal of preventing losses arising from systematic operational risk and major operational risk. Firstly, the Bank carried out the implementation of the new Basel III operational risk standards at the group level, taking the contents of the Basel reform plan as a benchmark, and further improving the level of operational risk management. Secondly, the Bank strengthened risk prevention and control in key areas, carrying out special investigation on asset custody, residential mortgage loans and other businesses and putting forward management measures and suggestions. Thirdly, the Bank continued to optimise the three major tools of operational risk and update the platform functions of operational risk management system. Fourthly, the Bank strengthened its outsourcing risk management, strengthening access mechanism and organising the whole bank to carry out post-evaluation of outsourcing projects. Fifthly, the Bank strengthened the consolidated management of operational risk, promoting subsidiaries to improve the operational risk management mechanism and continuously improving the level of operational risk management. Sixthly, the Bank strengthened the second line of defence of information technology risk and business continuity management and organising business continuity risk assessment and information technology process inspection. Seventhly, the Bank carried out various forms of training for operational risk management personnel of domestic and overseas branches and subsidiaries to improve operational risk management skills.

Liquidity risk management

Liquidity risk refers to the risk that the Bank is unable to obtain sufficient funds at a reasonable cost in a timely manner to grow its assets, pay maturing debts and perform other payment obligations. The liquidity risk management of the Bank is based on the principles of prudence, foresight and comprehensiveness, which is more appropriate for the current development stage of the Bank. The current liquidity risk management policies and systems of the Bank have basically satisfied the regulatory requirements and its own management needs.

Based on the principle of separating policy-making, strategy implementation and supervision of liquidity risk management, the Bank puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, the Risk and Capital Management Committee, the Board of Supervisors, senior management, designated committees and relevant departments are segregated to ensure the effectiveness of liquidity risk management.

In 2022, the central bank kept on adopting a prudent monetary policy, and the inter-bank market maintained reasonable and sufficient liquidity. Based on the analysis of macroeconomic and market trends, the Bank dynamically quantified and forecasted the future risk situation, and proactively laid out the asset liability management strategy to achieve the balance between risk and income. Firstly, the Bank constantly promoted the steady growth of customer deposits and strengthening the control of key timings. Secondly, the Bank took multiple measures to strengthen the organisation and support of assets, constantly optimising the asset structure and realising the smooth operation of assets and liabilities. Thirdly, based on the operation of deposit and loan business and liquidity indicators, the Bank flexibly carried out treasury active liability management, expanding diversified financing channels, actively carrying out open market transactions and playing the role of primary dealers. Fourthly, the Bank moderately increased investment in qualified and high-quality bonds, strengthening investment strategy management and further improving the efficiency of capital use. Fifthly, the bank strengthened the liquidity risk monitoring and management of business lines, overseas branches and subsidiaries. Sixthly, the Bank constantly carried out emergency management, testing and improving the liquidity emergency plan and effectively improving the ability to respond to liquidity risk events through regular liquidity risk emergency drills.

As at 31 December 2022, all liquidity indicators of the Bank met regulatory requirements, and there were sufficient sources of funds to meet the needs of sustainable and healthy business development. According to the regulations of the People's Bank of China, the Bank's RMB statutory reserve ratio is 7.5%, and the foreign exchange statutory reserve ratio is 6%. The Bank's liquidity indicators operate well. Deposits maintain stable growth. The Bank holds the view that they have sufficient liquidity, and overall liquidity is safe.

Reputational Risk Management

Reputational risk refers to the risk that the Bank might be negatively evaluated by relevant stakeholders, the public and the media due to behaviours of the Bank and its employees or external incidents, thereby damaging the brand value of the Bank, which is detrimental to the normal operation of the Bank, or even market stability and social stability. Reputational risk management is an important part of the corporate governance and the overall risk management system of the Bank, covering all activities, operations and businesses undertaken by the Bank and its subsidiaries. The Bank established and formulated the reputational risk management rules and system and took initiatives to effectively prevent the reputational risk and respond to any reputational incidents, so as to reduce loss and negative impact to the greatest extent.

In 2022, the Bank strictly implemented the requirements of the Measures for the Administration of Reputational Risk of Banking and Insurance Institutions issued by the CBIRC to further improve reputational risk management. Firstly, the Bank utilised forward-looking management, adhered to the reputational risk management concept of prevention comes first, strengthened inspection, early warning and prompting, and reduced potential reputational risks from the source. Secondly, the Bank actively responded to social concerns and properly handled various public opinion events through a unified information release mechanism. Thirdly, the Bank organised positive publicity and improved the brand image around the Bank's advantageous businesses and various initiatives to actively fulfill social responsibilities. Fourthly, the Bank strengthened empowerment and improved the reputational risk management ability of branches and subsidiaries through training, publicity and other means.

Compliance Risk Management

Compliance risk refers to the risk of being subject to legal sanctions, regulatory punishments, material financial losses, and reputational loss as a result of the failure to observe the laws, rules and standards. The Board of Directors of the Bank is ultimately responsible for the compliance of the operating activities, and delegates the Risk and Capital Management Committee under the Board of Directors to supervise the compliance risk management. The Risk and Compliance Management Committee of the Head Office is the organisation to manage compliance risk of the whole company under the senior management. The Bank set up three lines of defence for compliance risk management and the double-line reporting mechanism through the establishment of organisational management structure comprising the risk and compliance management committees, compliance supervisors, compliance officers and legal and compliance departments under the Head Office and its branches as well as compliance supervisors at branch and sub-branch levels, continuously improved risk management techniques and management procedures and established a complete and effective compliance risk management system to achieve effective control of compliance risks.

In 2022, the Bank strictly implemented the regulatory policies and requirements and comprehensively improved the systematic ability of internal control and compliance management. Firstly, the Bank formulated and issued the "Guidelines on Internal Control and Compliance Work of the Bank in 2022" and uniformly deployed the bank-wide internal control and compliance management. Secondly, the Bank carried out the internalisation of external regulations in a timely manner, promote the implementation of new regulations in the Bank, effectively identify, evaluate and respond to the compliance risks of new products, new businesses and major projects, and support business innovation within the compliance framework. Thirdly, the Bank attached importance to the promotion of compliance culture and also carried out the activities of "compliance class" and "compliance culture promotion season" by the top leaders, compliance officers and compliance supervisors, and vigorously promote the concept of compliance. Fourthly, the Bank strengthened employee behaviour management, effectively use scientific and technological means and various employee behaviour management tools and carry out employee abnormal behaviour investigation on a quarterly basis. Fifthly, the Bank strengthened supervision and inspection and accountability for rectification, focused on the key points of supervision and outstanding problems of internal management, effectively improved the quality and efficiency of internal supervision and inspection through joint inspection and audit Eagle Eye system tools, thoroughly analysed the causes of problems found in the inspection, drew inferences from one instance, carried out rectification and serious accountability, and formed a closed loop of compliance management. Sixthly, the Bank strengthened the construction of the internal control and compliance management system, build the internal control and compliance data mart, improve the internal control and compliance data analysis ability and promote the digital transformation of the bank-wide internal control and compliance management.

Money Laundering Risk Management

Money laundering risk refers to the risk that the Bank may be used by the three types of activities such as “money laundering”, “terrorist financing” and “proliferation financing” in the course of conducting business and managing operations. The Bank has established a relatively sound money laundering risk management mechanism, including a governance structure with clear responsibilities from the Board and senior management to ordinary employees, a comprehensive system coverage, an effective risk assessment and monitoring system, scientific anti-money laundering data governance, and elements such as targeted management of customers or businesses associated with high risks, efficient anti-money laundering automated system support, independent inspection and auditing, and continuous and effective anti-money laundering compliance training, so as to provide guarantee for the Bank’s stable and compliance operations.

In 2022, the Bank actively performed its anti-money laundering obligations and improved the effectiveness of money laundering risk management. Firstly, the Bank further improved the internal control system of anti-money laundering, and implementing anti-money laundering laws, regulations and regulatory requirements according to the actual situation of money laundering risk and business development. Secondly, the Bank completed its institutional money laundering risk assessment, optimised the product money laundering risk assessment and customer money laundering risk classification rating system and also improved the money laundering risk management level. Thirdly, the Bank constantly optimised the management measures of money laundering risk of customers and products and promoting the refined management of high-risk customers and high-risk products. Fourthly, the Bank strengthened the compliance construction of the Group’s anti-money laundering and ensuring the unified implementation of the Group’s anti-money laundering policy in overseas institutions and subsidiaries. Fifthly, the Bank increased its scientific and technological investment in the field of anti-money laundering, explored the in-depth application of AI technology and also carried out system and process optimisation in key areas such as due diligence and transaction monitoring.

ASSETS AND LIABILITIES

The following discussions and analysis should be read in conjunction with the Group's audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022, which are included elsewhere in this Offering Circular. Such consolidated financial statements have been prepared in accordance with IFRSs. Unless otherwise stated, all financial data discussed in this section are consolidated financial data.

In this section, unless otherwise specified, loans and advances to customers or loans to customers represent total loans and advances to customers before deduction of allowance for impairment losses on loans, rather than net loans and advances to customers.

ASSETS

As at 31 December 2022, the total assets of the Group amounted to RMB10,138.9 billion, up by 9.6% from the end of the previous year, which was mainly attributable to the increase in loans and advances to customers and bond investments of the Group.

The following table sets forth, as at the dates indicated, the components of the total assets of the Group.

	31 December 2022		31 December 2021	
	Amount	**Percentage**	**Amount**	**Percentage**
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Total loans and advances to customers	6,062,913	59.80	5,580,885	60.34
Allowances for impairment losses on loans	(255,759)	(2.52)	(245,494)	(2.65)
Net loans and advances to customers	**5,807,154**	**57.28**	**5,335,391**	**57.69**
Investment securities and other financial assets	2,815,204	27.77	2,224,041	24.05
Cash, precious metals and balances with the central bank	605,989	5.98	571,847	6.18
Inter-bank transactions(1)	631,598	6.23	799,372	8.64
Goodwill	9,999	0.10	9,954	0.11
Other assets(2)	268,968	2.64	308,416	3.33
Total assets	**10,138,912**	**100.00**	**9,249,021**	**100.00**

(1) Inter-bank transactions include deposits and placements with banks and other financial institutions and amounts held under resale agreements.

(2) Other assets include fixed assets, right-of-use assets, intangible assets, investment properties, deferred tax assets and other assets.

Loans and advances to customers

As at 31 December 2022, total loans and advances to customers of the Group amounted to RMB6,051.5 billion, representing an increase of 8.6% as compared with the end of the previous year; total loans and advances to customers accounted for 59.7% of the total assets, representing a decrease of 0.53 percentage point as compared with the end of the previous year.

Distribution of loans by product type

The following table sets forth, as at the dates indicated, the loans and advances to customers of the Group by product type.

	31 December 2022		31 December 2021	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Corporate loans	2,375,616	39.26	2,150,938	38.62
Discounted bills	514,054	8.49	431,305	7.74
Retail loans	3,161,789	52.25	2,987,791	53.64
Total loans and advances to customers	**6,051,459**	**100.00**	**5,570,034**	**100.00**

	31 December 2022		31 December 2021	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Corporate loans	2,375,616	39.26	2,150,938	38.62
Working capital loans	821,269	13.57	729,999	13.11
Fixed asset loans	864,880	14.29	821,259	14.74
Trade finance	289,605	4.79	257,428	4.63
Others[2]	399,862	6.61	342,252	6.14
Discounted bills[3]	514,054	8.49	431,305	7.74
Retail loans	3,161,789	52.25	2,987,791	53.64
Micro-finance loans	631,038	10.43	561,871	10.09
Residential mortgage loans	1,389,208	22.96	1,374,406	24.68
Credit card loans	884,519	14.62	840,371	15.09
Others[4]	257,024	4.24	211,143	3.78
Total loans and advances to customers	**6,051,459**	**100.00**	**5,570,034**	**100.00**

Distribution of non-performing loans by product type

	31 December 2022		31 December 2021	
	Amount	NPL ratio[1]	Amount	NPL ratio[1]
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Corporate loans	29,961	1.26	26,732	1.24
Working capital loans	9,562	1.16	16,755	2.30
Fixed asset loans	14,123	1.63	7,267	0.88
Trade finance	330	0.11	397	0.15
Others[2]	5,946	1.49	2,313	0.68
Discounted bills[3]	–	–	–	–
Retail loans	28,043	0.89	24,130	0.81
Micro-finance loans	4,031	0.64	3,500	0.62
Residential mortgage loans	4,904	0.35	3,821	0.28
Credit card loans	15,650	1.77	13,846	1.65
Others[4]	3,458	1.35	2,963	1.40
Total	**58,004**	**0.96**	**50,862**	**0.91**

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of other corporate loans such as financial leasing, M&A loans and corporate mortgage loans.

(3) The Bank will transfer discounted bills to corporate loans for accounting purposes once overdue.

(4) The "Others" category consists primarily of general consumer loans, commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

As at 31 December 2022, the non-performing retail loan ratio was 0.89%, up by 0.08 percentage point as compared with the end of the previous year. With respect to corporate loans, the amount of non-performing loans increased. As at 31 December 2022, the non-performing corporate loan ratio of the Group was 1.26%, up by 0.02 percentage point as compared with the end of the previous year.

Distribution of non-performing loans by industry

	31 December 2022		31 December 2021	
	Amount	**NPL ratio[1]**	**Amount**	**NPL ratio[1]**
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Corporate loans	29,961	1.26	26,732	1.24
Property development	15,348	4.08	5,655	1.41
Transportation, storage and postal services	948	0.19	2,945	0.66
Manufacturing	4,781	1.03	6,871	2.06
Wholesale and retail	1,836	1.02	3,726	2.53
Production and supply of electric power, heat, gas and water	468	0.22	658	0.34
Leasing and commercial services	1,784	1.10	4,054	2.32
Finance	440	0.39	90	0.09
Construction	435	0.41	569	0.47
Information transmission, software and IT service	406	0.45	235	0.36
Water conservancy, environment and public utilities	100	0.15	175	0.27
Mining	521	1.29	786	2.28
Others[2]	2,894	3.96	968	1.35
Retail loans	28,043	0.89	24,130	0.81
Total	**58,004**	**0.96**	**50,862**	**0.91**

(1) Represents the percentage of the non-performing loan in a certain category to the total loans of that category.

(2) Consists primarily of agriculture, forestry, animal husbandry, fishery, accommodation and catering, health and social work, etc.

As at 31 December 2022, the non-performing loan ratio of industries such as the real estate industry, financial industry, agriculture, forestry, animal husbandry, fishery and information transmission, software and information technology service industries increased due to the risk exposure of high-debt real estate enterprises and individual corporate customers facing management issues.

Distribution of non-performing loans by region

	31 December 2022		31 December 2021	
	Amount	NPL ratio[1]	Amount	NPL ratio[1]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Head Office[2]	17,811	1.89	17,862	1.96
Yangtze River Delta	10,532	0.79	7,436	0.62
Bohai Rim	5,118	0.62	4,479	0.62
Pearl River Delta and West Side of Taiwan Strait	4,673	0.43	6,358	0.63
North-eastern China	2,020	1.19	2,354	1.39
Central China	8,048	1.25	5,766	1.01
Western China	5,468	0.86	4,275	0.73
Overseas	544	0.69	218	0.23
Subsidiaries	3,790	1.14	2,114	0.67
Total	**58,004**	**0.96**	**50,862**	**0.91**

(1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

(2) The Head Office includes Credit Card Centre.

As at 31 December 2022, the percentage of the balance of the Group's loans extended to regions such as the Bohai Rim, the Yangtze River Delta and Central China increased. Due to regional level risks, the non-performing loan ratio of Central China increased by 0.24 percentage point as compared to 2021. As at 31 December 2022, the non-performing loan ratio also increased across the Group's Central China, the Yangtze River Delta, Western China, overseas and subsidiaries segments as compared to 2021.

Distribution of non-performing loans by type of guarantees

	31 December 2022		31 December 2021	
	Amount	NPL ratio[1]	Amount	NPL ratio[1]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Credit loans	21,662	0.98	19,861	1.00
Guaranteed loans	16,698	2.00	13,272	1.76
Collateralised loans	14,246	0.67	12,684	0.61
Pledged loans	5,398	1.55	5,045	1.51
Total	**58,004**	**0.96**	**50,862**	**0.91**

(1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

As at 31 December 2022, the balance of the Group's collateralised and pledged loans increased by 3.0% as compared with the end of the previous year; guaranteed loans increased by 11.1% as compared with the end of the previous year, and the credit loans increased by 12.3% as compared with the end of the previous year. In addition, the non-performing loan ratio of credit loans decreased as compared to 2021, while the non-performing loan ratio of other guaranteed loans increased as compared to 2021.

LIABILITIES

As at 31 December 2022, the total liabilities of the Group amounted to RMB9,184.7 billion, representing an increase of 9.6% as compared with the end of the previous year, which was primarily attributable to the faster growth in deposits from customers.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Group.

	31 December 2022		31 December 2021	
	Amount	**Percentage**	**Amount**	**Percentage**
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Deposits from customers	7,590,579	82.64	6,385,154	76.16
Inter-bank transactions[1]	945,624	10.30	1,081,328	12.90
Borrowings from the central bank	129,745	1.41	159,987	1.91
Financial liabilities at fair value through profit or loss and derivative financial liabilities	81,950	0.89	91,043	1.09
Debt securities issued	223,821	2.44	446,645	5.33
Others[2]	212,955	2.32	219,183	2.61
Total liabilities	**9,184,674**	**100.00**	**8,383,340**	**100.00**

(1) Inter-bank transactions include deposits and placements from banks and other financial institutions and amounts sold under repurchase agreements.

(2) Others include salaries and welfare payable, taxes payable, contract liabilities, lease liabilities, expected liabilities, deferred income tax liabilities and other liabilities.

Deposits from customers

As at 31 December 2022, total deposits from customers of the Group amounted to RMB7,535.7 billion, representing an increase of 18.7% as compared with the end of the previous year. Deposits from customers, accounting for 82.1% of the total liabilities of the Group, were the major funding source of the Group.

The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	31 December 2022		31 December 2021	
	Amount	**Percentage**	**Amount**	**Percentage**
		(%)		*(%)*
	(in millions of RMB, except for percentages)			
Corporate customer deposits				
Demand	2,762,671	36.66	2,652,817	41.80
Time	1,668,882	22.15	1,406,107	22.15
Subtotal	**4,431,553**	**58.81**	**4,058,924**	**63.95**
Deposits from retail customers				
Demand	1,983,364	26.32	1,557,861	24.54
Time	1,120,825	14.87	730,293	11.51
Subtotal	**3,104,189**	**41.19**	**2,288,154**	**36.05**
Total deposits from customers	**7,535,742**	**100.00**	**6,347,078**	**100.00**

In 2022, the percentage of daily average balance of the demand deposits to that of the total deposits from customers of the Group was 61.6%, representing a decrease of 2.82 percentage points as compared with the previous year. Among which, the daily average balance of corporate demand deposits accounted for 60.0% of that of the corporate deposits, representing a decrease of 1.75 percentage points as compared with that of the previous year, and the daily average balance of retail demand deposits accounted for 64.4% of that of the retail deposits, representing a decrease of 5.08 percentage points as compared with that of the previous year. The Bank attributed the increase in customer investments in time deposit products, which led to a decrease in the percentage of demand deposits, to capital market volatility.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, the Bank had a total of 570,634 ordinary shareholders, including 29,271 holders of H Shares and 541,363 holders of A Shares. As at 31 December 2022, the number of A shares and H shares issued by the Bank accounted for 81.8% and 18.2% of the total number of shares in the Bank, respectively. In particular, China Merchants Group Ltd. directly and indirectly held 32.7% of the A shares and 17.6% of the H shares in the Bank.

The table below sets out the particulars of the Bank's top 10 shareholders as at 31 December 2022 (based on the register of shareholders as at 31 December 2022).

No.	Name of shareholders	Type of shareholders	Shares held at the end of the period (share)	Percentage of the total share capital	Type of shares	Changes in 2022 (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
				(%)				
1 . .	HKSCC Nominees Ltd.	Overseas legal person	4,553,256,923	18.05	H Shares not subject to trading restrictions on sales	850,608	–	Unknown
2 . .	China Merchants Steam Navigation Co., Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading restrictions on sales	–	–	–
3 . .	China Ocean Shipping Company Limited	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading restrictions on sales	–	–	–
4 . .	Hong Kong Securities Clearing Company Limited	Overseas legal person	1,506,791,186	5.97	A Shares not subject to trading restrictions on sales	-10,664,593	–	–
5 . .	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	1,258,542,349	4.99	A Shares not subject to trading restrictions on sales	–	–	–
6 . .	China Merchants Financial Holdings Co., Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading restrictions on sales	–	–	–
7 . .	Hexie Health Insurance Co., Ltd. – Traditional – Ordinary insurance products	Domestic legal person	1,130,991,537	4.48	A Shares not subject to trading restrictions on sales	–	–	–
8 . .	Shenzhen Chu Yuan Investment and Development Company Ltd	State-owned legal person	944,013,171	3.74	A Shares not subject to trading restrictions on sales	–	–	–

No.	Name of shareholders	Type of shareholders	Shares held at the end of the period (share)	Percentage of the total share capital	Type of shares	Changes in 2022 (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
				(%)				
9 . .	Dajia Life Insurance Co., Ltd – Universal Products.	Domestic legal person	804,907,835	3.19	A Shares not subject to trading restrictions on sales	-10,122,800	–	–
10 . .	COSCO Shipping (Guangzhou) Co., Ltd.	State-owned legal person	696,450,214	2.76	A Shares not subject to trading restrictions on sales	–	–	–

(1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of China Merchants Bank trading on the transaction platform of HKSCC Nominees Ltd.. Hong Kong Securities Clearing Company Limited is an institution designated by others to hold shares on behalf of them as a nominal holder, and the shares held by it are the shares of China Merchants Bank acquired by investors through Shanghai-Hong Kong Stock Connect.

(2) As at 31 December 2022, of the aforesaid top ten shareholders, HKSCC Nominees Ltd. is a subsidiary of Hong Kong Securities Clearing Company Limited; China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., China Merchants Financial Holdings Co., Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are all subsidiaries of China Merchants Group Ltd.; and China Ocean Shipping Company Limited and COSCO Shipping (Guangzhou) Co., Ltd. are both subsidiaries of China COSCO Shipping Corporation Limited. The Bank is not aware of any affiliated relationship or action in concert among other shareholders.

(3) The above holders of A Shares did not hold the shares of the Bank through credit securities accounts, neither were there cases of proxy, trustee nor waiver of voting rights.

MANAGEMENT OF THE BANK

The table below sets out the particulars of the Bank's Directors[1][2], Supervisors and Senior Management as at the date of this Offering Circular:

Name	Date of Birth	Title
Miao Jianmin (繆建民)	1965.1	Chairman and Non-Executive Director
Hu Jianhua (胡建華)[1]	1962.11	Non-Executive Director
Sun Yunfei (孫雲飛)[1]	1965.8	Non-Executive Director
Wang Liang (王良)	1965.12	Executive Director, President and Chief Executive Officer
Zhou Song (周松)	1972.4	Non-Executive Director
Hong Xiaoyuan (洪小源)	1963.3	Non-Executive Director
Zhang Jian (張健)	1964.10	Non-Executive Director
Chen Dong (陳冬)	1974.12	Non-Executive Director
Wong See Hong (王仕雄)[2]	1953.6	Independent Non-Executive Director
Li Menggang (李孟剛)[2]	1967.4	Independent Non-Executive Director
Liu Qiao (劉俏)[2]	1970.5	Independent Non-Executive Director
Tian Hongqi (田宏啟)	1957.5	Independent Non-Executive Director
Li Chaoxian (李朝鮮)	1958.9	Independent Non-Executive Director
Shi Yongdong (史永東)	1968.11	Independent Non-Executive Director
Xiong Liangjun (熊良俊)	1963.2	Chairman of the Board of Supervisors, Employee Supervisor
Luo Sheng (羅勝)	1970.9	Shareholder Supervisor
Peng Bihong (彭碧宏)	1963.10	Shareholder Supervisor
Wu Heng (吳珩)	1976.8	Shareholder Supervisor
Xu Zhengjun (徐政軍)	1955.9	External Supervisor
Cai Hongping (蔡洪平)	1954.12	External Supervisor
Zhang Xiang (張翔)	1963.12	External Supervisor
Cai Jin (蔡進)	1970.7	Employee Supervisor
Cao Jian (曹建)	1970.10	Employee Supervisor
Wang Yungui (王雲桂)	1963.6	Executive Vice President
Li Delin (李德林)	1974.12	Executive Vice President
Zhu Jiangtao (朱江濤)	1972.12	Executive Vice President and Chief Risk Officer
Xiong Kai (熊開)	1971.4	Secretary of the Party Discipline Committee
Zhong Desheng (鍾德勝)	1967.7	Executive Assistant President
Wang Xiaoqing (王小青)	1971.10	Executive Assistant President
Wang Ying (王穎)	1972.11	Executive Assistant President
Peng Jiawen (彭家文)	1969.5	Executive Assistant President and Chief Financial Officer
Jiang Chaoyang (江朝陽)	1967.12	Chief Information Officer

(1) The formal assumption of office of Mr. Hu Jianhua and Mr. Sun Yunfei is subject to approval on their respective qualification as the Vice Chairman by the China banking regulatory authority.

(2) According to the Rules for the Independent Directors of Listed Companies, the term of office of Independent Directors shall not exceed six years. Therefore, the actual term of office of the Independent Directors, Mr. Wong See Hong, Mr. Li Menggang and Mr. Liu Qiao, will expire earlier than the expiration time of the Twelfth Session of the Board of Directors of the Bank.

DIRECTORS

Mr. Miao Jianmin is the Chairman and a Non-Executive Director of the Bank. Mr. Miao obtained a doctorate degree in Economics from Central University of Finance and Economics and is a senior economist. He is an alternate member of the nineteenth and twentieth Central Committee of the Communist Party of China. Mr. Miao is Chairman of China Merchants Group Ltd. and concurrently serves as Chairman of China Merchants Financial Holdings Co., Ltd. (招商局金融控股有限公司) and Chairman of China Merchants Life Insurance Company Limited. Mr. Miao was the Vice Chairman and President of China Life Insurance (Group) Company, the Vice Chairman, President and Chairman of The People's Insurance Company (Group) of China Limited (a company listed on the Hong Kong Stock Exchange), the Chairman of PICC Property and Casualty Company Limited (a company listed on the Hong Kong Stock Exchange), the Chairman of PICC Asset Management Company Limited, the Chairman of PICC Health Insurance Company Limited, the Chairman of The People's Insurance Company of China (Hong Kong), Limited, the Chairman of PICC Capital Investment Management Company Limited, the Chairman of PICC Pension Company Limited and the Chairman of PICC Life Insurance Company Limited.

Mr. Hu Jianhua is a Non-Executive Director of the Bank. He is an excellent senior engineer with a doctorate degree in Business Administration from the University of South Australia. He currently serves as the Director and the General Manager of China Merchants Group Ltd.. He concurrently serves as Vice Chairman of China Merchants Financial Holdings Co., Ltd. and Chairman of the Board of Supervisors of China Merchants Life Insurance Company Limited. He served as the Deputy General Manager of China Merchants Group Ltd., Vice Chairman of the Board of Directors of China Merchants Port Holdings Company Limited (a company listed on the Hong Kong Stock Exchange), Vice Chairman of Port de Djibouti S.A. (PDSA), Chairman of China Nanshan Development (Group) Co., Ltd., Chairman of China Merchants Logistics Group Co., Ltd., Director and General Manager of China Merchants Holdings (International) Company Limited (later renamed as: China Merchants Port Holdings Company Limited), Chairman of Colombo International Container Terminals Limited, Director and General Manager of China Harbour Engineering Company Limited (中國港灣工程有限責任公司), General Manager of Hong Kong Zhen Hua Engineering Co., Ltd., and an Independent Director of CIC Overseas Direct Investment Co., Ltd..

Mr. Sun Yunfei is a Non-Executive Director of the Bank. He is a senior economist (researcher level) with a master's degree in Business Administration from the School of Management of Fudan University. He currently serves as the Deputy General Manager and Chief Accountant of China COSCO Shipping Corporation Limited. He served as the Deputy Chief of the Economic Planning and Statistics Division, the Director of the Planning Department and the Deputy Chief Accountant of Hudong Shipyard (滬東造船廠), Chief Accountant of Hudong Shipbuilding (Group) Co., Ltd. (滬東造船(集團)有限公司), Director and Chief Financial Officer of Hudong-Zhonghua Shipbuilding (Group) Co., Ltd., Deputy Chief Accountant and Chief Accountant of China State Shipbuilding Corporation, Deputy General Manager of China State Shipbuilding Corporation, etc.

Mr. Wang Liang is an Executive Director, President and Chief Executive Officer. Mr. Wang obtained a master's degree in Monetary Banking from Renmin University of China. He is a senior economist. He joined the Bank in June 1995 and successively served as the Assistant General Manager, Deputy General Manager and General Manager of Beijing Branch of the Bank. He served as the Executive Assistant President of the Bank and concurrently, General Manager of Beijing Branch of the Bank from June 2012. He ceased to serve as the General Manager of Beijing Branch from November 2013. He became the Executive Vice President of the Bank from January 2015 and concurrently served as the Secretary of the Board of Directors of the Bank from November 2016 to April 2019. He concurrently served as the Chief Financial Officer of Bank from April 2019 to February 2023. He became the First Executive Vice

President, Secretary of the Board of Directors, Company Secretary of the Bank and the authorised representative in charge of matters in relation to listing in Hong Kong since August 2021. He started to preside over overall business of the Bank since 18 April 2022. He has been the President of the Bank since 15 June 2022. He concurrently serves as the Chairman of CMB International Capital Corporation Limited, Chairman of CMB Wing Lung Bank Limited, Vice Chairman of Merchants Union Consumer Finance Company Limited, Director of China Merchants Financial Holdings Co., Ltd., Vice President of the Payment & Clearing Association of China, Director of the fourth session of the Professional Committee for Intermediate Business of China Banking Association and Executive Director of the sixth session of the Banking Accounting Society of China, and a representative of the 14th People's Congress of Guangdong Province.

Mr. Zhou Song is a Non-Executive Director of the Bank. Mr. Zhou obtained a master's degree of World Economics from Wuhan University. Mr. Zhou is the Chief Accountant of China Merchants Group Ltd. and concurrently a Director of China Merchants Financial Holdings Co., Ltd., the Chairman of Shenzhen China Merchants Ping An Asset Management Co., Ltd. (深圳市招商平安資產管理有限責任公司), the Chairman of China Merchants Finance Co., Ltd. (招商局集團財務有限公司), the Chairman of China Merchants Investment Development Co., Ltd. (招商局投資發展有限公司) and the Chairman of the Board of Supervisors of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (a company listed on Shenzhen Stock Exchange). He was the Deputy General Manager of the Planning and Finance Department of the Head Office of China Merchants Bank, the Deputy General Manager of Wuhan Branch, the Deputy General Manager (in charge of work) and General Manager of the Planning and Finance Department of the Head Office, the Employee Supervisor of China Merchants Bank, the Business Director and General Manager of the Assets and Liabilities Management Department of the Head Office, the President of the General Office of the Financial Institution Business and concurrently the General Manager of the Assets Management Department of the Head Office and the Business Director of the Head Office, the President of the General Office of Investment Banking and Financial Market Business and concurrently the General Manager of the Assets Management Department of the Head Office, and the Business Director of the Head Office.

Mr. Hong Xiaoyuan is a Non-Executive Director of the Bank. Mr. Hong obtained a master's degree in Economics from Peking University and a master's degree in Science from Australian National University. He is a senior economist. He serves as the Director of China Merchants Holdings (Hong Kong) Company Limited and the Assistant General Manager of China Merchants Group Ltd., a Director and General Manager of China Merchants Financial Holdings Co., Ltd.. He concurrently serves as the Chairman of China Merchants Capital Investments Co., Ltd., China Merchants United Development Company Limited and China Merchants Innovative Investment Management Co., Ltd., and the Director of China Merchants Life Insurance Company Limited and CNIC Corporation Limited. He served as the Director of China Merchants Securities Co., Ltd. (a company then listed on Shanghai Stock Exchange), the Chairman of the Board of Directors of China Merchants China Direct Investments Limited (a company listed on the Hong Kong Stock Exchange), the Chief Executive Officer and Chairman of China Merchants Finance Holdings Company Limited, Chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., and the Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform.

Mr. Zhang Jian is a Non-Executive Director of the Bank. Mr. Zhang obtained a bachelor's degree in Economics and Management from the Department of Economics of Nanjing University and a master's degree in Econometrics from the Business School of Nanjing University, and is a senior economist. He is the Chief Digital Officer of China Merchants Group Ltd., the Director of the Digital Centre, the Deputy General Manager of China Merchants Financial Holdings Co., Ltd. and a Director of China Merchants Finance Holdings Company Limited. He concurrently serves as the Chairman of China Merchants Commerce Financial Leasing Co., Ltd. (招商局通商融資租賃有限公司), the Chairman of China Merchants

Financial Technology Co., Ltd. (招商局金融科技有限公司), a Director of China Merchants Innovative Investment Management Co., Ltd., a Director of China Merchants Innovative Investment (International) Co., Ltd. (招商局創新投資(國際)有限公司), a Director of China Merchants Innovation Investment General Partnership (International) Co., Ltd. (招商局創新投資普通合夥(國際)有限公司) and a Director of Four Rivers Investment Management Co., Ltd. (四源合股權投資管理有限公司). He served as a Director of China Merchants Life Insurance Company Limited, a Director of China Merchants Insurance Holdings Co., Ltd. (招商局保險控股有限公司), a Director of China Merchants Ping An Asset Management Co., Ltd., Deputy General Manager of China Merchants Finance Holdings Company Limited, a Director of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., General Manager of Finance Department of China Merchants Group Ltd., the Vice Chairman of China Merchants Capital Investments Co., Ltd., the Non-Executive Director and Chairman of the Board of Directors of China Merchants China Direct Investments Limited (a company listed on the Hong Kong Stock Exchange), a Director of China Merchants Capital Investments Co., Ltd., a Director of China Great Bay Area Fund Management Co., Limited, a Director of China Merchants Capital Holdings (International) Limited, the Vice Chairman of China Merchants Capital Management Co. Ltd., the Vice Chairman of China Merchants Capital Holdings Co. Ltd., a Director of China Merchants United Development Company Limited, a Director of Shi Jin Shi Credit Service Co., Ltd. (試金石信用服務有限公司) and the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform.

Mr. Chen Dong is a Non-Executive Director of the Bank. He is a senior accountant with a master's degree in economics from Shanghai University of Finance and Economics. He currently serves as the General Manager of the Financial Management Division of China COSCO Shipping Corporation Limited. He concurrently serves as a Director of COSCO Shipping Specialized Carriers Co., Ltd. (a company listed on the Shanghai Stock Exchange), COSCO Shipping International (Hong Kong) Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and COSCO Shipping Ports Limited (a company listed on the Hong Kong Stock Exchange). He served as Assistant Director and Deputy General Manager of the Finance and Accounting Department of China Shipping Development Co., Ltd. Tanker Company, Deputy Director of Risk Control Centre of Enterprise Management Department, Deputy Director of Risk Control Department of Accounting and Finance Department, Deputy Director of Finance Department, Senior Manager of Finance and Tax Management Office of Finance Department, Assistant General Manager and Deputy General Manager of Finance Department of China Shipping (Group) Company and Deputy General Manager of the Financial Management Division of China COSCO Shipping Corporation Limited, etc.

Mr. Wong See Hong is an Independent Non-Executive Director of the Bank. Mr. Wong obtained a bachelor's degree in Business Administration from the National University of Singapore, a master's degree in Investment Management from Hong Kong University of Science and Technology, and a doctorate degree in Transformational Leadership (DTL) from Bethel Bible Seminary. He is an Independent Director of The Frasers Hospitality Assets Management Pte., Ltd. (新加坡輝盛國際資產管理有限公司) and EC World Asset Management Private Limited and a member of the Financial Management Commission of the Hong Kong Administration Society (香港管理學會財務管理委員會). He previously served as the Deputy Chief Executive of BOC Hong Kong (Holdings) Limited, Head, Managing Director and President for the Southeast Asia region, and the head of the Financial Market Department in Asia (亞洲區金融市場部主管) of ABN AMRO Bank, a Director of Bank of China Group Insurance Company Limited, the Chairman of the Board of BOC Group Trustee Company Limited, the Chairman of BOCI-Prudential MPF (中銀保誠強積金), the Chairman of BOCHK Asset Management Limited, a member of the Board of Directors of the Civil Servants Institute of Prime Minister's Office Singapore (新加坡總理辦公室公務員學院), and a member of the Client Consulting Commission (客戶諮詢委員會) of Thomson Reuters.

Mr. Li Menggang is an Independent Non-Executive Director of the Bank. Mr. Li obtained a Ph.D. in Economics and a post-doctoral degree in both Transportation and Communication Engineering and Theoretical Economics from Beijing Jiaotong University. He has been serving as a professor and doctoral supervisor at Beijing Jiaotong University, the Dean of the National Academy of Economic Security (NAES) of Beijing Jiaotong University, the Director of Beijing Laboratory of National Economic Security Pre-Warning Project and the Chief Expert of Major Bidding Projects of the National Social Science Fund. He concurrently serves as the Vice President and the Deputy Director of the Expert Committee of China Human Resource Development Association, the Director of the Human Capital Institute, the Vice President of Guanghua Engineering Science and Technology Award Foundation (光華工程科技獎勵基金會), the Deputy Director of the Independent Board Committee of China Association for Public Companies and an Independent Director of Huadian Power International Corporation Limited (a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange). He served as an Independent Director of Sichuan Golden Summit (Group) Joint-stock Co., Ltd. (a company listed on Shanghai Stock Exchange), an Independent Non-Executive Director of Yuxing InfoTech Investment Holdings Limited (a company listed on the Hong Kong Stock Exchange), the Chairman of the Professional Committee of the Logistics Informatisation and Industrial Security System of the Institute of Electrical and Electronics Engineers (IEEE), the Independent Director of Hunan Copote Science & Technology Co., Ltd. (a company listed on Shanghai Stock Exchange) and the Independent Director of Daqin Railway Co., Ltd. (a company listed on Shanghai Stock Exchange).

Mr. Liu Qiao is an Independent Non-Executive Director of the Bank. Mr. Liu obtained a bachelor of science degree in Economics and Mathematics from Renmin University of China, a master's degree in Economics from the Institute of Finance of People's Bank of China and a Ph.D. in Economics from University of California, Los Angeles in the United States and is a distinguished professor (特聘教授) of Changjiang Scholars Program. He has been serving as the Dean at the Guanghua School of Management of Peking University, professor of Finance and Economics and doctoral supervisor. He is also a member of Think Tank Committee of All-China Federation of Industry and Commerce (全國工商聯智庫委員會), the Economic Research Centre of Chinese Kuomintang Revolutionary Committee, the expert panel of the Shenzhen Stock Exchange and the Listing Committee of ChiNext of Shenzhen Stock Exchange; an advisor of the post-doctoral stations of the CSRC, the Shenzhen Stock Exchange, the China Financial Futures Exchange and China Minsheng Banking Corp., Ltd. etc., the Vice Chairman of the China Enterprise Reform and Development Society (中國企業改革與發展研究會), and an Independent Director of Beijing Capital Group Company Limited (a company listed on Shanghai Stock Exchange). Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong, a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company, an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong, an Independent Non-Executive Director of Zensun Enterprises Limited (formerly known as the ZH International Holdings Limited, a company listed on the Hong Kong Stock Exchange), and Independent Non-Executive Director of CSC Financial Co., Ltd, a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange.

Mr. Tian Hongqi is an Independent Non-Executive Director of the Bank. Mr. Tian obtained a bachelor's degree in Finance and Accounting from the Faculty of Water Transportation Management of Shanghai Maritime University, and is a senior accountant. He concurrently serves as the Independent Director of Nanjing Tanker Corporation (招商局南京油運股份有限公司, a company listed on Shanghai Stock Exchange). He previously served as the Chief Financial Officer and Chief Information Officer of COSCO Shipping Bulk Co., Ltd., the General Manager of the Finance Department of COSCO Container Lines Co., Ltd., the Director and the General Manager of the Financial Department of COSCO Japan, the Chief Financial Officer of COSCO Holdings (Singapore) Pte. Ltd. (中遠控股(新加坡)有限公司), the General Manager of the Finance Department of the COSCO Container Transportation Operation Headquarters (中遠集裝箱運輸經營總部), and the Deputy Director of the Finance Department of COSCO.

Mr. Li Chaoxian is an Independent Non-Executive Director of the Bank. Mr. Li obtained a doctorate in Industrial Economics and a master's degree in Statistics, respectively from Renmin University of China. He is currently a professor and doctoral supervisor of Beijing Technology and Business University, and concurrently serves as an Independent Director of China World Trade Centre Company Limited (a company listed on Shanghai Stock Exchange). He served as the Deputy Director and Director of the Finance Department of Beijing Business School, Deputy Dean and Dean of the School of Economics of Beijing Technology and Business University, Chief of the Academic Affairs Office of Beijing Technology and Business University, Vice President of Beijing Technology and Business University, and an Independent Director of Beijing HuaDaJianYe Engineering Management Co., Ltd. (北京華達建業工程管理股份有限公司) (a company listed on the National Equities Exchange and Quotations).

Mr. Shi Yongdong is an Independent Non-Executive Director of the Bank. Mr. Shi obtained a doctorate in Economics from Dongbei University of Finance and Economics and a master's degree in Applied Mathematics from Jilin University. He is a leading talent of the national high-level special support plan, one of the Cultural Masters and the Four First-Batch Talents, and the chief expert of the major projects under the National Social Science Fund of China. He is currently the Dean, Professor and Doctoral Supervisor of the School of Finance and Technology of Dongbei University of Finance and Economics, and concurrently serves as a council member of China Finance Society, a standing council member of the Chinese Finance Annual Meeting (中國金融學年會) and the Chinese Financial Projects Annual Meeting (中國金融工程學年會), and a standing council member of the International Symposium on Financial Systems Engineering and Risk Management (金融系統工程與風險管理國際年會). He served as the Deputy Dean of the School of Finance, the Director of the Applied Finance Research Centre, Chief of the scientific research department and the Dean of the School of Applied Finance and Behavioural Sciences in Dongbei University of Finance and Economics, an Independent Director of Dalian Huarui Heavy Industry Group Co., Ltd. (a company listed on Shenzhen Stock Exchange), and an Independent Director of Bank of Anshan Co., Ltd..

SUPERVISORS

Mr. Xiong Liangjun is the Chairman of the Board of Supervisors of the Bank and an Employee Supervisor. He obtained a master's degree in economics from Zhongnan University of Finance and Economics. He is a senior economist. He successively served as the Assistant General Manager and the Deputy General Manager of Shenzhen Central Sub-branch of the PBOC from April 2000 to July 2003. He successively served as the Deputy Director-General of Shenzhen Bureau of China Banking Regulatory Commission (CBRC), the Director-General of CBRC Guangxi Bureau and CBRC Shenzhen Bureau from September 2003 to July 2014. He served as the Secretary of the Commission for Discipline Inspection of the Bank from July 2014 to August 2021 and has become the Chairman of the Board of Supervisors of the Bank since August 2021.

Mr. Luo Sheng is a Shareholder Supervisor of the Bank. He graduated from the Business School of Nankai University majoring in corporate governance with a doctor degree. Mr. Luo is currently the Deputy General Manager of Dajia Insurance Group Co., Ltd. and a Director of both Dajia Life Insurance Co., Ltd and Gemdale Corporation (a company listed on Shanghai Stock Exchange). He successively served as the principal staff member of the Regulation Division under the Policy and Regulation Department, the principal staff member of the Market Analysis Division under the Development and Reform Department, the Deputy Director and Director of the Corporate Governance Division under the Development and Reform Department as well as the deputy director of the Regulation Department of the China Insurance Regulatory Commission. He has also served as an Executive Director, the Executive Vice President, Secretary to the Board of Directors, and General Manager of Shanghai Branch of China Insurance Information Technology Management Co., Ltd., and the Deputy Director of the Development and Reform Department of China Insurance Regulatory Commission, etc. He served as the Non-Executive Director of the Eleventh session of the Board of the Bank from June 2019 to June 2022.

Mr. Peng Bihong is a Shareholder Supervisor of the Bank. Mr. Peng graduated from Hunan College of Finance and Economics (湖南財經學院) majoring in Finance and obtained a master's degree in Economics from Wuhan University. Mr. Peng is a non-practicing member and a lecturer of Chinese Institute of Certified Public Accountants. He currently serves as Chief Accountant of China Communications Construction Group Ltd., and concurrently a Director of China State-owned Enterprise Structural Adjustment Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司), the Vice Chairman of the Council of China Oceanic Development Foundation (中國海洋發展基金會), the Vice Chairman of China Communications Accounting Society, a member of the Strategy Advisory Committee of Shanghai National Accounting Institute and an intelligent finance specialist of Shared Finance Special Committee of The Innovation & Entrepreneurship Education Alliance of China. He has worked for China Poly Group Corporation Limited (中國保利集團有限公司) (hereinafter referred to as Poly Group) for nearly 20 years, serving successively as the Director of the Finance Department of China Poly Group Corporation, the General Manager of Poly Finance Company Limited, the Chief Financial Officer of Poly Real Estate Group Co., Ltd. and the Chief Accountant of Poly Group, as well as the Chairman of Poly Finance Company Limited and Poly Investment Holdings Co., Ltd., and the Vice Chairman of Jiang Tai Insurance Brokers Co., Ltd. He served as the Chief Financial Officer of China Communications Construction Company Limited from September 2018 to September 2019.

Mr. Wu Heng is a Shareholder Supervisor of the Bank and a postgraduate from the Department of Accounting of Shanghai University of Finance and Economics. Mr. Wu obtained a master's degree in Management and is a senior accountant. He is the General Manager of Finance Affairs Department of SAIC Motor Corporation Limited (a company listed on Shanghai Stock Exchange), the General Manager of SAIC Motor Financial Holding Management Co., Ltd., a Non-executive Director of Bank of Chongqing Co., Ltd. (a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange) and a Director of Wuhan Kotei Informatics Co., Ltd. (a company listed on Shenzhen Stock Exchange). He consecutively served as a Deputy Manager and Manager of Planning and Finance Department as well as a Manager of Fixed Income Department of Shanghai Automotive Group Finance Company, Ltd. from March 2000 to March 2005. He consecutively served as a Section Chief, Assistant to Executive Controller and the Manager of Accounting Section of Finance Department of SAIC Motor Corporation Limited from March 2005 to April 2009, the Chief Financial Officer of Huayu Automotive Systems Co., Ltd. (a company listed on Shanghai Stock Exchange) from April 2009 to May 2015, and concurrently serving as the Director and General Manager of Huayu Automotive Systems (Shanghai) Co., Ltd. (華域汽車系統(上海)有限公司) during the period from May 2014 to May 2015, and the Deputy General Manager of the Finance Affairs Department of SAIC Motor Corporation Limited from May 2015 to August 2019.

Mr. Xu Zhengjun is an External Supervisor of the Bank. Mr. Xu obtained a master's degree in the Maritime Transportation Management from Shanghai Maritime University and is a senior political engineer. He is currently an Independent Director of China Merchants Life Insurance Company Limited, and concurrently the Director of Shanghai Dongsheng Public Welfare Foundation. He previously served as the Section Chief and the Department Head of Shanghai Ocean Shipping Co., Ltd., the General Manager of the crew company and land property company of COSCO Container Lines Co., Ltd., the Assistant to General Manager of COSCO Container Lines Co., Ltd., the General Manager of Shanghai Ocean Shipping Co., Ltd., the Secretary of the Disciplinary Committee of COSCO Container Lines Co., Ltd., the General Manager of COSCO (HK) Industry & Trade Holdings Ltd., the Vice Chairman of Shenzhen Guangju Energy Co., Ltd. (a company listed on Shenzhen Stock Exchange), the Vice President and General Counsel of COSCO (Hong Kong) Group Limited and the Director of True Smart International Limited, the General Manager and Executive Director of COSCO International Holdings Limited, the Chairman of the Corporate Governance Committee of COSCO International and the Independent Director of Sinotrans Shipping Limited.

Mr. Cai Hongping is an External Supervisor of the Bank. He obtained a bachelor's degree in journalism from Fudan University. He is the Chairman of AGIC Capital and concurrently serving as an independent director of China Eastern Airlines Corporation Ltd. (a company listed on Shanghai Stock Exchange and the Hong Kong Stock Exchange), COSCO Shipping Development Co., Ltd. (a company listed on Shanghai Stock Exchange and the Hong Kong Stock Exchange), Shanghai Pudong Development Bank Co., Ltd. (a company listed on Shanghai Stock Exchange), BYD Company Limited (a company listed on Shenzhen Stock Exchange and the Hong Kong Stock Exchange) and China Southern Airlines Company Limited (a company listed on Shanghai Stock Exchange and the Hong Kong Stock Exchange), and was an independent director of China Oceanwide Holdings Limited (a company listed on the Hong Kong Stock Exchange). From 1996 to 1997, Mr. Cai Hongping served as the senior vice president and managing director of Peregrine Investments Holdings Limited. He served as the chairman of China of BNP Paribas Capital (Asia Pacific) Limited from 1998 to 2005 and served as the chairman of UBS AG in Asia from 2006 to 2010, and served as the executive chairman of Investment Banking Asia Pacific of Deutsche Bank from 2010 to 2015.

Mr. Zhang Xiang is an External Supervisor of the Bank. He obtained a doctorate degree in Mechanical Engineering from the University of California, Berkeley and a master's degree from the Department of Physics of Nanjing University. He is an elected member of the US National Academy of Engineering, a foreign member of the Chinese Academy of Sciences, an elected member of the Academia Sinica and the president of the University of Hong Kong. Mr. Zhang was the inaugural Ernest S. Kuh Endowed Chair Professor at the University of California, Berkeley, and the Director of the US National Science Foundation Nano-scale Science and Engineering Centre. He was an assistant professor at Pennsylvania State University in 1996, an associate professor and professor at the University of California, Los Angeles from 1999 to 2004, an associate professor and professor at the Mechanical Engineering Department and the Institute of Applied Science and Technology of the University of California, Berkeley from 2004 to 2018 and a director of Materials Science Division at the Lawrence Berkeley National Laboratory from 2014 to 2016.

Ms. Cai Jin is an Employee Supervisor of the Bank. Ms. Cai obtained a bachelor's degree in Finance from Hunan University of Finance and Economics. She is an economist. She currently serves as the Director of the Labour Union of the Head Office of the Bank. In August 1992, she started her career in Shashi Branch of Industrial and Commercial Bank of China in Hubei Province. She joined the Bank in May 1995. She successively served as the Assistant General Manager of the Human Resources Department, the Deputy General Manager of the Banking Department of the Head Office and the Deputy General Manager of the Asset Custody Department of the Head Office from April 2010 to December 2021.

Mr. Cao Jian is an Employee Supervisor of the Bank. Mr. Cao obtained a master's degree in International Finance from the Graduate School of the Financial Research Institute of the People's Bank of China. He is a nonpracticing member of Chinese Institute of Certified Public Accountants. He currently serves as the General Manager of the Audit Department of the Bank, and concurrently the Supervisor of CMB Wealth Management Company Limited. He joined the Bank in August 2003 and successively served as the Assistant General Manager and Deputy General Manager of the Audit Department of the Bank. From November 2021 to March 2023, he served as the General Manager of the Shenzhen division of the Audit Department of the Bank.

SENIOR MANAGEMENT

Mr. Wang Liang, please refer to Mr. Wang Liang's biography under the paragraph headed "*Directors*" above.

Mr. Wang Yungui is an Executive Vice President of the Bank. Mr. Wang obtained a master's degree from the Party School of the Central Committee of the Communist Party of China and is a senior economist. He successively served as the General Manager of the Department of Education and the General Manager of the Human Resources Department of the Industrial and Commercial Bank of China from July 2008 to December 2016, and served as the Secretary of the Disciplinary Committee of China Development Bank from December 2016 to March 2019. He has served as an Executive Vice President of the Bank since June 2019.

Mr. Li Delin is an Executive Vice President of the Bank. Mr. Li obtained a doctorate degree in Economics from Wuhan University, and is a senior economist. He joined the Bank in October 2013 and successively served as the Director of the General Office of the Head Office, the General Manager of the Strategic Customer Department, the General Manager of the Strategic Customer Department and concurrently the General Manager of the Institutional Customer Department, and the General Manager of Shanghai Branch and concurrently the General Manager of Shanghai Pilot Free Trade Zone Branch of the Bank. He served as an Executive Assistant President of the Bank in April 2019 and has served as an Executive Vice President of the Bank since March 2021. Concurrently, he is the Chairman of the Board of Supervisors of Shenzhen Public Companies Association and the Vice President of National Association of Financial Market Institutional Investors

Mr. Zhu Jiangtao is an Executive Vice President and the Chief Risk Officer of the Bank. Mr. Zhu obtained a master's degree in Economics and is a senior economist. He joined the Bank in January 2003. He served as an Assistant General Manager and Deputy General Manager of Guangzhou Branch of the Bank, the General Manager of Chongqing Branch, the General Manager of the Credit Risk Management Department and the General Manager of the Risk Management Department of the Bank from December 2007 to July 2020. He has served as the Chief Risk Officer of the Bank since July 2020 and as an Executive Vice President of the Bank since September 2021.

Mr. Xiong Kai is the Secretary of the Party Discipline Committee of the Bank. Mr. Xiong graduated from Graduate School of Chinese Academy of Social Sciences with a doctorate degree in Legal Theory. He successively served as Senior Staff, Principal Staff and Deputy Director of the Ministry of Public Security of the PRC from 1994 to 2006 and acted as the Deputy Director (Consultant), Director, Deputy Director-General and Director-General at the CPC General Office from 2006 to 2014. He joined the Bank in July 2014 and successively served as the Director of Disciplinary Committee Office and concurrently the General Manager of the Inspection and Security Department of the Head Office, the Director of the General Office of Head Office and concurrently the General Manager of the Asset Security Department, the General Manager of Zhengzhou Branch and the General Manager of Beijing Branch. He has been the Secretary of the Party Discipline Committee of the Bank since July 2021.

Mr. Zhong Desheng is an Executive Assistant President of the Bank. He obtained a master's degree in the History of Foreign Economic Thoughts from Huazhong University of Science and Technology and is a senior economist. He joined the Bank in July 1993 and successively served as an Assistant General Manager and Deputy General Manager of Wuhan Branch, the General Manager of International Business Department of the Head Office, the General Manager of Trade Finance Department of the Head Office and the General Manager of Offshore Finance Centre of the Head Office, the General Manager of Guangzhou Branch, the President of the General Office of Corporate Finance of the Head Office and the General Manager of the Strategic Customers Department. He has served as an Executive Assistant President of the Bank since October 2021.

Mr. Wang Xiaoqing is an Executive Assistant President of the Bank. He obtained a doctorate degree in Political Economics from Fudan University and is an economist. He worked at PICC Asset Management Company Limited from March 2005 to March 2020, and successively served as the Deputy General Manager of Risk Management Department, the Deputy General Manager and General Manager of Portfolio Management Department, Assistant President and Vice President. In March 2020, he joined the Bank and served as the General Manager of CMFM. He has served as an Executive Assistant President of the Bank since October 2021, and concurrently serves as the General Manager of Shenzhen Branch, the Chairman of CMFM, CIGNA & CMB Life Insurance and Cigna & CMB Asset Management Company Limited.

Ms. Wang Ying is an Executive Assistant President of the Bank. She obtained a master's degree in Political Economics from Nanjing University and is an economist. She joined the Bank in January 1997, successively served as the Assistant General Manager and Deputy General Manager of Beijing Branch, General Manager of Tianjin Branch, and General Manager of Shenzhen Branch, and has been serving as an Executive Assistant President of the Bank since February 2023.

Mr. Peng Jiawen is the Executive Assistant President and Chief Financial Officer of the Bank. He is a senior economist and graduated from Zhongnan University of Economics and Law with a bachelor's degree in National Economic Planning. Mr. Peng Jiawen joined the Bank in September 2001 and successively served as the Assistant General Manager and Deputy General Manager of the Planning and Finance Department of the Head Office, the Deputy General Manager and General Manager of the Overall Retail Management Department of the Head Office, the Deputy General Manager and Vice President of the General Office of Retail Finance of the Head Office, Vice President of the General Office of Retail Finance of the Head Office and General Manager of the Retail Credit Business Department of the Head Office, General Manager of Zhengzhou Branch and General Manager of the Assets and Liabilities Management Department of the Head Office. He has served as the Executive Assistant President and Chief Financial Officer of the Bank since February 2023, concurrently serving as the General Manager of the Assets and Liabilities Management Department of the Head Office of the Bank. He serves as the Company Secretary and the Authorised Representative under Rule 3.05 of the Listing Rules with effect from 28 April 2023.

Mr. Jiang Chaoyang is the Chief Information Officer (CIO) of the Bank. He obtained a master's degree in Management Sciences from Shanghai Jiao Tong University and is a senior economist. He joined the Bank in November 2013, successively served as the General Manager of Strategic Customers Department of the Head Office, General Manager of Retail Network Banking Department of the Head Office, Deputy General Manager and General Manager of Wealth Management Department of the Head Office, and has been serving as the Chief Information Officer (CIO) of the Bank since November 2019.

CONFLICTS OF INTEREST

There are no conflicts of interests between any duties to the Bank of the directors and management referred to above and the private interests and/or other duties of such persons.

BANKING REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with CBIRC and PBOC (which will be integrated into the NAFR pursuant to the Plan on Reforming State Council Institutions approved by the National People's Congress of the PRC on 10 March 2023) acting as the principal regulatory authorities. CBIRC is primarily responsible for supervising and regulating banking 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 banking industry consist principally of the Commercial Banking Law, the Law of PRC on Supervision and Administration of Banking Sector, the PRC PBOC Law and rules and regulations promulgated thereunder.

(a) Functions and Powers

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

According to the Law of PRC on Supervision and Administration of Banking Sector (《中華人民共和國銀行業監督管理法》) (as last amended in 2006), the main responsibilities of CBIRC 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;

(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 risk management, internal controls, capital adequacy ratio, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;

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

(7) imposing integrated supervision on banking institutions;

(8) establishing emergency disposal mechanisms with relevant authorities in the banking sector and formulating emergency disposal plans;

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

(10) drafting and publishing statistics and financial statements of national banking institutions.

(b) Examination and Supervision

CBIRC, through its head office in Beijing and offices across the PRC, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include inspecting 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 and monitoring banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks. If a banking institution is not in compliance with 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 asset transfers, suspension of new branches opening and other penalties.

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 (《中華人民共和國中國人民銀行法》) (as last amended in 2003), PBOC is empowered to:

(1) formulate and implement monetary policies in accordance with the laws;

(2) issue Renminbi, the currency of the PRC, and regulate the flow of Renminbi;

(3) regulate the inter-bank lending market and inter-bank bond market;

(4) implement foreign exchange controls and regulate inter-bank foreign exchange market;

(5) regulate the gold market;

(6) hold, administer and manage the PRC's foreign exchange reserves and gold reserves;

(7) manage the state treasury;

(8) maintain the normal operation of payment and settlement systems; and

(9) guide and supervise anti-money laundering efforts of financial institutions and monitor fund transfers to ensure that such transfers are in compliance with anti-money laundering regulations.

(c) 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, but not limited to, the MOF, NDRC and SAFE.

(d) Regulations Regarding Capital Adequacy

In March 2004, CBRC implemented the Capital Adequacy Measures (《商業銀行資本充足率管理辦法》) applicable to all commercial banks in the PRC. The Capital Adequacy Measures provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, CBRC amended the Capital Adequacy Measures (《商業銀行資本充足率管理辦法》) issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July.

In June 2012, the CBRC issued the Capital Regulation regulating capital adequacy ratios ("CAR") of PRC commercial banks, which abolish the Capital Adequacy Measures amended on 3 July 2007. The Capital Regulation, 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% for domestic systematically important commercial banks and 10.5% for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8%, Tier 1 CAR of not less than 6% and Core Tier 1 CAR of not less than 5%. The CARs are calculated in accordance with the Capital Regulation as follows:

Capital Adequacy Ratio
= (Total Capital − deductions from corresponding capital instruments)
× 100% (Risk weighted Assets)

Tier 1 Capital Adequacy Ratio
= (Tier 1 Capital − deductions from corresponding capital instruments)
× 100% (Risk weighted Assets)

Core Tier 1 Capital Adequacy Ratio
= (Core Tier 1 Capital − deductions from corresponding capital instruments)
× 100% (Risk weighted Assets)

Further details regarding the basic principles of such calculations can be obtained at the official website of the CBIRC.

The contents of this website do not form a part of this Offering Circular.

On 22 November 2019, the CBRC released the Guiding Opinions on the Innovation in Capital Instruments by Commercial Banks (Revision) the Guiding Opinions (《關於商業銀行資本工具創新的指導意見(修訂)》) ("New Guiding Opinions"), which abolished the Guiding Opinions issued on 29 November 2012, allowing and encouraging commercial banks to develop additional Tier 1 Capital instruments and tier 2 capital instruments that comply with the Capital Regulation. Pursuant to the New Guiding Opinions, Additional Tier 1 Capital instruments and tier 2 capital instruments issued by a commercial bank must contain a provision that requires such instruments to be either written off or converted into common stock upon the occurrence of a triggering event. A going-concern trigger event occurs when the Core Tier 1 Capital Adequacy Ratio of the commercial bank falls to 5.125% or below. An unable-to-survive trigger event occurs upon the earlier of: (i) a decision of write-off or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities.

On 3 April 2014, the CBRC and CSRC promulgated the Guiding Opinions of the China Banking Regulatory Commission and China Securities Regulatory Commission on the Issuance of Preference Shares by Commercial Banks to Replenish Tier-one Capital (《中國銀監會、中國證監會關於商業銀行發行優先股補充一級資本的指導意見》) which was amended on 19 July 2019, the commercial banks issuing preference shares shall comply with relevant regulations promulgated by the State Council and CSRC and the requirements of capital instruments released by CBIRC, and the Core Tier 1 Capital Adequacy Ratio shall comply with the prudential regulation principles formulated by CBIRC. The commercial banks issuing preference shares to supplement tier 1 capital shall comply with the criteria of the Additional Tier 1 Capital instruments under the Capital Regulation and the Guiding Opinions, and shall not issue the preference shares with put provisions.

Pursuant to the Plan for the Institution Reform of the State Council issued by the National People's Congress on 10 March 2023, CBIRC will be incorporated into the NAFR. The daily regulatory responsibilities of the PBOC for financial holding companies and other financial groups, as well as the responsibilities for consumer protection in the financial sector, and the investor protection responsibilities of the CSRC are also transferred to NAFR. The CBIRC will no longer be retained. On 18 May 2023, the NAFR has been officially inaugurated.

TAXATION

The following summary of certain PRC, Hong Kong and EU tax consequences of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

PRC TAXATION

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and the relevant implementation rules, non-PRC resident enterprises with no establishment or place of business within the PRC, and such, although with establishment or place of business within the PRC, gaining the income derived from or accrued in the PRC of no *de facto* relationship with its establishment or place of business will not be subject to the PRC income tax in respect of the interest income determined as income sourced outside the PRC by PRC tax authority. If the interest income is determined by the relevant PRC tax authority as income sourced within the PRC, non-PRC resident enterprises with no establishment or place of business within the PRC, and such, although with establishment or place of business within the PRC, gaining the income derived from or accrued in the PRC of no *de facto* relationship with its establishment or place of business will be subject to income tax at 10% of the gross amount of the interest unless there is an applicable tax treaty between the PRC and the jurisdiction in which the holders reside that reduces or exempts such PRC income tax. However, pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and the relevant implementation rules, it remains uncertain as to whether non-PRC resident individuals shall be subject to the PRC income tax in respect of the interest income from the Notes. Any individual who has a domicile within the PRC or has no domicile but has stayed in the PRC for 183 days or more cumulatively within a tax year shall pay the income tax at 20% for any income sourced within and outside the PRC, and any individual who has no domicile in the PRC and has stayed in the PRC for less than 183 days cumulatively within a tax year shall pay the income tax at 20% for any income sourced in the PRC, unless otherwise provided in preferential taxation policies under special taxation arrangements. In addition, the tax so charged on the interest paid on the Notes to non-PRC holders which, or who, are residents of Hong Kong (including enterprises and individuals) for purposes of the avoidance of double taxation arrangement between the PRC and Hong Kong, will be 7% of the gross amount of the interest pursuant to the arrangement between the PRC and Hong Kong, if the non-PRC holders of the Notes are considered to be beneficial owners of the interest **provided that** the gains are not deemed as incurred or set mainly for obtaining such preferential taxation arrangement. In the event that the Bank or other domestic Issuers pay the interest on the Notes, the Bank or such domestic Issuers will be subject to the withheld PRC income tax on the payment of the interest on the Notes to the holders of the Notes as the Bank or such domestic Issuers are established within the territory of the PRC.

According to the Circular of Full Implementation of Business Tax to VAT Reform (Caishui [2016] No. 36, "**Circular 36**") promulgated by the Ministry of Finance and the State Administration of Taxation (the "**SAT**") on 23 March 2016, 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 the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC, 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 the PRC. 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 by a PRC issuer is likely to be treated as the holders of the Notes providing loans to such PRC issuer.

In the event that the Issuer is the Bank

In the event that the Issuer is the Bank, the Bank 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% (for non-resident individuals) and 10% (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 PRC and Hong Kong for purpose of the avoidance of double taxation will be 7% of the gross amount of the interest pursuant to such arrangement. Further, given that the Bank is located in the PRC, the holders of the Notes would be regarded as providing the financial services within the PRC and consequently, the holders of the Notes shall be subject to VAT at the rate of 6% when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies. 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 PRC 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% enterprise income tax rate and 20% 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.

In the event that the Issuer is the Bank's Overseas Branches

In the event that the Issuer is an overseas branch of the Bank, the Issuer is not obliged to withhold PRC income tax at the rate up to 10% (for non-resident enterprises) or 20% (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 and the Issuer is not held to be a PRC tax resident enterprise by PRC tax authorities. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the Issuer is a PRC tax resident or 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 an overseas branch of the Bank, Circular 36 is unlikely to apply if the provision of loans by individuals or entities located outside the PRC takes place outside the PRC, but there is uncertainty as to the applicability of VAT as this will depend on how the PRC tax authorities interpret, apply or enforce the Circular 36 and its implementation rules. If the Bank 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, the Bank will be obliged to withhold PRC income tax at a rate of 10% (for non-resident enterprises) or 20% (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and if the holders of the Notes are regarded as providing the financial services within the PRC, PRC VAT tax and local levies.

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 the PRC, accordingly such capital gains would be subject to the rate of 10% (for non-resident enterprises) or 20% (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable. 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 Noteholder 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 (if applicable) 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:

(a) 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;

(b) 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;

(c) 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

(d) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, *inter alia*, an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus involving the issue of the Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**"), the issue of the Notes by the Bank is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In addition, the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 of Hong Kong (the "**Amendment Ordinance**") came into effect on 1 January 2023. Under the Amendment Ordinance, certain foreign-sourced interest on the Notes accrued to an MNE entity (as defined in the Amendment Ordinance) carrying on a trade, profession or business in Hong Kong is regarded as arising in or derived from Hong Kong and subject to Hong Kong profits tax when it is received in Hong Kong. The Amendment Ordinance also provides for relief against double taxation in respect of certain foreign-sourced income and transitional matters.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp duty

Stamp duty will not be payable on the issue of Bearer Notes, **provided that** either:

(a) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong) (the "**SDO**").

If stamp duty is payable, it is payable by the Bank on the issue of Bearer Notes at a rate of 3% 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:

(a) 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

(b) such Registered Notes constitute loan capital (as defined in the SDO).

With effect from 1 August 2021, if stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.26% (of which 0.13% is payable by the seller and 0.13% is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution (as defined by FATCA) 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 the 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 the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "**foreign passthru payments**" are filed with the U.S. Federal Register generally would be "**grandfathered**" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). 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

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Program of Renminbi Settlement of Cross-Border Trades (《跨境貿易人民幣結算試點管理辦法》) (the "**Measures**") and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (《關於擴大跨境貿易人民幣結算試點有關問題的通知》), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 27 July 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (《關於擴大跨境貿易人民幣結算地區的通知》), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods (《關於出口貨物貿易人民幣結算企業管理有關問題的通知》), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi. On 29 April 2019, the SAFE issued Administrative Measures for the Foreign Exchange Service of Payment Institutions (《支付機構外匯業務管理辦法》), which facilitates domestic institutions and individuals to carry out e-commerce trade through the internet, standardizes the cross-border foreign exchange payment services provided by payment institutions, and prevents the risk of cross-border capital flows through the internet channel.

The Measures and the subsequent circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filling with, the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital account item payments including proceeds from liquidation, transfer of shares, reduction of capital and principal repayment under foreign debt to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 3 December 2013, the MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (《關於跨境人民幣直接投資有關問題的公告》) (the "**MOFCOM RMB FDI Circular**") which became effective on 1 January 2014. Pursuant to the MOFCOM RMB FDI Circular, the proceeds from foreign direct investment in Renminbi may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investment in PRC domestic listed companies under the PRC strategic investment regime with the approval of the MOFCOM pursuant to the Administrative Measures for Strategic Investment by Foreign Investors in Listed Companies (《外國投資者對上市公司戰略投資管理辦法》).

On 3 June 2011, the PBOC promulgated the Circular on Clarifying Issues concerning Cross-border Renminbi Settlement (《中國人民銀行關於明確跨境人民幣業務相關問題的通知》) (the "**PBOC Circular**"). The PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the relevant local PBOC authorities which include, *inter alia*, requisite approval letters issued by the relevant MOFCOM authorities.

On 13 October 2011, the PBOC issued the Measures on Administration of the RMB Settlement in relation to 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**") and amended it on 5 June 2015, to commence the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular is no longer necessary. On 14 June 2012, the PBOC further issued the implementing rules for the PBOC RMB FDI Measures (《中國人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知》) and amended it on 5 June 2015.

On 19 November 2012, the SAFE promulgated the Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the "**SAFE Circular on DI**"), which became effective on 17 December 2012 and was amended on 4 May 2015, 10 October 2018 and 30 December 2019. According to the SAFE Circular on DI, the 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 China 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 5 July 2013, the PBOC promulgated the Notice on Simplifying the Procedures of Cross-border Renminbi Business and Improving Relevant Policies (《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 simplifies the operating procedures on current account cross-border Renminbi settlement, provision of Renminbi outbound loans and Renminbi cross-border security in favour of offshore entities by onshore non-financial institutions, and further published policies with respect to bank card related cross-border Renminbi clearing and issuance of offshore Renminbi bonds by onshore non-financial institutions. The 2013 PBOC Circular intends to improve the efficiency of cross-border Renminbi settlement and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

There is no assurance that the PRC government will continue to gradually liberalise controls over cross-border Renminbi remittance in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations 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, the Bank will need to source Renminbi offshore to finance its obligations under the Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer nor the Arrangers take any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of Exchange Fund Bills and Notes Clearing and Settlement Service securities and capital markets instruments (together, "**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all financial institutions regulated by the Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU's custodial services, please refer to the CMU Reference Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the "**income proceeds**") by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Reference Manual.

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

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuer may make applications to Euroclear and/or Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons may be deposited with a common depositary for Euroclear and/or Clearstream, a sub-custodian for the CMU or an Alternative Clearing System as agreed between the Issuer and the Dealer. Transfers of interests in such Temporary Global Notes or Permanent Global Notes will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream or, if appropriate, the Alternative Clearing System.

Registered Notes

The Issuer may make applications to Euroclear and/or Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Registered Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Unrestricted Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Pricing Supplement, and, in the case of Notes initially represented by a Restricted Global Certificate, in minimum amounts of U.S.$250,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)), or higher integral multiples of U.S.$1,000, in certain limited circumstances described below.

Transfers of Registered Notes

Transfers of interests in Global Certificates within Euroclear, Clearstream and the CMU be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate to such persons may be limited.

Beneficial interests in a Global Certificate may be held through Euroclear, Clearstream or the CMU. In the case of Registered Notes to be cleared through Euroclear or Clearstream, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through a Restricted Global Certificate for the same Series of Notes **provided that** any such transfer made on or prior to the expiration of the distribution compliance period (as used in "*Subscription and Sale*") relating to the Notes represented by such Unrestricted Global Certificate will only be made upon receipt by any.

Transfer Agent of a written certificate from Euroclear, Clearstream, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Certificate will only be made upon request through Euroclear, Clearstream by the holder of an interest in the Unrestricted Global Certificate to the Issuing and Paying Agent of details of that account to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear and Clearstream, as the case may be, to be credited and debited, respectively, with an interest in each relevant Global Certificate.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Euroclear, Clearstream will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

For a further description of restrictions on transfer of Registered Notes, see "*Transfer Restrictions*".

Individual Certificates

Registration of title to Registered Notes in a name other than the Hong Kong Monetary Authority or a depositary or its nominee for Clearstream and Euroclear will be permitted only (i) in the case of Restricted Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to the Notes while in Global Form – Exchange – Permanent Global Certificates – Restricted Global Certificates*" or (ii) in the case of Unrestricted Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to the Notes while in Global Form – Exchange – Permanent Global Certificates – Unrestricted Global Certificates*". In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

(i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual Certificates; and

(ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the US secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers who wish to trade Registered Notes in the United States between the date of pricing and the date that is three business days prior to the relevant Issue Date will be required, by virtue of the fact that such Notes initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers of Notes who wish to trade Notes between the date of pricing and the date that is three business days prior to the relevant Issue Date should consult their own adviser.

SUBSCRIPTION AND SALE

DEALER AGREEMENT

Subject to the terms and on the conditions contained in a Sixth Amended and Restated Dealer Agreement dated 5 June 2023 (as may be supplemented, amended and/or restated from time to time) (the "**Dealer Agreement**") between the Issuer, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the 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 or subscribed for 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 has agreed to reimburse each Arranger for certain of its expenses incurred in connection with the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to 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, any Dealer appointed and acting in its capacity as stabilisation manager (the "**Stabilisation Manager**") or any person acting on behalf of the Stabilisation Manager may, to the extent permitted by applicable laws and directives, over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager shall act as principal and not as agent of the Issuer. However, there is no assurance that the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager will undertake Stabilisation action. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the relevant Dealers.

The Arrangers, the Dealers or any of 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**") and may have performed certain Banking Services or Transactions for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time perform various Banking Services or Transactions for the Issuer and/or its affiliates in the ordinary course of the Issuer's or their business for which they have received and will receive, fees and expenses. The Dealers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. In particular, CMB Wing Lung Bank Limited is a subsidiary of the Bank and China Merchants Securities (HK) Co., Limited is an affiliate of the Bank.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

In connection with the offer and sale of the Notes, the Issuer, the Arrangers, the Dealers and/or their respective affiliates, may act as investors and place orders, receive allocations and trade the Notes for their own account and such orders, allocations or trading 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 of the Notes. Accordingly, references herein to the offering of the Notes should be read as including any offering of the Notes to the Issuer, the Arrangers, the Dealers and/or their respective affiliates 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 applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

Furthermore, it is possible that a significant proportion 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 the Notes may be constrained. The Issuer, the Arrangers 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.

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 including proprietary interests in the Issuer 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, including the Notes, and could adversely affect the trading price and liquidity of the 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, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer.

Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMIs (including private banks)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any EU MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are *bona fide*, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Manager(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code); and
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Dealers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealer may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

SELLING RESTRICTIONS

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

United States

(1) If the Pricing Supplement for any Notes specifies that the applicable U.S. Selling Restrictions is "**Reg. S Category 1**", this paragraph shall apply. The Notes have not been and will not be registered under the Securities Act, and subject to certain exceptions, may not be offered or sold within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S.

(2) This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of their contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

(3) Unless the Pricing Supplement or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "**TEFRA C**" or "**TEFRA Not Applicable**", each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

(i) except to the extent permitted under the TEFRA D Rules:

(a) it has not offered or sold, and during a 40-day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

(b) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the TEFRA D Rules;

(iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code);

(iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii); and

(v) that it has not and agrees that it will not enter into any written contract (other than a confirmation or other notice of the transaction) pursuant to which any other party to the contract (other than one of its affiliates or another Dealer) has offered or sold, or during the restricted period will offer or sell, any Notes, except where pursuant to the contract the Dealer has obtained or will obtain from that party, for the benefit of the Issuer and the several Dealers, the representations contained in, and that party's agreement to comply with, the provisions of clauses (i), (ii), (iii) and (iv).

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including the TEFRA D Rules.

(4) To the extent that the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "**TEFRA C**", under the TEFRA C Rules, Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance by an issuer that (directly or indirectly through its agents) does not significantly engage in interstate commerce with respect to the issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection

with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the TEFRA C Rules.

(5) Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

(6) Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, if delivery of any Tranche of Notes will not occur within two business days following the date of pricing, purchasers who wish to trade such tranche of Notes on the date of pricing or the next succeeding business day will be required to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of any Tranche of Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

If the Pricing Supplement for any Notes specifies that the applicable U.S. Selling Restrictions is either "**Reg. S Category 2**" or "**Reg. S Category 3**", the following paragraphs shall apply in lieu of paragraph (1) above.

(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 to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has not offered, sold or, in the case of Notes in Bearer form, delivered and will not offer, sell or, in the case of Notes in Bearer form, deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date of such Tranche as determined, and certified to the Issuer, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the lead manager or lead managers, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

(B) Notes in bearer form having a maturity of more than one year 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. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. Restrictions with respect to Notes in bearer form are described further below.

(C) The Dealer Agreement provides that the Dealers may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of Registered Notes within the United States only to QIBs in reliance on Rule 144A.

(D) In addition, until 40 days after the commencement of the offering, 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 if such offer or sale is made otherwise than in accordance with Rule 144A.

European Economic Area

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "**Prohibition of Sales to EEA Retail Investors**" as "**Not Applicable**", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or

(ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; or

(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"); and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restrictions under the Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies "**Prohibition of Sales to EEA Retail Investors**" as "**Not Applicable**", in relation to each Member State of the EEA, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Final Terms 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:

(i) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, **provided that** any such prospectus has subsequently been completed by the final terms 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 final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(iii) 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

(iv) 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 (ii) to (iv) 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, as amended.

United Kingdom

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "**Prohibition of Sales to UK Retail Investors**" as "**Not Applicable**", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

(iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA, and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restriction under the UK Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies the "**Prohibition of Sales to UK Retail Investors**" as "**Not Applicable**", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

(i) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, **provided that** any such prospectus has subsequently been completed by Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(ii) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(iii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) at any time in any other circumstances falling within Section 86 of the FSMA,

provided that no such offer of Notes referred to in (ii) to (iv) shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**UK Prospectus Regulation**" means the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA.

Other Regulatory Requirements in the United Kingdom

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

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or an agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) 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 would not, if the Issuer was not an authorised person, apply to the Issuer; and

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

Hong Kong

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

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes 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 (a) to "**professional investors**" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "**prospectus**" as defined in the C(WUMP)O or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 (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:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;

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

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

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

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

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes directly or indirectly in the PRC (for such purposes, not including Hong Kong, Macau SAR or Taiwan) or to residents of the PRC unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**").

Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

TRANSFER RESTRICTIONS

Each purchaser of Notes within the United States pursuant to Rule 144A will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a QIB, (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(2) It understands that such Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that such Notes, unless otherwise agreed between the Issuer and the trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

(4) The Issuer, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(5) It understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Certificate. Before any interest in the Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

To the extent the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Notes specifies that "**Reg. S Category 2**" or "**Reg. S Category 3**" applies, each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) The Issuer, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(4) It understands that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Certificate. Prior to the expiration of the distribution compliance period, before any interest in the Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

GENERAL INFORMATION

1. **Clearing Systems:** The Notes may be accepted for clearance through the Euroclear and Clearstream systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code, the CUSIP number and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Listing:** Application has been made to the HKSE for the listing of the Programme valid within the 12-month period after the date of this Offering Circular on the HKSE by way of debt issues to Professional Investors only, as described in this Offering Circular. Separate application may be made for the listing of the Notes on the HKSE or other stock exchange(s). 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).

3. **Litigation:** Save as disclosed in this Offering Circular, none of the Issuer nor any of its subsidiaries is involved in any governmental, legal or arbitration proceedings, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened, which are or might be material in the context of the issue of the Notes.

4. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment and updates of the Programme and the issue of this Offering Circular. The establishment and updates of the Programme and the issue of Notes thereunder have been duly authorised by resolutions of the Board of Directors of the Bank dated 28 March 2012, 22 April 2015, 21 March 2017 and 18 March 2020. The Issuer has agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issue of Notes under the Programme. The Bank shall obtain approvals from the NDRC, the PBOC, the SAFE and the PRC Banking Regulatory Authority (as applicable) in connection with its issuance of the Notes as the Issuer and the repayment of the principal and/or interest of the Notes by the Bank may be adversely affected in the event any required registration is not obtained.

5. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2022 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2022.

6. **Available Documents:** For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified office of the Fiscal Agent:

   (a) the articles of association of the Bank;

   (b) the consolidated financial statements of the Bank as at and for the years ended 31 December 2021 and 2022 and a copy of the auditor's reports of Deloitte Touche Tohmatsu, Certified Public Accountants, the Bank's current independent auditor;

   (c) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;

   (d) the Fifth Amended and Restated Agency Agreement (which includes the form of the Global Notes, the Global Certificate, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) dated 5 June 2023 and the Third Amended and Restated Deed of Covenant;

   (e) a copy of this Offering Circular together with any supplement to this Offering Circular or further Offering Circular;

   (f) each Pricing Supplement (save that Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area or the United Kingdom nor offered in the European Economic Area or the United Kingdom in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity).

7. **Auditor:**

   Deloitte Touche Tohmatsu, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, has audited the consolidated financial statements of the Bank for the years ended 31 December 2021 and 2022 as stated in its auditor's reports included elsewhere in this Offering Circular.

8. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

9. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

10. **NDRC Approval:**

The Notes will be issued in accordance with either (i) the pre-issuance filing and registration with the NDRC to obtain the Enterprise Foreign Debt Examination and Registration Certificate (企業借用外債審核登記證明) or the Registration Certificate of Foreign Debt (企業借用外債備案登記證明) prior to the issuance of the Notes under the Programme pursuant to the NDRC Administrative Measures or 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 Administrative Measures or the NDRC Circular.

In the case of (i), the Bank will make a pre-issuance registration with the NDRC, followed by post-issuance filings 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 post-issuance filings with the NDRC within the prescribed time following issuance of the Notes and to provide the requisite information on the issuance of such Notes to the NDRC within the time period as required by the NDRC in accordance with the NDRC Administrative Measures.

11. The Legal Entity Identifier of the Bank is 549300MKO5B60FFIHF58.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The independent auditor's reports on the Bank's consolidated financial statements as at and for the years ended 31 December 2021 and 2022 set out herein are reproduced from the Bank's annual reports as at and for the years ended 31 December 2021 and 2022. Page references contained in such independent auditor's reports refer to pages set out in such annual reports.

Independent Auditor's Report

DTTHK(A)(22)I00027

Deloitte. 德勤

To the shareholders of China Merchants Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 168 to 319, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

DTTHK(A)(22)I00027

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost, and financial guarantees and loan commitments	
We identified expected credit loss ("ECL") allowance of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments as a key audit matter due to the materiality of these items' balance and significant management judgement and estimates involved in deriving the ECL estimates. As at 31 December 2021, as set out in Note 22(a), the Group reported loans and advances to customers at amortised cost of RMB5,085,600 million and expected credit loss allowances of RMB245,494 million; in Note 23(b), the Group reported debt investments at amortised cost of RMB1,225,727 million and expected credit loss allowances of RMB39,886 million; in note 42, the Group reported the expected credit loss allowances of financial guarantees and loan commitments of RMB12,790 million. Key judgements and estimates in respect of the measurement of ECLs include: the significant management judgement and estimates of model design and its application; the identification of a significant increase in credit risk (SICR); the identification of credit impairment events; the determination of inputs used in the ECL model, as well as the determination of the forward-looking information to incorporate.	Our audit procedures in relation to the expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments included the following: We understood management's process and tested the design and operating effectiveness of key controls across the processes relevant to the ECL estimation of the Group. These controls included the development, validation and review of the ECL model; the controls over the model data input, including manual input controls and automated transmission controls; the automated controls over the ECL model calculation process; the controls over the identification of SICR indicators and credit impairment events. We assessed whether the ECL model applied by the Group has covered all the exposures that should be taken into consideration. In respect of different portfolios of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments, we involved our internal modelling specialist to assist us in assessing the appropriateness of the Group's methodology of ECL modelling. We reviewed relevant documents and evaluated the appropriateness and application of the ECL model.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost, and financial guarantees and loan commitments	
Principal accounting policies and significant accounting estimates and judgement applied in determining the expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments are set out in Notes 4(5) and 5(4) to the consolidated financial statements.	With the support of our internal modelling specialist, we assessed the key definitions and application of parameters and assumptions in the ECL model. This included assessing stage determination, probability of default, loss given default, exposure at default, forward-looking information and COVID-19 impact. We selected samples to check whether the calculation in the ECL model is consistent with the methodology. We selected samples to conduct credit reviews in order to assess the appropriateness of the significant judgements made by the management regarding the occurrence of SICR and credit impairment events, and whether the identification of such events are proper and timely. In addition, we selected samples and tested their data input into the ECL model to evaluate the completeness and accuracy of the data input. For loans and advances at amortised cost and debt investments at amortised cost at stage 3, we selected samples to test the reasonableness of future cash flows from the borrowers estimated by the Group, including the expected recoverable amount of collateral, to assess whether there were material misstatements in credit loss allowances.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Consolidation of structured entities	
We identified consolidation of structured entities as a key audit matter since significant judgement is applied by management to determine whether or not the Group has control over certain structured entities. The structured entities of the Group include wealth management products, asset management schemes, trust beneficiary rights, assets-backed securities and funds, as disclosed in Note 64 to the consolidated financial statements. As described in Note 4(1), the consolidation of structured entities is determined based on control. Control is achieved when the investor has power over the investee, the investor is exposed, or has rights, to variable returns from its involvement with the investee; and the investor has the ability to use its power to affect its returns. When performing the assessment on whether the Group has control over the structured entities, the Group considers several factors including, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration for managing the structured entities and the Group's exposure to variability of returns from interests that it holds in the structured entities.	Our audit procedures in relation to consolidation of structured entities included the following: We understood and tested the design and operating effectiveness of key controls over the management process in determining the consolidation scope for interests in structured entities as well as understood the purpose for setting up the structured entities. We reviewed the relevant contract terms, on a sample basis, and assessed the power of the Group over the structured entities, the rights of the Group to variable returns of the structured entities and the ability of the Group to use its power to affect its return, and evaluated management judgement on whether the Group has control over the structured entities and the conclusion about whether or not the consolidation criteria are met.

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Other Information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 of the Bank 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 of the Bank 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 of the Bank 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

As part of an audit in accordance with ISAs, we exercise professional judgement 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 of the Bank.
- Conclude on the appropriateness of the directors of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 the independent auditor's report is Shi Chung Fai.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18 March 2022

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2021	2020
Interest income	6	**327,056**	307,425
Interest expense	7	**(123,137)**	(122,394)
Net interest income		**203,919**	185,031
Fee and commission income	8	**102,318**	86,684
Fee and commission expense		**(7,871)**	(7,198)
Net fee and commission income		**94,447**	79,486
Other net income	9	**29,011**	22,881
– Disposal of financial instruments at amortised cost		**(657)**	(273)
Operating income		**327,377**	287,398
Operating expenses	10	**(116,879)**	(102,814)
Operating profit before impairment losses and taxation		**210,498**	184,584
Expected credit losses	14	**(65,962)**	(64,871)
Impairment losses on other assets		**(393)**	(154)
Share of profits of joint ventures	25	**2,877**	2,392
Share of profits of associates	26	**1,153**	489
Profit before taxation		**148,173**	122,440
Income tax	15	**(27,339)**	(24,481)
Profit for the year		**120,834**	97,959
Attributable to:			
Equity holders of the Bank		**119,922**	97,342
Non-controlling interests		**912**	617
Earnings per share			
Basic and diluted (RMB Yuan)	17	**4.61**	3.79

The notes form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021
(Expressed in millions of Renminbi unless otherwise stated)

	Note	2021	2020
Profit for the year		120,834	97,959
Other comprehensive income for the year after tax			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income from equity-accounted investees		133	463
Net fair value gain/(loss) on debt instruments measured at fair value through other comprehensive income		4,156	(2,729)
Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		3,036	1,054
Net movement in cash flow hedge reserve		105	(27)
Exchange difference on translation of financial statements of foreign operations		(1,574)	(2,483)
Items that will not be reclassified to profit or loss			
Net fair value gain on equity instruments designated at fair value through other comprehensive income		1,318	481
Remeasurement of defined benefit scheme		15	43
Other comprehensive income for the year, net of tax	16	7,189	(3,198)
Attributable to:			
Equity holders of the Bank		7,298	(2,967)
Non-controlling interests		(109)	(231)
Total comprehensive income for the year		128,023	94,761
Attributable to:			
Equity holders of the Bank		127,220	94,375
Non-controlling interests		803	386

The notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2021

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2021	2020
Assets			
Cash		**13,310**	13,088
Precious metals		**4,639**	7,970
Balances with central banks	18	**553,898**	525,358
Balances with banks and other financial institutions	19	**80,350**	103,335
Placements with banks and other financial institutions	20	**194,421**	226,919
Amounts held under resale agreements	21	**524,601**	286,262
Loans and advances to customers	22	**5,335,391**	4,804,361
Financial investments at fair value through profit or loss	23(a)	**348,123**	495,723
Derivative financial assets	60(f)	**23,390**	47,272
Debt investments at amortised cost	23(b)	**1,185,841**	1,049,280
Debt investments at fair value through other comprehensive income	23(c)	**636,038**	516,553
Equity investments designated at fair value through other comprehensive income	23(d)	**6,995**	7,139
Interests in joint ventures	25	**14,779**	12,403
Interests in associates	26	**8,875**	2,519
Investment properties	27	**1,372**	1,623
Property and equipment	28	**80,415**	69,470
Right-of-use assets	29(a)	**18,403**	19,104
Intangible assets	30	**4,066**	4,763
Goodwill	31	**9,954**	9,954
Deferred tax assets	32	**81,639**	72,893
Other assets	33	**122,521**	85,459
Total assets		9,249,021	8,361,448

The notes form part of these consolidated financial statements.

	Notes	2021	2020
Liabilities			
Borrowing from central banks		**159,987**	331,622
Deposits from banks and other financial institutions	34	**753,018**	723,402
Placements from banks and other financial institutions	35	**170,650**	143,517
Financial liabilities at fair value through profit or loss	36	**63,761**	60,351
Derivative financial liabilities	60(f)	**27,282**	50,061
Amounts sold under repurchase agreements	37	**157,660**	142,927
Deposits from customers	38	**6,385,154**	5,664,135
Salaries and welfare payable	39(a)	**19,761**	15,462
Tax payable	40	**22,491**	18,648
Contract liabilities	41	**7,536**	6,829
Lease liabilities	29(b)	**13,812**	14,242
Provisions	42	**14,660**	8,229
Debt securities issued	43	**446,645**	346,141
Deferred tax liabilities	32	**1,353**	1,073
Other liabilities	44	**139,570**	104,455
Total liabilities		**8,383,340**	7,631,094
Equity			
Share capital	45	**25,220**	25,220
Other equity instruments	46	**127,043**	84,054
– Preference shares	46(a)	**34,065**	34,065
– Perpetual bonds	46(b)	**92,978**	49,989
Capital reserve	47	**67,523**	67,523
Investment revaluation reserve	48	**15,047**	8,207
Hedging reserve	49	**39**	(66)
Surplus reserve	50	**82,137**	71,158
General reserve	51	**115,288**	98,082
Retained earnings		**390,207**	338,664
Proposed profit appropriation	52(b)	**38,385**	31,601
Exchange reserve	53	**(2,144)**	(693)
Total equity attributable to shareholders of the Bank		**858,745**	723,750
Non-controlling interests		**6,936**	6,604
– Non-controlling interest		**3,300**	2,851
– Perpetual debt capital	62(a)	**3,636**	3,753
Total equity		**865,681**	730,354
Total equity and liabilities		**9,249,021**	8,361,448

The notes form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 18 March 2022.

Miao Jianmin
Director

Tian Huiyu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

(Expressed in millions of Renminbi unless otherwise stated)

		2021														
		Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
	Notes	Share capital	Preference shares	Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Subtotal	Non-controlling interest	Perpetual debt capital	Total
At 1 January 2021		25,220	34,065	49,989	67,523	8,207	(66)	71,158	98,082	338,664	31,601	(693)	723,750	2,851	3,753	730,354
Changes in equity for the year		–	–	42,989	–	6,840	105	10,979	17,206	51,543	6,784	(1,451)	134,995	449	(117)	135,327
(a) Net profit for the year		–	–	–	–	–	–	–	–	119,922	–	–	119,922	685	227	120,834
(b) Other comprehensive income for the year	16	–	–	–	–	8,644	105	–	–	–	–	(1,451)	7,298	8	(117)	7,189
Total comprehensive income for the year		–	–	–	–	8,644	105	–	–	119,922	–	(1,451)	127,220	693	110	128,023
(c) Capital contribution from equity holders		–	–	42,989	–	–	–	–	–	–	–	–	42,989	–	–	42,989
Issue of perpetual bonds	46(b)	–	–	42,989	–	–	–	–	–	–	–	–	42,989	–	–	42,989
(d) Profit appropriations		–	–	–	–	–	–	10,979	17,206	(70,183)	6,784	–	(35,214)	(244)	(227)	(35,685)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	–	10,979	–	(10,979)	–	–	–	–	–	–
(ii) Appropriations to general reserve	51	–	–	–	–	–	–	–	17,206	(17,206)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2020		–	–	–	–	–	–	–	–	–	(31,601)	–	(31,601)	(244)	–	(31,845)
(iv) Distribution to perpetual debt capital	62	–	–	–	–	–	–	–	–	–	–	–	–	–	(227)	(227)
(v) Proposed dividends for the year 2021		–	–	–	–	–	–	–	–	(38,385)	38,385	–	–	–	–	–
(vi) Dividends paid for preference shares		–	–	–	–	–	–	–	–	(1,638)	–	–	(1,638)	–	–	(1,638)
(vii) Distribution to perpetual bonds		–	–	–	–	–	–	–	–	(1,975)	–	–	(1,975)	–	–	(1,975)
(e) Transfers within equity upon disposal of equity instruments designated at fair value through other comprehensive income		–	–	–	–	(1,804)	–	–	–	1,804	–	–	–	–	–	–
At 31 December 2021		25,220	34,065	92,978	67,523	15,047	39	82,137	115,288	390,207	38,385	(2,144)	858,745	3,300	3,636	865,681

The notes form part of these consolidated financial statements.

		2020														
		Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
	Notes	Share capital	Preference shares	Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Subtotal	Non-controlling interest	Perpetual debt capital	Total
At 1 January 2020		25,220	34,065	–	67,523	8,919	(39)	62,291	90,151	291,346	30,264	1,561	611,301	2,427	3,979	617,707
Changes in equity for the year		–	–	49,989	–	(712)	(27)	8,867	7,931	47,318	1,337	(2,254)	112,449	424	(226)	112,647
(a) Net profit for the year		–	–	–	–	–	–	–	–	97,342	–	–	97,342	383	234	97,959
(b) Other comprehensive income for the year	16	–	–	–	–	(686)	(27)	–	–	–	–	(2,254)	(2,967)	(5)	(226)	(3,198)
Total comprehensive income for the year		–	–	–	–	(686)	(27)	–	–	97,342	–	(2,254)	94,375	378	8	94,761
(c) Capital contribution from equity holders		–	–	49,989	–	–	–	–	–	–	–	–	49,989	218	–	50,207
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	218	–	218
(ii) Issue of perpetual bonds	46(b)	–	–	49,989	–	–	–	–	–	–	–	–	49,989	–	–	49,989
(d) Profit appropriations		–	–	–	–	–	–	8,867	7,931	(50,050)	1,337	–	(31,915)	(172)	(234)	(32,321)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	–	8,867	–	(8,867)	–	–	–	–	–	–
(ii) Appropriations to general reserve	51	–	–	–	–	–	–	–	7,931	(7,931)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2019		–	–	–	–	–	–	–	–	–	(30,264)	–	(30,264)	(172)	–	(30,436)
(iv) Distribution to perpetual debt capital	62	–	–	–	–	–	–	–	–	–	–	–	–	–	(234)	(234)
(v) Proposed dividends for the year 2020		–	–	–	–	–	–	–	–	(31,601)	31,601	–	–	–	–	–
(vi) Dividends paid for preference shares		–	–	–	–	–	–	–	–	(1,651)	–	–	(1,651)	–	–	(1,651)
(e) Transfers within equity upon disposal of equity instruments designated at fair value through other comprehensive income		–	–	–	–	(26)	–	–	–	26	–	–	–	–	–	–
At 31 December 2020		25,220	34,065	49,989	67,523	8,207	(66)	71,158	98,082	338,664	31,601	(693)	723,750	2,851	3,753	730,354

The notes form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021
(Expressed in millions of Renminbi unless otherwise stated)

	2021	2020
Operating activities		
Profit before taxation	**148,173**	122,440
Adjustments for:		
– Impairment losses on loans and advances	**37,020**	46,882
– Impairment losses on investments and other	**29,335**	18,143
– Unwinding of discount on the allowances of loans and advances	**(247)**	(186)
– Depreciation of property and equipment and investment properties	**8,857**	7,715
– Depreciation of right-of-use assets	**4,259**	4,416
– Amortisation of other assets	**1,389**	1,364
– Net gains on debt securities and equity investments	**(15,388)**	(7,208)
– Interest income on investments	**(56,059)**	(51,843)
– Interest expense on issued debt securities	**12,532**	14,652
– Share of profits of associates	**(1,153)**	(489)
– Share of profits of joint ventures	**(2,877)**	(2,392)
– Net gains on disposal of properties and equipment and other assets	**(113)**	(44)
– Interest expense on lease liabilities	**555**	596
Changes in:		
Balances with central banks	**12,874**	(23,480)
Loans and advances to customers	**(564,924)**	(649,434)
Other assets	**(37,395)**	(45,118)
Deposits from customers	**718,742**	783,914
Amounts due to banks and other financial institutions	**73,321**	223,568
Amounts due from banks and other financial institutions with original maturity over 3 months	**2,160**	(8,766)
Borrowing from central banks	**(170,100)**	(26,909)
Other liabilities	**16,596**	45,151
Cash generated from operating activities before income tax payment	**217,557**	452,972
Income tax paid	**(35,509)**	(31,644)
Net cash generated from operating activities	**182,048**	421,328
Investing activities		
Payment for the purchases of investments	**(1,225,385)**	(1,385,212)
Proceeds from disposals and redemptions of investments	**1,160,739**	1,104,070
Investment income received	**71,197**	58,038
Payment for the acquisition of subsidiaries, associates or joint ventures	**(5,342)**	(1,460)
Payment for the purchases of property and equipment and other assets	**(24,160)**	(19,125)
Proceeds from the disposals of property and equipment and other assets	**2,399**	2,354
Proceeds from the disposals of subsidiaries, associates or joint ventures	**855**	582
Net cash used in investing activities	**(19,697)**	(240,753)

The notes form part of these consolidated financial statements.

	Note	2021	2020
Financing activities			
Proceeds from the issuance of negotiable interbank certificates of deposit	55(b)	319,707	213,011
Proceeds from the issuance of certificates of deposit	55(b)	14,692	22,592
Proceeds from the issuance of debt securities	55(b)	63,872	33,606
Proceeds from the issuance of perpetual bonds		42,989	49,989
Proceeds from non-controlling interests of subsidiaries		–	218
Proceeds from other financing activities	55(b)	6,860	14,417
Repayment of negotiable interbank certificates of deposit	55(b)	(226,012)	(413,820)
Repayment of certificates of deposit	55(b)	(21,363)	(28,992)
Repayment of debt securities	55(b)	(55,771)	(45,486)
Payment for lease liabilities	55(b)	(4,835)	(4,644)
Distribution paid on perpetual debt capital		(227)	(234)
Payment for dividends distribution		(31,845)	(30,436)
Distribution paid on preference shares		(1,638)	(1,651)
Distribution paid on perpetual bonds		(1,975)	–
Interest paid on financing activities		(11,398)	(19,490)
Payment for other financing activities	55(b)	(3,697)	(867)
Net cash generated from/(used in) financing activities		89,359	(211,787)
Net increase/(decrease) in cash and cash equivalents		251,710	(31,212)
Cash and cash equivalents as at 1 January		552,790	589,675
Effect of foreign exchange rate changes		(2,746)	(5,673)
Cash and cash equivalents as at 31 December	55(a)	801,754	552,790
Cash flows from operating activities include:			
Interest received		269,081	255,854
Interest paid		111,177	100,925

The notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021
(Expressed in millions of Renminbi unless otherwise stated)

1. Organisation and principal activities

(1) Organisation

China Merchants Bank Co., Ltd. (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002. On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2021, apart from the Head Office, the Bank had 51 branches in Mainland China, Hong Kong, New York, Singapore, Luxembourg, London and Sydney. In addition, the Bank has three representative offices in Beijing, New York and Taipei.

(2) Principal activities

The principal activities of the Bank and its subsidiaries (the "Group") are providing corporate and personal banking services, conducting treasury business, providing asset management and other financial services.

2. Basis of preparation of consolidated financial statements

(1) Statement of compliance and basis of preparation

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

(2) Basis of measurement

These financial statements are presented in Renminbi ("RMB") and unless otherwise stated, rounded to the nearest million. RMB 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(16).

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period and the measurement principles as explained below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

2. Basis of preparation of consolidated financial statements *(continued)*

(2) Basis of measurement *(continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the future periods are discussed in Note 5.

3. Application of new and amendments to IFRSs

Amendments to IFRSs effective in the current year applied by the Group

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to IFRS 16	COVID-19-Related Rent Concessions

Impacts and accounting policies on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

3. Application of new and amendments to IFRSs *(Continued)*

Amendments to IFRSs effective in the current year applied by the Group *(Continued)*

Impacts and accounting policies on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2" *(Continued)*

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform (Continued)

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Hedge accounting

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Cash flows hedges

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

Transition and summary of effects

The Group has financial instruments linked to London Interbank Offered Rate (LIBOR) that are subject to interbank offered rates (IBOR) reform. These financial instruments mainly include loans and advances to customers and debt investments. The Group has gradually changed the interest rate benchmark for these financial instruments to other benchmark rates such as Sterling Overnight Index Average (SONIA) or Secured Overnight Financing Rate (SOFR) in 2021. In order to reflect the changes that are required by the interest rate benchmark reform, the Group has recalculated the effective interest rate of the financial instruments whose change of future cash flow is necessary as a direct consequence of interest rate benchmark reform, and used these effective interest rates as the basis of subsequent measurements. Such changes in effective interest rate have no significant impact on the consolidated financial statements.

Impacts and accounting policies on application of Amendment to IFRS 16 "COVID-19-Related Rent Concessions"

The amendment provides a practical expedient to COVID-19-related rent concessions if certain conditions are met. This amendment has no significant impact on the consolidated financial statements.

3. Application of new and amendments to IFRSs *(continued)*

Standards and amendments that are issued but not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendment to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	the date to be determined

The new and amendments to IFRSs mentioned above are not expected to have material impact on the consolidated financial statements in the foreseeable future.

4. Principal accounting policies

(1) Business combination

Financial statements include financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the equity holders of the Bank. Non-controlling interests in the results of the Group are presented in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 4(2)) or, an associate (see Note 4(3)).

Business combinations or asset acquisitions

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities or assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities or assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

4. Principal accounting policies *(continued)*

(1) Business combination *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognised in the consolidated statement of profit or loss as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognised at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interests in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed as at acquisition date.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially recognised at either fair value or the non-controlling interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

(2) Joint ventures

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When judging whether there is a joint control, the Group usually considers the following cases:

– whether any party within the joint arrangement cannot control the relevant activities of the joint ventures;

– whether the decisions about the joint ventures' relevant activities require the unanimous consent of the parties sharing control.

The consolidated statement of profit or loss includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the joint ventures' net assets. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognised immediately in profit or loss in the period in which investment is acquired.

The consolidated statement of profit or loss includes post-tax results of the joint ventures for the year, including any impairment loss on goodwill relating to the investment in the joint ventures recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures. For these purposes, the Group's interest in the joint ventures is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the joint ventures.

4. Principal accounting policies *(continued)*

(2) Joint ventures *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture and has no significant influence on it, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

(3) Associates

Associate is an entity in which the Group has significant influence, but not control, or joint control, including participation in the financial and operating policy decisions.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

When judging whether there is any significant influence, the Group usually considers the following cases:

– representation on the Board of Directors or equivalent governing body of the investee;

– participation in policy-making processes;

– material transactions between the entity and its investee.

Investments in associates are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognised immediately in profit or loss in the period in which investment is acquired.

The consolidated statement of profit or loss includes the Group's post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For these purposes, the Group's interest in the associates is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

4. Principal accounting policies *(continued)*

(4) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest based on the fair value of net assets acquired in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment. Goodwill arising on 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 and tested annually for impairment (see Note 4(11)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(5) Financial instruments

Initial recognition

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

All regular way purchases or sales of financial assets are recognised or derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

At initial recognition, financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. When determining the effective interest rate, the Group estimates the future cash flow on the basis of considering all contract terms of financial assets or financial liabilities, but does not consider the expected credit loss.

Classification and measurement of financial assets

The Group classifies its financial assets into the following measurement categories at initial recognition: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

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

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment, which is not held for trading, in other comprehensive income ("OCI").

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at amortised cost

Financial assets measured at amortised cost are subsequently measured with the effective interest method, and the gains or losses arising from amortisation or impairment are recognised in profit or loss. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment losses are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if debt instruments had been measured at amortised cost. When debt instruments are derecognised, the cumulative gains or losses previously recognised in investment revaluation reserve are reclassified to profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments which are not held for trading as at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other net income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes fair value gains or losses, any dividend or interest earned on the financial asset, and is included in "other net income".

Impairment under ECL model

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under IFRS 9 *Financial Instruments*, including financial assets at amortised cost, debt instrument assets at fair value through other comprehensive income, leases receivable, loan commitments and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group assesses the ECL of financial assets with forward-looking information. 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. In contrast, lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. Assessment are done based on the factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For the above financial instruments that apply the ECL model, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by the Group to determine whether to recognise lifetime ECL. When the credit risk of these financial instruments does not increase significantly after the initial recognition, the Group makes provision for credit losses according to 12-month ECL; in the event of a significant increase in credit risk, the Group makes provision for the credit losses in accordance with the ECL for the entire duration.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The assessment of whether the credit risk has increased significantly is detailed in Note 60(a).

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Impairment under ECL model *(continued)*

Credit-impaired financial assets

The Group defines whether there is credit impairment based on the internal evaluation results of the credit risk management system for relevant financial assets. The Group considers that financial assets have been credit impaired when its loan classification is substandard, doubtful or loss or is more than 90 days overdue.

Measurement and recognition of ECL

ECL is measured based on the probability of default, loss given default and the exposure at default. The measurement and recognition of ECL are detailed in Note 60(a).

Generally, ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 *Leases*.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected credit losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, ECL is the present value of the difference between the contractual cash flows that are due to the Group:

- if the holder of the loan commitments draws down the loan, and
- the cash flows that the Group expects to receive if the loan is drawn down.

The loss allowance for loan commitments and financial guarantee contracts is recognised in profit or loss and accumulated in provisions. As for debt instruments measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these financial assets. The loss allowance for other financial assets which are subject to impairment under IFRS 9 *Financial Instruments* is recognised in profit or loss through a loss allowance account.

Classification and measurement of financial liabilities

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial liabilities *(continued)*

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 *Financial Instruments* permits the entire combined contract to be designated as at FVTPL.

Other financial liabilities

Except for financial liabilities at FVTPL, financial liabilities formed by the transfer of financial assets that do not meet the conditions for derecognition or by continued involvement in transferred financial assets and financial liabilities, and financial guarantee contract, other financial liabilities are classified as financial liabilities at amortised cost, which are subsequently measured at amortised cost and the gains or losses arising from derecognition or amortisation are included in the current profits and losses.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedge. The Group documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge, at the inception of a hedging relationship. The Group also requires documentation of the 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 cash flows of hedged items attributable to the hedged risks.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Cash flow hedge

The effective portions of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in hedging reserve. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from hedging reserve to the consolidated statement of profit or loss in the same period during which the hedged cash flows affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in hedging reserve until the forecast transaction is ultimately recognised in the consolidated statements of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss is immediately reclassified to the consolidated statement of profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Hedge accounting *(continued)*

Hedge effectiveness testing

The Group has elected to adopt the general hedge accounting in IFRS 9 *Financial Instruments*. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Specific items

Cash equivalents

Cash equivalents comprise investments that are short term, highly liquid, readily convertible into known amounts of cash and subject to insignificant risk of changes in value, and unrestricted balances with the central banks, banks and other financial institutions, and amounts held under resale agreements, with original maturity of 3 months or less.

Balances and placements with banks and other financial institutions

Banks refer to those approved by the People's Bank of China ("PBOC") and other authorities. Other financial institutions represent finance companies, insurance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking and Insurance Regulatory Commission (the "CBIRC") and securities firms and investment fund companies which are registered with and under the supervision of other regulatory authorities. Balances and placements with banks and other financial institutions are measured at amortised cost.

Resale and repurchase agreements

Amounts for purchase of financial assets under resale agreements are accounted for under "amounts held under resale agreements". Amounts from sale of financial assets under repurchase agreements are accounted for under "amounts sold under repurchase agreements".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense (as appropriate).

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Financial investments

Equity investments are accounted for as financial assets at fair value through profit or loss or equity investments designated at fair value through other comprehensive income. Debt investments are classified as financial assets at fair value through profit or loss, debt investments at amortised cost, debt investments at fair value through other comprehensive income in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Loans and advances to customers

Loans and advances directly granted by the Group to customers and finance leases receivables are accounted for as loans and advances to customers.

Loans and advances to customers are classified as loans and advances to customers at fair value through profit or loss (loans and advances to customers at FVTPL), loans and advances to customers at amortised cost, loans and advances to customers at fair value through other comprehensive income (loans and advances to customers at FVTOCI) in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Derivative financial instruments

The Group's derivative financial instruments mainly include forward, foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. The Group enters into derivative contracts with other banks to hedge against risks arising from derivative transactions undertaken for customers.

Except for those used in cash flow hedge, derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of profit or loss. For those used in cash flow hedge, the gains and losses arising from the effective hedging portion are recognised in other comprehensive income.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 *Financial Instruments* are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 *Financial Instruments* are treated as separate derivatives with the same terms when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow hedging relationship.

Equity instruments

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Group for repurchasing self-issued equity instruments are deducted from shareholders' equity.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Equity instruments *(continued)*

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

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

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

At initial recognition, the Group classifies the perpetual bonds and perpetual debt capitals issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

For perpetual bonds and perpetual debt capitals issued that classified as equity instruments, any distribution of interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds and perpetual debt capitals are redeemed, the redeemed amount is charged to equity. Relevant transaction expenses are deducted from equity.

At initial recognition of preference shares, the Group classifies the preference shares issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

When the Group classifies preference shares issued as an equity instrument, fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

Derecognition of financial instruments

(a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset; or
- has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Derecognition of financial instruments *(continued)*

(b) Securitisation

As part of its operational activities, the Group securitises credit assets, generally through the sale of these assets to structured entities which issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests).

When applying the policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on the transferred financial assets and the degree of control exercised by the Group over the transferred financial assets:

- when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;
- when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and
- when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration collected from third parties are recorded as a financial liability.

When the securitisation results in derecognition or partial derecognition of financial assets, the Group allocates the carrying amount of the transferred financial assets between the financial assets derecognised and the retained interests based on their relative fair values at the date of transfer. Gains or losses on securitisation, which is the difference between the consideration received and the allocated carrying amount of the financial assets derecognised, are recorded in "other net income". The retained interests continue to be recognised on the same basis before the securitisation.

(c) Sales of assets on condition of repurchase

Derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(d) Financial liabilities

A financial liability (or part of it) is derecognised when the obligation under the liability (or part of it) is discharged, cancelled or expired.

Offsetting financial instruments

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

4. Principal accounting policies *(continued)*

(6) Property, equipment, investment property and depreciation

Property, equipment and investment property, are stated at cost or deemed cost less accumulated depreciations and accumulated impairment losses. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of property, equipment and investment property over the following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Leasehold improvements (leased property)	3 years
Leasehold improvements (self-owned property)	the estimated useful lives
Aircraft, vessels and professional equipment	no more than 25 years
Motor vehicles and other	3 – 5 years

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property or other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

Subsequent expenditure relating to a property, equipment and investment property is capitalised only when it is probable that future economic benefits associated with the property and equipment will flow to the Group. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

Profits or losses on disposal of property, equipment and investment property are determined as the difference between the net disposal proceeds and the carrying amount of the property, equipment and investment property, and are accounted for in the consolidated statement of profit or loss as they arise.

(7) 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 other than equity instrument are reported in "other assets".

Repossessed assets of equity instruments are detailed in Note 4(5).

4. Principal accounting policies *(continued)*

(8) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and accumulated impairment losses (see Note 4(11)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at the end of the reporting period.

The amortisation period of intangible assets is as follows:

Software and Other	Core deposit
2 – 20 years	28 years

Both the periods and method of amortisation are reviewed annually.

(9) Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 *Leases* at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

(a) Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(b) Short-term leases and leases of low-value assets

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (lease term of 12 months or less and do not contain a purchase option) and leases of low value assets (the value of assets is equivalent to below RMB35,000).

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(c) Right-of-use assets

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The right-of-use asset is initially measured at cost. This cost includes:

- the amount of the initial measurement lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessee *(continued)*

(c) Right-of-use assets *(continued)*

After the commencement date, the right-of-use assets are measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The Group recognises the depreciation of right-of-use assets as an operating expense on a straight-line basis. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers the ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Accounting policy for any identified right-of-use asset impairment loss are disclosed in Note 4(11).

(d) Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

(e) Lease liabilities

Lease liability is presented as a separate line in the consolidated statement of financial position.

Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date using lessee's incremental borrowing rate as the discount rate.

Lease payments refer to the payment made by the lessee to the lessor in connection with the right to use the leased assets during the lease term. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease; and
- the amount expected to be payable by the lessee under remaining value guarantees.

After the commencement date, the Group remeasures the lease liability according to the present value calculated by the revised lease payment amount and the revised discount rate and makes a corresponding adjustment to the related right-of-use asset whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; or
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed remaining value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate. But if the change in lease payments results from a change in floating interest rates, the lessee shall use a revised discount rate that reflects changes in the interest rate.

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. When the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "loans and advances to customers". Unrecognised finance income under finance leases are amortised using the effective interest method over the lease term. Accounting policy for impairment losses are disclosed in Note 4(5).

When the Group is a lessor of an operating lease, income derived from operating lease is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Contingent lease income is charged to profit or loss in the accounting period in which it is incurred.

When a contract includes lease and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* to allocate the consideration under the contract to each component.

As a buyer-lessor in a sale and leaseback transactions

For a transfer of asset that does not meet the requirements of IFRS 15 *Revenue from Contracts with Customers* to account for a sale of asset, the Group acting as a buyer-lessor does not recognise the transferred asset and recognises loan and advance to customers at an amount that equals the transfer proceed within the scope of IFRS 9 *Financial Instruments*.

(10) Insurance contracts

Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Insurance income recognition

Premiums from long-term life insurance contracts are recognised as revenue when due from policy holders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in liabilities, and are amortised on a straight-line basis into the consolidated statement of profit or loss over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated statement of profit or loss in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period.

The Group has considered the impact of time value in the liability calculation for long-term life insurance. The Group performs liability adequacy tests based on information currently available as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

4. Principal accounting policies *(continued)*

(11) Impairment on tangible and intangible assets other than impairment under ECL model

The carrying amount of tangible and intangible assets including property and equipment, right-of-use assets, intangible assets, investment properties, interests in joint ventures, interests in associates, goodwill and other non-current assets are reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount of an asset is the greater of its fair value less disposal expense and present value of future expected cash flows. In assessing value in use, the estimated future cash flows are discounted to their present values.

Internal and external sources of information are reviewed at the end of the reporting period to identify any indications that other assets may be impaired.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value less disposal expense and the present value of future cash flows. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(12) Precious metals

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

4. Principal accounting policies *(continued)*

(13) Financial guarantee issued, provisions and contingent liabilities

Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The provision of financial guarantees issued is confirmed in the consolidated statement of financial position in accordance with accounting policy set out in Note 4(5).

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is highly probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

(14) Income recognition

Revenue is the inflow of economic benefits that the Group has formed in its daily activities that will result in an increase in shareholders' equity and have nothing to do with the capital invested by shareholders.

Net interest income

Interest income and expense for all financial instruments except for those classified as at FVTPL are recognised in "Interest income" and "Interest expense" in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, which is recognised in "Other net income".

Dividend income

Dividend income from investments is recognised when the dividend is declared and approved by the investee.

Rental income

Income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term.

Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income

Under IFRS 15 *Revenue from Contracts with Customers*, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time.

If the revenue is recognised over time, the Group recognises revenue in accordance with the progress towards complete satisfaction of a performance obligation. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts the Group's performance in transferring control of goods or services.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income *(continued)*

If revenue is recognised at a point in time, the Group recognises the revenue when the customer obtains control of the distinct good or service. To determine the point in time at which a customer obtains control of a promised service, the following indicators of the transfer of control should also be considered. They include, but are not limited to:

- the Group has a present right to payment for the goods or services;
- the Group has transferred physical possession of the goods;
- the customer has the significant risks and rewards of ownership of the goods;
- the customer has accepted the goods or services.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it can control the goods or service before transferring it to customers. The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(15) Taxation

Current income tax and movements in deferred tax balances are recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates of expected returns of the assets or the repayment of the liabilities. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

The Group shall recognise a deferred tax asset for all deductible temporary differences associated with investments in subsidiaries and interests in associates and joint ventures that both of the following conditions are satisfied: the temporary differences are likely to be reversed in the foreseeable future; and it is probably to obtain the taxable income used to offset the deductible temporary difference in the future. The Group shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, except where both of the following conditions are satisfied: the investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

4. Principal accounting policies *(continued)*

(15) Taxation *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. 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 set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(16) Foreign currencies translations

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into as part of the effective portion of a hedge on certain foreign currency risks; or
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange reserve (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in exchange reserve in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

4. Principal accounting policies *(continued)*

(17) Employee benefits

Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

Post-employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of profit or loss as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in the consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Share-based payment

The Group offers H share appreciation rights to its employee, namely H Share Appreciation Rights Scheme for the Senior Management ("the Scheme"), which is settled in cash. Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share. The Group recognises the services for the period as related costs or expenses, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting at the end of each reporting period within the vesting period. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting period end and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of the H share appreciation rights is using Black-Scholes model, taking into account the terms and condition upon which the H share appreciation rights were granted.

4. Principal accounting policies *(continued)*

(18) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly, indirectly or jointly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to control, common control or common significant influence (except that the Group and the party are subject to common significant influence of the other party). Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(19) Segmental reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they meet most of these criteria.

(20) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated statement of financial position as the risks and rewards of the assets reside with the customers. The Group only charges a relevant commission.

(21) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

(22) General reserve

According to the relevant regulations of the Ministry of Finance, in addition to the impairment allowances, the Bank maintains a general reserve according to a certain proportion of the balance of risk assets to make up for unidentified potential losses. The general reserve is treated as profit distribution and is an integral part of equity. In principle, the balance of general reserve shall not be less than 1.5% of the ending balance of risk assets. The general reserve of the Group also includes the general reserve maintained by the subsidiaries of the Group according to the applicable laws and regulations of their industry or region.

5. Significant accounting estimates and judgements, changes in accounting estimates

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on the assets and liabilities at the end of the reporting period. These estimates involve assumptions about cash flows and the discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to the assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(1) Control over structured entity

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among others, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from interests that it holds in the structured entities.

(2) Classification of financial assets

Business model assessment: Classification and measurement of financial assets of the Group involves significant judgement on business model. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Specific considerations include how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

(3) Derecognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitisation, financial assets sold under repurchase agreements. The Group applies significant judgement and estimate in assessing whether it has transferred these financial assets and qualified for a full derecognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyses whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities and the Group needs to consolidate them. This will determine whether the following derecognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether derecognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties;
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgement and estimate is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that affect the outcomes of the Group's assessment on the extent that risks and rewards are transferred.

5. Significant accounting estimates and judgements, changes in accounting estimates *(continued)*

(4) Impairment under ECL model

- Significant increase in credit risk: ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 60(a)(ii) for more details.

- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 60(a)(v) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Models and assumptions used: The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to Note 60(a)(iii)for more details on ECL.

- Forward-looking information: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 60(a)(iv) for more details.

- Probability of Default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to Note 60(a) (iii) for more details.

- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 60(a)(iii) for more details.

- Due to greater financial uncertainty triggered by the COVID-19 pandemic, there is higher risk that a prolonged pandemic could lead to increased credit default rates. The Group considered the impact of COVID-19 in the ECL model which are disclosed in Note 60(a)(iv).

In 2021, in order to increase the Group's resilience and guard itself against losses, the Group refined and optimised the measurement system of loss allowance for financial instruments in the principle of prudence and robustness. The Group made a change in ECL accounting estimate as of 30 June 2021, and such change in accounting estimate was mainly about enhancing the risk differentiation of the model in order to optimise the fineness and foresight of loss allowance for financial instruments. Among which, when determining whether there is any significant increase in credit risk, the application of early warning signal is further deepened; when considering forward-looking information, the macroeconomic index database is expanded; in terms of the classification of risk characteristics, the reference index of grouping is optimised. The change in accounting estimate resulted in an increase in the Group's loss allowance by RMB692 million as at 31 December 2021, and a decrease in the Group's profit before taxation by RMB692 million in 2021 compared with those under the previous ECL estimates. In 2021, the expected credit losses of the Group were RMB65,962 million, representing a year-on-year increase of 1.68%. The change in accounting estimate has no significant impact on the net profit, total assets and net assets of the Group in current period. The change in accounting estimate is applied prospectively for future periods, and do not require to adjust the announced financial reports retrospectively. Therefore, the change will not have any impact on the consolidated financial conditions and consolidated operating results of the Group in previous periods.

5. Significant accounting estimates and judgements, changes in accounting estimates *(continued)*

(5) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair value for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments, discounted cash flow analysis or option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the business unit that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Whilst the Group considers these valuations are the best estimates, the ongoing COVID-19 pandemic has resulted in greater market volatility and may cause further disruptions to the investees'/issuer's businesses, which have led to higher degree of uncertainties in respect of the valuations in the current year. Management estimates and assumptions are reviewed periodically and adjusted if necessary. If the fair value is measured using third party information such as broker quotes or pricing services, the valuation team will evaluate the evidence obtained from third party to support the conclusion that the relevant valuation meets the requirements of IFRS, including the category of the relevant valuation at the appropriate level in the fair value hierarchy.

(6) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed 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 profit 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 asset to be recovered.

(7) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or group of CGUs to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from CGU or group of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties due to the COVID-19 pandemic and volatility in financial markets.

6. Interest income

	2021	2020
Loans and advances to customers	**250,662**	236,104
– Corporate loans	**80,575**	80,575
– Retail loans	**159,124**	147,704
– Discounted bills	**10,963**	7,825
Balances with central banks	**7,792**	7,475
Balances with banks and other financial institutions	**902**	1,695
Placements with banks and other financial institutions	**5,526**	5,906
Amounts held under resale agreements	**6,115**	4,402
Financial investments	**56,059**	51,843
– Debt investments at FVTOCI	**15,875**	14,023
– Debt investments at amortised cost	**40,184**	37,820
Total	**327,056**	307,425

Note: The Group recognised an interest income of RMB12,337 million on loans and advances to customers at fair value through other comprehensive income (2020: RMB9,175 million).

7. Interest expense

	2021	2020
Deposits from customers	**84,332**	83,252
Borrowing from central banks	**7,635**	8,413
Deposits from banks and other financial institutions	**11,993**	9,961
Placements from banks and other financial institutions	**3,519**	3,750
Amounts sold under repurchase agreements	**2,571**	1,770
Debt securities issued	**12,532**	14,652
Lease liabilities	**555**	596
Total	**123,137**	122,394

8. Fee and commission income

	2021	2020
Commissions from wealth management	**35,841**	27,783
Commissions from asset management	**10,856**	6,892
Bank cards fees	**19,377**	19,551
Clearing and settlement fees	**13,902**	12,651
Commissions from credit commitment and lending business	**6,321**	6,191
Commissions on custodian business	**5,433**	4,253
Other	**10,588**	9,363
Total	**102,318**	86,684

In 2021, the Group adjusted the disclosure of fee and commission income by regrouping the components that were previously included in “Agent service fees”, “Commissions on trust and fiduciary activities” and “Other”, and present them under the category of wealth management, asset management, custodian business and other. The comparative figures were restated accordingly. After the adjustments, commissions from wealth management contain agency funds income, agency insurance income, agency trust schemes income, agency wealth management income, agency securities transaction income and agency precious metal income; commissions from asset management contain income from issuance and management of various asset management products such as funds, wealth management products, asset management schemes, etc.; commissions on custodian business contain income obtained from providing basic services and value-added services of custody assets; other items contain bond and equity underwriting income, credit asset securitisation service fee income, consulting income and other intermediary business income.

9. Other net income

	2021	2020
Profit/(loss) from fair value change	**92**	(1,660)
– financial instruments at fair value through profit or loss	**544**	(2,099)
– derivatives instruments	**12**	48
– precious metals	**(464)**	391
Investment income	**17,822**	16,281
– financial instruments at FVTPL	**14,839**	13,400
– loss on disposal of financial assets at amortised cost	**(657)**	(273)
– gain on disposal of debt instruments at FVTOCI	**3,516**	2,970
– of which: gain on disposal of bills	**2,434**	1,660
– dividend income from equity investments designated at FVTOCI	**74**	175
– other	**50**	9
Foreign exchange gain	**3,351**	2,202
Other income	**6,868**	5,708
– rental income	**6,415**	5,278
– insurance income	**453**	430
Other	**878**	350
Total	**29,011**	22,881

10. Operating expenses

	2021	2020
Staff costs	**66,028**	57,040
– Salaries and bonuses	**51,031**	43,257
– Social insurance and corporate supplemental insurance	**8,011**	6,048
– Other	**6,986**	7,735
Tax and surcharges	**2,772**	2,478
Depreciation of property, equipment and investment properties	**8,857**	7,715
Amortisation of intangible assets	**1,153**	1,188
Depreciation of right-of-use assets	**4,259**	4,416
Short-term leases expense and leases of low-value assets expense	**250**	292
Charge for insurance claims	**311**	296
Other general and administrative expenses (note (i))	**33,249**	29,389
Total	**116,879**	102,814

Note:

(i) Auditors' remuneration amounting to RMB29 million for the year ended 31 December 2021 (2020: RMB28 million) is included in other general and administrative expenses.

11. Directors' and supervisors' emoluments

The emoluments of the Directors and Supervisors during the year were as follows:

	2021				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,158	–	40	4,198
Wang Liang	–	3,302	–	40	3,342
Subtotal	–	7,460	–	80	7,540

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

Non-executive directors					
Miao Jianmin	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Su Min	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Luo Sheng	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors shown above did not receive remuneration from the Bank.

Independent non-executive directors and supervisors					
Wong See Hong	500	–	–	–	500
Li Menggang	500	–	–	–	500
Liu Qiao	500	–	–	–	500
Tian Hongqi	500	–	–	–	500
Li Chaoxian (ii)	183	–	–	–	183
Shi Yongdong (ii)	183	–	–	–	183
Xiong Liangjun (iii)	–	3,164	–	48	3,212
Peng Bihong	–	–	–	–	–
Wu Heng	–	–	–	–	–
Guo Xikun (iv)	–	–	–	–	–
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Xu Zhengjun	400	–	–	–	400
Wang Wanqing	–	2,747	–	48	2,795
Cai Jin (v)	–	123	–	48	171
Subtotal	3,566	6,034	–	144	9,744

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2021				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former executive, non-executive directors and supervisors					
Liu Jianjun (vi)	–	1,373	–	19	1,392
Leung Kam Chung, Antony (ii)	317	–	–	–	317
Zhao Jun (ii)	317	–	–	–	317
Liu Yuan (vii)	–	2,368	–	31	2,399
Wen Jianguo (viii)	–	–	–	–	–
Liu Xiaoming (ix)	–	1,979	–	48	2,027
Subtotal	634	5,720	–	98	6,452
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	4,200	19,214	–	322	23,736

Notes:

(i) The total remuneration before tax for the full-time directors, supervisors and executive officers of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) In June 2021, according to the relevant resolutions passed at the 2020 annual general meeting of the Bank, Mr. Li Chaoxian and Mr. Shi Yongdong were elected as the Independent Non-Executive Directors of the Bank, whose qualifications as the Independent Non-Executive Directors were approved by the CBIRC in August 2021. At the same time, Mr. Leung Kam Chung, Antony and Mr. Zhao Jun ceased to be the Independent Non-Executive Directors of the Bank due to the expiry of their appointments.

(iii) In August 2021, Mr. Xiong Liangjun was elected as the Employee Supervisor of the Bank at the staff congress of the Bank. According to the resolutions passed at the 21st meeting of the 11th session of the Board of Supervisors of the Bank, Mr. Xiong Liangjun was elected as the Chairman of the Board of Supervisors of the Bank.

(iv) In June 2021, according to the relevant resolutions passed at the 2020 annual general meeting of the Bank, Mr. Guo Xikun was elected as the Shareholder Supervisor of the Bank.

(v) In December 2021, Ms. Cai Jin was elected as the Employee Supervisor of the Bank at the staff congress of the Bank.

(vi) In May 2021, Mr. Liu Jianjun ceased to be the Executive Director, Executive Vice President and Secretary of the Board of Directors of the Bank due to change of work arrangement.

(vii) In August 2021, Mr. Liu Yuan ceased to be the Chairman of Board of Supervisors and Employee Supervisor of the Bank due to change of work arrangement.

(viii) In April 2021, Mr. Wen Jianguo ceased to be the Shareholder Supervisor of the Bank due to change of work arrangement.

(ix) In December 2021, Mr. Liu Xiaoming ceased to be the Employee Supervisor of the Bank due to change of work arrangement.

(x) As of 31 December 2021, the Group had offered 10 phases of H share appreciation rights under the Scheme. Details of the Scheme are set out in Note 39 (a)(iii).

11. Directors' and supervisors' emoluments *(continued)*

	2020				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,158	1,766	40	5,964
Liu Jianjun	–	3,024	1,284	43	4,351
Wang Liang	–	3,024	1,284	40	4,348
Subtotal	–	10,206	4,334	123	14,663
The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.					
Non-executive directors					
Miao Jianmin(ii)	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Su Min	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Luo Sheng	–	–	–	–	–
Subtotal	–	–	–	–	–
The non-executive directors shown above did not receive remuneration from the Bank.					
Independent non-executive directors and supervisors					
Leung Kam Chung, Antony	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Wong See Hong	500	–	–	–	500
Li Menggang	500	–	–	–	500
Liu Qiao	500	–	–	–	500
Tian Hongqi	500	–	–	–	500
Liu Yuan	–	3,402	1,445	43	4,890
Peng Bihong	–	–	–	–	–
Wen Jianguo	–	–	–	–	–
Wu Heng	–	–	–	–	–
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Xu Zhengjun	400	–	–	–	400
Wang Wanqing	–	2,742	–	43	2,785
Liu Xiaoming	–	1,996	–	43	2,039
Subtotal	4,200	8,140	1,445	129	13,914

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2020				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former executive, non-executive directors and supervisors					
Li Jianhong(iii)	–	–	–	–	–
Subtotal	–	–	–	–	–
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	4,200	18,346	5,779	252	28,577

Notes:

(i) On 29 September 2021, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2020.

(ii) In September 2020, according to the relevant resolutions passed at the 2020 first extraordinary general meeting of the Bank, Mr. Miao Jianmin was elected as the Chairman and Non-Executive Director of the Bank, whose qualifications as the Director and the Chairman were approved by the CBIRC on 24 September 2020.

(iii) In September 2020, Mr. Li Jianhong ceased to be the Chairman and Non-Executive Director of the Bank due to change of work arrangement.

(iv) As of 31 December 2020, the Group had offered 10 phases of H share appreciation rights scheme to its senior management ("the Scheme"). Details of the Scheme are set out in Note 39 (a)(iii).

During the year of 2021 and 2020, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year of 2021 and 2020, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

12. Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2021, three (2020: four) were directors or supervisors of the Bank whose emoluments were included in Note 11 above. The aggregate emolument of the remaining two (2020: three) highest paid individuals who were neither directors nor supervisors of the Bank is as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	**6,048**	9,072
Discretionary bonuses	**–**	3,852
Contributions to defined contribution retirement schemes	**85**	123
Total	**6,133**	13,047

The top five highest paid individuals who were neither directors nor supervisors of the Bank whose emoluments fell within the following bands is set out below:

	2021	2020
HKD		
3,500,001 – 4,000,000	**2**	–
4,000,001 – 4,500,000	**–**	–
4,500,001 – 5,000,000	**–**	–
5,000,001 – 5,500,000	**–**	3

During the year ended 31 December 2021, the five highest paid individuals included five persons in total, two of them were with the same emoluments and being the fourth highest paid individuals.

During the year ended 31 December 2020, the five highest paid individuals included seven persons in total, two of them were with the same emoluments and being the third highest paid individuals, three of them were with the same emoluments and being the fourth highest paid individuals.

13. Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2021	2020
Aggregate amount of relevant loans made by the Group outstanding at year end	61	54
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	66	59

14. Expected credit losses

	2021	2020
Loans and advances to customers	37,020	46,882
– Loans and advances at amortised cost (Note 22(c)(i))	35,678	46,983
– Loans and advances at FVTOCI (Note 22(c)(ii))	1,342	(101)
Amounts due from banks and other financial institutions	6,110	307
Financial investments	15,848	15,367
– Debt investments at amortised cost (Note 23(b)(iii))	13,201	13,875
– Debt investments at FVTOCI (Note 23(c)(ii))	2,647	1,492
Financial guarantees and loan commitments	5,639	2,147
Other	1,345	168
Total	65,962	64,871

15. Income tax

(a) Income tax in the consolidated statement of profit or loss represents:

	2021	2020
Current income tax expense	38,141	31,646
– Mainland China	37,222	30,574
– Hong Kong	767	960
– Overseas	152	112
Deferred taxation	(10,802)	(7,165)
Total	27,339	24,481

(b) A reconciliation of income tax expense in the consolidated statement of profit or loss and that calculated at the applicable statutory tax rate is as follows:

	2021	2020
Profit before taxation	148,173	122,440
Tax at the PRC statutory income tax rate of 25% (2020: 25%)	37,043	30,610
Tax effects of the following items:		
– Effects of non-deductible expenses	1,392	914
– Effects of non-taxable income	(12,603)	(10,568)
– Effects of different applicable rates in other jurisdictions	(258)	(458)
– Transfer out of previously recognised deferred tax assets	1,716	4,055
– Other	49	(72)
Income tax expense	27,339	24,481

Note:

(i) Taxation for Hong Kong and overseas operations are charged at the applicable rates of tax prevailing in relevant regions.

16. Other comprehensive income

(a) Income tax effects relating to each component of other comprehensive income

	2021			2020		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Items that may be reclassified to profit or loss	8,382	(2,526)	5,856	(4,379)	657	(3,722)
– Net fair value gain/(loss) on debt instruments measured at FVTOCI	5,675	(1,519)	4,156	(3,717)	988	(2,729)
– Net changes in expected credit losses of debt instruments measured at FVTOCI	4,060	(1,024)	3,036	1,391	(337)	1,054
– Net movement in cash flow hedge reserve	88	17	105	(33)	6	(27)
– Share of other comprehensive income from equity-accounted investees	133	–	133	463	–	463
– Exchange difference on translation of financial statements of foreign operations	(1,574)	–	(1,574)	(2,483)	–	(2,483)
Items that will not be reclassified subsequently to profit or loss	1,176	157	1,333	677	(153)	524
– Net fair value gain on equity instruments designated at FVTOCI	1,158	160	1,318	625	(144)	481
– Remeasurement of defined benefit scheme	18	(3)	15	52	(9)	43
Other comprehensive income	9,558	(2,369)	7,189	(3,702)	504	(3,198)

(b) Movements relating to components of other comprehensive income are as follows:

	2021	2020
Net fair value gain/(loss) on debt instruments measured at FVTOCI		
Changes in fair value recognised during the year	6,793	(502)
Reclassification adjustments for amounts transferred to profit or loss upon disposal	(2,637)	(2,227)
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	4,156	(2,729)
Net changes in expected credit losses of debt instruments measured at FVTOCI		
Changes in expected credit losses recognised during the year	3,036	1,054
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	3,036	1,054
Net fair value gain on equity instruments designated at FVTOCI		
Changes in fair value recognised during the year	1,318	481
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	1,318	481
Net movement in cash flow hedge reserve		
Effective portion of changes in fair value of hedging instruments	74	(36)
Reclassification adjustment for realised gain to profit or loss	31	9
Net movement in hedging reserve during the year recognised in other comprehensive income	105	(27)

17. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of the Bank and the weighted average number of shares in issue for the year. As there were no diluted potential ordinary shares for the years of 2021 and 2020, there was no difference between basic and diluted earnings per share for both years.

	2021	2020
Net profit attributable to equity holders of the Bank	**119,922**	97,342
Less: Net profit attributable to preference shareholders of the Bank	**(1,638)**	(1,651)
Net profit attributable to holders of perpetual bonds	**(1,975)**	–
Net profit attributable to ordinary shareholders of the Bank	**116,309**	95,691
Weighted average number of shares in issue (in million shares)	**25,220**	25,220
Basic and diluted earnings per share (in RMB Yuan)	**4.61**	3.79

Note:

The Bank issued non-cumulative preference shares in 2017 and non-cumulative perpetual bonds in 2020 and 2021. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares and interests on non-cumulative perpetual bonds declared during the year should be deducted from the amounts attributable to equity holders 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 of 31 December 2021 and 2020. Therefore the conversion feature of preference shares has no effect on the diluted earnings per share calculation for both years.

18. Balances with central banks

	2021	2020
Statutory deposit reserve (note (i))	**484,878**	472,566
Surplus deposit reserve (note (ii))	**65,819**	47,472
Fiscal deposits	**2,958**	5,080
Interest receivable	**243**	240
Total	**553,898**	525,358

Notes:

(i) 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 the Group's daily operations. The statutory deposit reserve funds of the Bank's institutions located in Mainland China are calculated at 8% and 9% of eligible RMB deposits and foreign currency deposits respectively as at 31 December 2021 (31 December 2020: 9% and 5% of eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, retail deposits, corporate deposits, and net credit balances of entrusted business and RMB deposits placed by financial institutions outside Mainland China. The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(ii) Surplus deposit reserve maintained with the PBOC and central banks outside the Mainland China are mainly for clearing and settlement purposes.

19. Balances with banks and other financial institutions

	2021	2020
Principal (a)	**80,664**	103,448
Impairment allowances (a)(b)	**(378)**	(277)
Subtotal	**80,286**	103,171
Interest receivable	**64**	164
Total	**80,350**	103,335

(a) Analysed by nature of counterparties

	2021	2020
Balances in Mainland China	**37,453**	56,811
– Banks	**35,620**	55,117
– Other financial institutions	**1,833**	1,694
Balances outside Mainland China	**43,211**	46,637
– Banks	**41,430**	45,942
– Other financial institutions	**1,781**	695
Total	**80,664**	103,448
Less: Impairment allowances	**(378)**	(277)
– Banks	**(329)**	(265)
– Other financial institutions	**(49)**	(12)
Net carrying amount	**80,286**	103,171

(b) Movements of allowances for impairment losses are as follows:

	2021	2020
Balance as at the beginning of the year	**277**	372
Charge/(release) for the year (note 14)	**109**	(93)
Exchange difference	**(8)**	(2)
Balance as at the end of the year	**378**	277

20. Placements with banks and other financial institutions

	2021	2020
Principal (a)	**196,351**	226,516
Impairment allowances (a)(c)	**(2,860)**	(376)
Subtotal	**193,491**	226,140
Interest receivable	**930**	779
Total	**194,421**	226,919

(a) Analysed by nature of counterparties

	2021	2020
Placements in Mainland China	**127,959**	136,551
– Banks	**19,213**	27,637
– Other financial institutions	**108,746**	108,914
Placements outside Mainland China	**68,392**	89,965
– Banks	**68,102**	89,965
– Other financial institutions	**290**	–
Total	**196,351**	226,516
Less: Impairment allowances	**(2,860)**	(376)
– Banks	**(136)**	(145)
– Other financial institutions	**(2,724)**	(231)
Net carrying amount	**193,491**	226,140

(b) Analysed by remaining maturity

	2021	2020
Maturing		
– Within one month (inclusive)	**66,842**	96,002
– Between one month and one year (inclusive)	**115,906**	125,969
– Over one year	**10,743**	4,169
Total	**193,491**	226,140

(c) Movements of allowances for impairment losses are as follows:

	2021	2020
Balance as at the beginning of the year	**376**	338
Charge for the year (note 14)	**2,481**	53
Exchange difference	**3**	(15)
Balance as at the end of the year	**2,860**	376

21. Amounts held under resale agreements

	2021	2020
Principal (a)	528,564	286,879
Impairment allowances (a)(d)	(4,263)	(743)
Subtotal	524,301	286,136
Interest receivable	300	126
Total	524,601	286,262

(a) Analysed by nature of counterparties

	2021	2020
Amounts held under resale agreements in Mainland China	528,447	286,382
– Banks	60,323	29,227
– Other financial institutions	468,124	257,155
Amounts held under resale agreements outside Mainland China	117	497
– Other financial institutions	117	497
Total	528,564	286,879
Less: Impairment allowances	(4,263)	(743)
– Banks	(175)	(185)
– Other financial institutions	(4,088)	(558)
Net carrying amount	524,301	286,136

(b) Analysed by remaining maturity

	2021	2020
Maturing		
– Within one month (inclusive)	524,301	279,446
– Between one month and one year (inclusive)	–	6,690
Total	524,301	286,136

(c) Analysed by underlying assets

	2021	2020
Bonds	522,202	278,817
Bills	2,099	7,319
Total	524,301	286,136

(d) Movements of allowances for impairment losses are as follows:

	2021	2020
Balance as at the beginning of the year	743	396
Charge for the year (note 14)	3,520	347
Balance as at the end of the year	4,263	743

22. Loans and advances to customers

(a) Loans and advances to customers

	2021	2020
Gross amount of loans and advances to customers at amortised cost (i)	**5,075,052**	4,647,140
Interest receivable	**10,548**	9,528
Subtotal	**5,085,600**	4,656,668
Less: Loss allowances of loans and advances to customers at amortised cost (i)	**(244,523)**	(234,426)
Loss allowances of interest receivable	**(971)**	(96)
Subtotal	**(245,494)**	(234,522)
Loans and advances to customers at amortised cost	**4,840,106**	4,422,146
Loans and advances to customers at FVTOCI (ii)	**488,004**	375,359
Loans and advances to customers at FVTPL (iii)	**7,281**	6,856
Total	**5,335,391**	4,804,361

(i) Loans and advances to customers at amortised cost

	2021	2020
Corporate loans and advances	**2,087,247**	1,965,980
Retail loans and advances	**2,987,791**	2,681,160
Discounted bills	**14**	–
Gross amount of loans and advances to customers at amortised cost	**5,075,052**	4,647,140
Less: Loss allowances	**(244,523)**	(234,426)
– Stage 1 (12-month ECL)	**(169,347)**	(159,918)
– Stage 2 (Lifetime ECL-not credit-impaired)	**(32,007)**	(27,401)
– Stage 3 (Lifetime ECL-credit-impaired)	**(43,169)**	(47,107)
Net amount of loans and advances to customers at amortised cost	**4,830,529**	4,412,714

(ii) Loans and advances to customers at FVTOCI

	2021	2020
Corporate loans and advances	**56,713**	44,623
Discounted bills	**431,291**	330,736
Loans and advances to customers at FVTOCI	**488,004**	375,359
Loss allowances	**(1,581)**	(238)
– Stage 1 (12-month ECL)	**(1,289)**	(226)
– Stage 2 (Lifetime ECL-not credit-impaired)	**(292)**	(12)
– Stage 3 (Lifetime ECL-credit-impaired)	**–**	–

No loss allowance is recognised in the consolidated statement of financial position for loans and advances to customers at FVTOCI as the carrying amount is at fair value.

(iii) Loans and advances to customers at FVTPL

	2021	2020
Corporate loans and advances	**6,978**	6,629
Interest receivable	**303**	227
Total	**7,281**	6,856

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector and category:

Operations in Mainland China

	2021	2020
Transportation, storage and postal services	**412,417**	381,898
Property development	**367,642**	342,667
Manufacturing	**309,635**	256,173
Production and supply of electric power, heating power, gas and water	**187,611**	161,777
Leasing and commercial services	**170,009**	143,805
Wholesale and retail	**138,352**	132,055
Construction	**117,453**	101,442
Water, environment and public utilities management	**64,427**	52,911
Telecommunications, software and IT services	**58,267**	54,491
Finance	**57,988**	74,892
Mining	**28,854**	31,097
Other	**66,364**	65,330
Subtotal of corporate loans and advances	**1,979,019**	1,798,538
Discounted bills	**431,305**	327,479
Residential mortgage	**1,364,534**	1,264,466
Credit cards	**840,254**	746,560
Micro-finance loans	**560,657**	474,545
Other	**173,527**	156,713
Subtotal of retail loans and advances	**2,938,972**	2,642,284
Gross amount of loans and advances to customers	**5,349,296**	4,768,301

Operations outside Mainland China

	2021	2020
Finance	**37,345**	39,402
Property development	**34,062**	48,125
Transportation, storage and postal services	**33,186**	30,526
Manufacturing	**23,763**	26,962
Wholesale and retail	**8,920**	17,720
Telecommunications, software and IT services	**7,727**	9,644
Production and supply of electric power, heating power, gas and water	**7,077**	8,636
Mining	**5,651**	9,579
Leasing and commercial services	**4,749**	11,223
Construction	**3,481**	2,177
Water, environment and public utilities management	**821**	2,383
Other	**5,137**	12,317
Subtotal of corporate loans and advances	**171,919**	218,694
Discounted bills	**–**	3,257
Residential mortgage	**9,872**	10,349
Credit cards	**117**	127
Micro-finance loans	**1,214**	1,183
Other	**37,616**	27,217
Subtotal of retail loans and advances	**48,819**	38,876
Gross amount of loans and advances to customers	**220,738**	260,827

As at 31 December 2021, over 90% of the Group's loans and advances to customers were conducted in Mainland China (31 December 2020: over 90%).

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by type of guarantees:

	2021	2020
Credit loans	**1,977,014**	1,758,502
Guaranteed loans	**752,744**	696,634
Collateralised loans	**2,075,639**	1,914,658
Pledged loans	**333,332**	328,598
Subtotal	**5,138,729**	4,698,392
Discounted bills	**431,305**	330,736
Gross amount of loans and advances to customers	**5,570,034**	5,029,128

(iii) Analysed by overdue term:

	2021				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	**18,097**	**10,269**	**2,972**	**944**	**32,282**
Guaranteed loans	**1,141**	**2,650**	**3,476**	**1,403**	**8,670**
Collateralised loans	**2,616**	**2,733**	**3,610**	**2,142**	**11,101**
Pledged loans	**473**	**687**	**791**	**3,422**	**5,373**
Gross amount of loans and advances to customers	**22,327**	**16,339**	**10,849**	**7,911**	**57,426**

	2020				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	11,350	11,753	1,538	688	25,329
Guaranteed loans	737	3,982	6,165	2,268	13,152
Collateralised loans	3,116	3,901	4,033	1,883	12,933
Pledged loans	381	476	3,737	560	5,154
Gross amount of loans and advances to customers	15,584	20,112	15,473	5,399	56,568

Note: Loans are classified as overdue when the principal or interest is overdue more than one day.

Among the above-mentioned overdue loans and advances to customers, collateralised loans and pledged loans that are overdue but not impaired at the reporting date are as follows:

	2021	2020
Collateralised loans that are overdue but not impaired	**1,517**	2,308
Pledged loans that are overdue but not impaired	**473**	177
Total	**1,990**	2,485

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(iv) Analysed by ECL

	2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Loans and advances measured at amortised cost	**4,912,836**	**111,354**	**50,862**	**5,075,052**
Less: Loss allowances of loans and advances to customers at amortised cost	**(169,347)**	**(32,007)**	**(43,169)**	**(244,523)**
Net amount of loans and advances to customers at amortised cost	**4,743,489**	**79,347**	**7,693**	**4,830,529**
Loans and advances to customers at FVTOCI	**485,735**	**2,269**	**–**	**488,004**
Loss allowances of loans and advances to customers at FVTOCI	**(1,289)**	**(292)**	**–**	**(1,581)**

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Loans and advances measured at amortised cost	4,517,239	76,286	53,615	4,647,140
Less: Loss allowances of loans and advances to customers at amortised cost	(159,918)	(27,401)	(47,107)	(234,426)
Net amount of loans and advances to customers at amortised cost	4,357,321	48,885	6,508	4,412,714
Loans and advances to customers at FVTOCI	374,800	559	–	375,359
Loss allowances of loans and advances to customers at FVTOCI	(226)	(12)	–	(238)

22. Loans and advances to customers *(continued)*

(c) Movements of allowance for expected credit loss

(i) Reconciliation of allowance for expected credit loss for loans and advances to customers measured at amortised cost:

	2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Balance as at the beginning of the year	**159,918**	**27,401**	**47,107**	**234,426**
Transfer to				
– Stage 1	**5,848**	**(5,743)**	**(105)**	**–**
– Stage 2	**(1,137)**	**1,592**	**(455)**	**–**
– Stage 3	**(1,001)**	**(4,972)**	**5,973**	**–**
Charge for the year (note 14)	**5,766**	**13,763**	**16,149**	**35,678**
Write-offs/disposals	**–**	**–**	**(35,105)**	**(35,105)**
Unwinding of discount on allowance	**–**	**–**	**(247)**	**(247)**
Recovery of loans and advances written off	**–**	**–**	**9,893**	**9,893**
Exchange difference	**(47)**	**(34)**	**(41)**	**(122)**
Balance as at the end of the year	**169,347**	**32,007**	**43,169**	**244,523**

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Balance as at the beginning of the year	138,803	37,644	46,309	222,756
Transfer to				
– Stage 1	2,636	(2,571)	(65)	–
– Stage 2	(552)	1,398	(846)	–
– Stage 3	(565)	(10,698)	11,263	–
Charge for the year (note 14)	19,696	1,652	25,635	46,983
Write-offs/disposals	–	–	(43,734)	(43,734)
Unwinding of discount on allowance	–	–	(186)	(186)
Recovery of loans and advances written off	–	–	8,781	8,781
Exchange difference	(100)	(24)	(50)	(174)
Balance as at the end of the year	159,918	27,401	47,107	234,426

(ii) Reconciliation of allowance for expected credit loss for loans and advances to customers measured at FVTOCI:

	2021	2020
Balance as at the beginning of the year	**238**	341
Charge/(release) for the year (note 14)	**1,342**	(101)
Exchange difference	**1**	(2)
Balance as at the end of the year	**1,581**	238

22. Loans and advances to customers *(continued)*

(d) Finance leases receivable

The table below provides an analysis of finance leases receivable included in loans and advances to customers for leases of assets in which the Group is a lessor:

	2021	2020
Total minimum leases receivable		
Within 1 year (inclusive)	**15,035**	20,865
Over 1 year but within 2 years (inclusive)	**11,225**	15,608
Over 2 years but within 3 years (inclusive)	**8,519**	10,720
Over 3 years but within 4 years (inclusive)	**5,323**	8,135
Over 4 years but within 5 years (inclusive)	**5,580**	6,280
Over 5 years	**13,980**	18,890
Subtotal	**59,662**	80,498
Unearned finance income	**(8,378)**	(11,206)
Present value of minimum leases receivable	**51,284**	69,292
Less: Impairment allowances	**(3,237)**	(3,443)
– Stage 1 (12-month ECL)	**(1,872)**	(1,653)
– Stage 2 (Lifetime ECL-not credit-impaired)	**(632)**	(931)
– Stage 3 (Lifetime ECL-credit-impaired)	**(733)**	(859)
Net carrying amount of finance leases receivable	**48,047**	65,849

23. Financial investments

	Notes	2021	2020
Financial investments at fair value through profit or loss	23(a)	**348,123**	495,723
Debt investments at amortised cost	23(b)	**1,185,841**	1,049,280
Debt investments at FVTOCI	23(c)	**636,038**	516,553
Equity investments designated at FVTOCI	23(d)	**6,995**	7,139
Total		**2,176,997**	2,068,695

(a) Financial investments at fair value through profit or loss

	Notes	2021	2020
Financial investments measured at FVTPL	(i)	**318,245**	464,466
Financial assets designated at fair value through profit or loss	(ii)	**29,878**	31,257
Total		**348,123**	495,723

23. Financial investments *(continued)*

(a) Financial investments at fair value through profit or loss *(continued)*

(i) Financial investments measured at FVTPL

Financial investments held for trading

	2021	2020
Bonds:		
Classified by issuer	**129,792**	131,130
– Government bonds	**46,721**	32,254
– Bonds issued by policy banks	**9,861**	4,845
– Bonds issued by commercial banks and other financial institutions	**21,245**	22,636
– Other debt securities	**51,965**	71,395
Classified by listing	**129,792**	131,130
– Listed in Mainland China	**113,762**	110,561
– Listed outside Mainland China	**15,796**	20,361
– Unlisted	**234**	208
Other investments:		
Classified by underlying assets	**5,205**	4,028
– Fund investments	**4,067**	2,971
– Wealth management products	**1,036**	961
– Long position in precious metal contracts	**102**	96
Classified by listing	**5,205**	4,028
– Listed in Mainland China	**–**	–
– Listed outside Mainland China	**111**	140
– Unlisted	**5,094**	3,888
Total financial investments held for trading	**134,997**	135,158

23. Financial investments *(continued)*

(a) Financial investments at fair value through profit or loss *(continued)*

(i) Financial investments measured at FVTPL *(continued)*

Other financial investments measured at FVTPL

	2021	2020
Bonds:		
Classified by issuer	**17,094**	15,373
– Bonds issued by commercial banks and other financial institutions	**9,784**	8,706
– Other debt securities	**7,310**	6,667
Classified by listing	**17,094**	15,373
– Listed in Mainland China	**15,388**	14,244
– Listed outside Mainland China	**1,333**	995
– Unlisted	**373**	134
Other investments:		
Classified by underlying assets	**166,154**	313,935
– Non-standard assets – Bills	**–**	175,303
– Equity investments	**4,909**	3,410
– Fund investments	**158,703**	133,861
– Wealth management products	**1,360**	298
– Other	**1,182**	1,063
Classified by listing	**166,154**	313,935
– Listed in Mainland China	**62**	96
– Listed outside Mainland China	**1,118**	739
– Unlisted	**164,974**	313,100
Total other financial investments measured at FVTPL	**183,248**	329,308
Total financial investments measured at FVTPL	**318,245**	464,466

(ii) Financial assets designated at fair value through profit or loss

	2021	2020
Bonds:		
Classified by issuer		
– Government Bonds	**41**	41
– Bonds issued by policy banks	**17,970**	18,431
– Bonds issued by commercial banks and other financial institutions	**11,251**	10,567
– Other debt securities	**616**	2,218
Total	**29,878**	31,257
Classified by listing		
– Listed in Mainland China	**28,793**	28,533
– Listed outside Mainland China	**1,060**	2,710
– Unlisted	**25**	14
Total	**29,878**	31,257

23. Financial investments *(continued)*

(b) Debt investments at amortised cost

	2021	2020
Debt investments at amortised cost (i)(ii)	**1,209,359**	1,060,387
Interest receivable	**16,368**	15,099
Subtotal	**1,225,727**	1,075,486
Impairment losses of principal (i)(ii)(iii)	**(39,707)**	(26,118)
Impairment losses of interest receivable	**(179)**	(88)
Subtotal	**(39,886)**	(26,206)
Total	**1,185,841**	1,049,280

(i) Debt investments at amortised cost:

	2021	2020
Bonds:		
Classified by issuer	**1,078,888**	911,409
– Government bonds	**768,537**	623,727
– Bonds issued by policy banks	**280,129**	252,996
– Bonds issued by commercial banks and other financial institutions	**20,064**	28,157
– Other debt securities	**10,158**	6,529
Classified by listing	**1,078,888**	911,409
– Listed in Mainland China	**1,068,300**	906,053
– Listed outside Mainland China	**4,740**	2,064
– Unlisted	**5,848**	3,292
Fair value for the listed bonds	**1,099,251**	916,422
Other investments:		
Classified by underlying assets	**130,471**	148,978
– Non-standard assets – Bills	**–**	12,725
– Non-standard assets – Loans and advances to customers	**115,022**	123,681
– Non-standard assets – Creditor's beneficiary rights to other commercial banks	**100**	6,400
– Non-standard assets – Other	**14,729**	5,580
– Other	**620**	592
Classified by listing	**130,471**	148,978
– Unlisted	**130,471**	148,978
Total	**1,209,359**	1,060,387
Less: loss allowances	**(39,707)**	(26,118)
Stage 1 (12-month ECL)	**(14,974)**	(11,832)
Stage 2 (Lifetime ECL – not credit-impaired)	**(712)**	(326)
Stage 3 (Lifetime ECL – credit-impaired)	**(24,021)**	(13,960)
Net debt investments at amortised cost	**1,169,652**	1,034,269

23. Financial investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(ii) Analysed by stage of ECL:

	2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Debt investments at amortised cost	1,183,320	1,962	24,077	1,209,359
Less: Loss allowances of debt investments at amortised cost	(14,974)	(712)	(24,021)	(39,707)
Net debt investments at amortised cost	1,168,346	1,250	56	1,169,652

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Debt investments at amortised cost	1,044,826	971	14,590	1,060,387
Less: Loss allowances of debt investments at amortised cost	(11,832)	(326)	(13,960)	(26,118)
Net debt investments at amortised cost	1,032,994	645	630	1,034,269

(iii) Movements of allowances for expected credit loss

	2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Balance as at the beginning of the year	11,832	326	13,960	26,118
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	(5)	5	–	–
– Stage 3	–	–	–	–
Charge for the year (note 14)	3,156	381	9,664	13,201
Write-offs / disposals	–	–	(10)	(10)
Recovery of debt previously written off	–	–	419	419
Exchange difference	(9)	–	(12)	(21)
Balance as at the end of the year	14,974	712	24,021	39,707

23. Financial investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(iii) Movements of allowances for expected credit loss *(continued)*

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Balance as at the beginning of the year	9,179	283	4,533	13,995
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	–	–	–	–
– Stage 3	(204)	–	204	–
Charge for the year (note 14)	2,858	43	10,974	13,875
Write-offs / disposals	–	–	(1,822)	(1,822)
Recovery of debt previously written off	–	–	80	80
Exchange difference	(1)	–	(9)	(10)
Balance as at the end of the year	11,832	326	13,960	26,118

(c) Debt investments at FVTOCI

	2021	2020
Debt investments at FVTOCI (i)	**628,355**	510,307
Interest receivable	**7,683**	6,246
Total	**636,038**	516,553
Impairment losses of debt investments at FVTOCI (ii)	**(6,622)**	(4,014)
Impairment losses of interest receivable	**(84)**	(25)
Total	**(6,706)**	(4,039)

No impairment allowances are recognised in the consolidated statement of financial position for debt investments at FVTOCI as the carrying amount is at fair value.

(i) Debt investments at FVTOCI:

	2021	2020
Bonds:		
Classified by issuer		
– Government bonds	**390,419**	287,007
– Bonds issued by policy banks	**82,427**	71,542
– Bonds issued by commercial banks and other financial institutions	**106,139**	97,487
– Other debt securities	**49,370**	54,271
Total	**628,355**	510,307
Classified by listing		
– Listed in Mainland China	**522,889**	400,456
– Listed outside Mainland China	**65,439**	64,191
– Unlisted	**40,027**	45,660
Total	**628,355**	510,307

23. Financial investments *(continued)*

(c) Debt investments at FVTOCI *(continued)*

(ii) Movements of allowances for expected credit loss

	2021	2020
Balance as at the beginning of the year	**4,014**	2,600
Charge for the year (note 14)	**2,647**	1,492
Exchange difference	**(39)**	(78)
Balance as at the end of the year	**6,622**	4,014

(d) Equity investments designated at FVTOCI

	2021	2020
Repossessed equity instruments	**901**	899
Other	**6,094**	6,240
Total	**6,995**	7,139
Classified by listing		
– Listed in Mainland China	**65**	52
– Listed outside Mainland China	**2,204**	2,023
– Unlisted	**4,726**	5,064
Total	**6,995**	7,139

During the year ended 31 December 2021, the Group disposed of part of the equity investments designated at FVTOCI. The fair value of the equity investments disposed of at the date of derecognition was RMB2,186 million (2020: RMB433 million). The cumulative net of tax gain on disposal of RMB1,804 million (2020: cumulative net of tax gain of RMB26 million) was transferred from investment revaluation reserve to retained earnings on disposal, among which RMB1,796 million was due to the completion of the stake acquisition of Bank of Taizhou Co., Ltd. in 2021. The investment in Bank of Taizhou Co., Ltd. was converted from equity investments designated at FVTOCI to interests in associates, refer to Note 26 for details.

24. Particulars of principal subsidiaries of the bank

The following list contains particulars of subsidiaries which principally affected the financial results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 4(1) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities	Economic nature	Legal representative
CMB International Capital Holdings Corporation Limited (note (i))	Hong Kong	HKD4,129	100%	Investment bank and investment managements	Limited liability	Tian Huiyu
CMB Financial Leasing Company Limited (note (ii))	Shanghai	RMB12,000	100%	Finance leasing	Limited liability	Shi Shunhua
CMB Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited liability	Zhu Qi
China Merchants Fund Management Co., Ltd. (note (iv))	Shenzhen	RMB1,310	55%	Fund management	Limited liability	Wang Xiaoqing
CMB Wealth Management Co., Ltd (note (v))	Shenzhen	RMB5,000	100%	Asset management	Limited liability	Chen Yisong
China Merchants Europe S.A. (note (vi))	Luxembourg	EUR50	100%	Banking	Limited liability	Li Biao
Cigna & CMB Asset Management Company Limited (note (vii))	Beijing	RMB500	(note (vii))	Asset management	Limited liability	Wang Xiaoqing

24. Particulars of principal subsidiaries of the bank *(continued)*

Notes:

(i) CMB International Capital Holdings Corporation Limited ("CMBICHC"), formerly known as Jiangnan Finance Company Limited and CMB International Capital Corporation Limited, is the Bank's wholly-owned subsidiary approved for setting up by the PBOC through its Yin Fu [1998] No. 405. In 2014, the Bank made an additional capital contribution of HKD750 million in CMBICHC. The capital of CMBICHC increased to HKD1,000 million, and the Bank's shareholding percentage remained unchanged.

The Board of Directors passed "The Resolution regarding the Capital Increase and Restructuring of CMBICHC" which agreed that the Bank made capital contribution of USD400 million (or its equivalent) to CMBICHC on 28 July 2015. The capital contribution was completed on 20 January 2016.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved for setting up by the CBIRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In 2014, the Bank made an additional capital contribution of RMB2,000 million in CMBFLC. The capital of CMBFLC increased to RMB6,000 million and the Bank's shareholding percentage remains unchanged. In August 2021, CMBFLC converted RMB6,000 million of its retained earnings into share capital, and the capital of CMBFLC increased to RMB12,000 million. The Bank's shareholding percentage remained unchanged.

(iii) CMB Wing Lung Bank Limited ("CMB WLB") was formerly known as Wing Lung Bank Limited. On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. CMB WLB became a wholly owned subsidiary of the Bank on 15 January 2009. CMB WLB had withdrawn from listing on the HKEx as of 16 January 2009.

(iv) In 2012, the Bank acquired 21.60% equity interests in China Merchants Fund Management Co., Ltd. ("CMFM"), its former associate, from ING Asset Management B.V. at a consideration of EUR63,567,567.57. Following the settlement of the above consideration in cash, the Bank's shareholding in CMFM increased from 33.40% to 55.00% in 2013. As a result, the Bank obtained the control over CMFM, which became the Bank's subsidiary on 28 November 2013. In December 2017, the Bank made an additional capital contribution of RMB605 million in CMFM, and other shareholders of CMFM also made capital contribution of RMB495 million proportionally. The capital of CMFM increased to RMB1,310 million, and the Bank's shareholding percentage remained unchanged.

(v) CMB Wealth Management Co., Ltd. ("CMBWM") is a wholly-owned subsidiary of the Bank, approved for setting up by the CBIRC with Yinbao Jianfu [2019] No. 981. It was formally established on November 1 2019.

(vi) China Merchants Europe S.A. ("CMB Europe S.A.") is a wholly-owned subsidiary of which the establishment was approved by the CBIRC with Yin Jianfu [2016] No. 460. It was formally established in November 2019 and obtained a commercial banking license in Luxemburg from the European Central Bank in May 2021.

(vii) Cigna & CMB Asset Management Company Limited ("CIGNA & CMAM") was registered and established on 18 October 2020 with the approval for setting up by the CBIRC with Yinbao Jianfu [2020] No. 708. CIGNA & CMAM is an indirectly controlled subsidiary of the Bank, with 87.3458% held by CIGNA & CMB Life Insurance Co., Ltd., a joint venture of the Bank, and 12.6542% held by CMBICHC, a subsidiary of the Bank.

25. Interests in joint ventures

	2021	2020
Share of net assets	**14,779**	12,403
Share of profits for the year	**2,877**	2,392
Share of other comprehensive income for the year	**133**	456

Details of the Group's interests in major joint ventures are as follows:

Name of joint ventures	Economic nature	Place of incorporation and operation	Particulars of issued and paid up capital (in millions)	Group's effective interest	Percentage of ownership held by the Bank	Principal activity
CIGNA & CMB Life Insurance Co., Ltd. (note(i))	Limited liability	Shenzhen	RMB2,800	50.00%	50.00%	Life insurance business
Merchants Union Consumer Finance Company Limited (note(ii))	Limited liability	Shenzhen	RMB10,000	50.00%	50.00%	Consumer finance

Notes:

(i) The Group holds 50.00% equity interests in CIGNA & CMB Life Insurance Co., Ltd. ("CIGNA & CMB Life"), and Cigna Health and Life Insurance Company ("CHLIC") holds the other 50.00% equity interests. The Bank and CHLIC share the joint venture's risk, profits and losses based on their shareholding proportionally. The Bank's investment in CIGNA & CMB Life is accounted for as an investment in a joint venture.

(ii) CMB WLB, one of the Group's wholly-owned subsidiaries, and China United Network Communications Limited ("CUNC"), a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). CBIRC approved the operation of MUCFC on 3 March 2015. CMB WLB and CUNC each held 50% equity interests in MUCFC and share the risks, profits and losses proportionally based on their shareholdings. In December 2017, the Bank and CUNC made a capital contribution of RMB600 million in MUCFC respectively. After the capital injection, the capital of MUCFC increased to RMB2,859 million, with the Bank's shareholding percentage becoming 15%, CMB WLB's shareholding percentage becoming 35%, and the Group's total shareholding percentage remained at 50%. In December 2018, the Bank made another capital contribution of RMB1,000 million in MUCFC, and CUNC made the same amount of capital injection. The Bank and CMB WLB then held 24.15% and 25.85% of equity interests in MUCFC, respectively, and the Group's total shareholding percentage remained at 50%.

In July 2021, CMB WLB transferred all its shares of MUCFC to the Bank. After the transfer, the Bank and CUNC each held 50% of equity interests in MUCFC, and the Group's total shareholding percentage remained unchanged. In October 2021, MUCFC converted RMB1,331 million of its the capital reserve and RMB4,800 million of its retained earnings into share capital, and the share capital of MUCFC increased to RMB10,000 million after the conversion.

25. Interests in joint ventures *(continued)*

Summarised financial information with necessary adjustments in accordance with the Group's accounting policies of the joint ventures which are individually material to the Group is as follows:

(i) CIGNA & CMB Life:

	Assets	Liabilities	Equity	Revenue	Net profit	Other comprehensive income	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2021										
CIGNA & CMB Life	**108,815**	**97,686**	**11,129**	**26,635**	**1,174**	**268**	**1,442**	**1,290**	**151**	**(43)**
Group's effective interest	**54,172**	**48,843**	**5,329**	**13,318**	**565**	**133**	**698**	**645**	**76**	**(22)**
2020										
CIGNA & CMB Life	75,196	65,259	9,937	23,608	1,638	912	2,550	437	56	299
Group's effective interest	37,386	32,630	4,756	11,804	812	456	1,268	219	28	150

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Net profit	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2021									
MUCFC	**149,698**	**135,660**	**14,038**	**15,933**	**3,015**	**3,015**	**4,655**	**42**	**477**
Group's effective interest	**74,849**	**67,830**	**7,019**	**7,967**	**1,507**	**1,507**	**2,328**	**21**	**239**
2020									
MUCFC	108,881	97,858	11,023	12,816	1,663	1,663	2,447	44	501
Group's effective interest	54,441	48,929	5,512	6,408	832	832	1,224	22	251

Summarised financial information of the joint ventures that are not individually material to the Group is as follows:

	Net profit	Other comprehensive expense	Total comprehensive income
2021			
Other joint ventures	**4,675**	**(3)**	**4,672**
Group's effective interest	**805**	**–**	**805**
2020			
Other joint ventures	4,349	–	4,349
Group's effective interest	748	–	748

26. Interests in associates

	2021	2020
Share of net assets	**8,875**	2,519
Share of profits for the year	**1,153**	489
Share of other comprehensive income for the year	**–**	7

Details of the Group's interest in major associate are as follows:

	Economic nature	Place of incorporation and operation	Particulars of issued and paid up capital (in millions)	Group's effective interest	Percentage of ownership held by the Bank	Principal activity
Bank of Taizhou Co., Ltd. (Note)	Limited liability	Taizhou	RMB 1,800	24.8559%	24.8559%	Commercial Bank

Note: The Bank, which originally held a 10% stake in Bank of Taizhou, acquired a total of 14.8559% stake from Ping An Trust Co., Ltd. and Ping An Life Insurance Company of China, Ltd. at a total consideration of RMB3,121 million on 31 May 2021. Upon the completion of the transaction, the Bank held 24.8559% stake of Bank of Taizhou. The Bank can exercise significant influence on Bank of Taizhou and therefore this investment is converted from equity investments designated at FVTOCI to interests in associates.

Summarised financial information of the associate which is individually material to the Group is as follows:

	Assets	Liabilities	Equity	Revenue	Net profit	Other comprehensive income	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2021 (note)										
Bank of Taizhou Co., Ltd.	316,172	289,731	26,441	6,775	2,215	30	2,245	11,665	287	604
Group's effective interest	77,536	72,015	5,521	1,684	490	9	499	2,899	71	150

Note: The period for profit or loss and other comprehensive income is from 1 June 2021 to 31 December 2021.

Summarised financial information of the associates that are not individually material to the Group is as follows:

	Net profit	Other comprehensive (expense)/income	Total comprehensive income
2021			
Other associates	**37,958**	**(65)**	**37,893**
Group's effective interest	**663**	**(9)**	**654**
2020			
Other associates	36,557	25	36,582
Group's effective interest	489	7	496

27. Investment properties

	2021	2020
Cost:		
At 1 January	3,276	3,558
Transfers out	(86)	(173)
Exchange difference	(55)	(109)
At 31 December	3,135	3,276
Accumulated depreciation:		
At 1 January	1,653	1,633
Depreciation	155	166
Transfers out	(7)	(72)
Exchange difference	(38)	(74)
At 31 December	1,763	1,653
Net carrying amount:		
At 31 December	1,372	1,623
At 1 January	1,623	1,925

As at 31 December 2021, no impairment allowance was considered necessary for investment properties by the Group (2020: Nil).

Investment properties of the Group mainly represent the leased properties of CMB WLB and the Bank that have been leased out under operating leases. The fair value of the Group's investment properties is determined by the method of capitalisation of net rental income. There has been no change to the valuation methodology during the year. As at 31 December 2021, the fair value of these properties was RMB4,978 million (31 December 2020: RMB5,317 million).

The Group's total future minimum leases receivable under non-cancellable operating leases are as follows:

	2021	2020
Within 1 year (inclusive)	313	296
1 year to 2 years (inclusive)	170	165
2 year to 3 years (inclusive)	127	71
3 year to 4 years (inclusive)	106	66
4 year to 5 years (inclusive)	105	60
Over 5 years	359	364
Total	1,180	1,022

The fair value hierarchy of the investment properties of the Group are listed as follows:

	Level 1	Level 2	Level 3	Fair Value as at 31 December 2021
Located in Mainland China	–	–	2,775	2,775
Located overseas	–	–	2,203	2,203
Total	–	–	4,978	4,978

	Level 1	Level 2	Level 3	Fair Value as at 31 December 2020
Located in Mainland China	–	–	2,927	2,927
Located overseas	–	–	2,390	2,390
Total	–	–	5,317	5,317

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

28. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircraft, vessels and professional equipment	Motor vehicles and other	Total
Cost:							
At 1 January 2021	28,279	3,107	15,149	9,661	48,124	6,299	110,619
Additions	539	743	2,420	1,106	17,879	563	23,250
Reclassification and transfers	169	(348)	20	223	–	22	86
Disposals	(19)	–	(698)	(18)	(3,415)	(971)	(5,121)
Exchange difference	(92)	–	(31)	(47)	(1,261)	(4)	(1,435)
At 31 December 2021	28,876	3,502	16,860	10,925	61,327	5,909	127,399
Accumulated depreciation:							
At 1 January 2021	11,750	–	11,489	6,132	6,729	4,813	40,913
Depreciation	1,314	–	2,097	950	3,822	519	8,702
Reclassification and transfers	6	–	17	–	–	(16)	7
Disposals	(14)	–	(661)	(15)	(1,290)	(848)	(2,828)
Exchange difference	(58)	–	(18)	(39)	(210)	(3)	(328)
At 31 December 2021	12,998	–	12,924	7,028	9,051	4,465	46,466
Impairment loss:							
At 1 January 2021	–	–	–	–	236	–	236
Charge	20	–	–	–	267	–	287
Exchange difference	–	–	–	–	(5)	–	(5)
At 31 December 2021	20	–	–	–	498	–	518
Net carrying amount:							
At 31 December 2021	15,858	3,502	3,936	3,897	51,778	1,444	80,415
At 1 January 2021	16,529	3,107	3,660	3,529	41,159	1,486	69,470

28. Property and equipment *(continued)*

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircraft, vessels and professional equipment	Motor vehicles and other	Total
Cost:							
At 1 January 2020	27,356	2,964	13,750	8,510	43,309	6,351	102,240
Additions	290	1,003	2,078	1,081	10,475	777	15,704
Reclassification and transfers	841	(860)	25	172	–	(5)	173
Disposals	(33)	–	(641)	(12)	(2,613)	(821)	(4,120)
Exchange difference	(175)	–	(63)	(90)	(3,047)	(3)	(3,378)
At 31 December 2020	28,279	3,107	15,149	9,661	48,124	6,299	110,619
Accumulated depreciation:							
At 1 January 2020	10,512	–	10,163	5,441	4,523	5,100	35,739
Depreciation	1,270	–	1,948	779	3,109	443	7,549
Reclassification and transfers	72	–	23	–	–	(23)	72
Disposals	(13)	–	(609)	(5)	(479)	(704)	(1,810)
Exchange difference	(91)	–	(36)	(83)	(424)	(3)	(637)
At 31 December 2020	11,750	–	11,489	6,132	6,729	4,813	40,913
Impairment loss:							
At 1 January 2020	–	–	–	–	93	–	93
Charge	–	–	–	–	153	–	153
Exchange difference	–	–	–	–	(10)	–	(10)
At 31 December 2020	–	–	–	–	236	–	236
Net carrying amount:							
At 31 December 2020	16,529	3,107	3,660	3,529	41,159	1,486	69,470
At 1 January 2020	16,844	2,964	3,587	3,069	38,693	1,251	66,408

(a) As at 31 December 2021, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB1,026 million (31 December 2020: RMB1,565 million) was still in progress. Management is of the view that the aforesaid matter would neither affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(b) As at 31 December 2021, the Group had no significant unused property and equipment (31 December 2020: Nil).

(c) As at 31 December 2021, the carrying value of mortgaged aircraft and vessels for placements from banks and other financial institutions of the CMBFLC's subsidiaries was RMB 15,075 million (31 December 2020: RMB 12,884 million).

(d) The Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	2021	2020
Within 1 year (inclusive)	**7,765**	5,851
1 year to 2 years (inclusive)	**7,148**	5,316
2 year to 3 years (inclusive)	**5,796**	4,883
3 year to 4 years (inclusive)	**4,862**	4,303
4 year to 5 years (inclusive)	**4,253**	3,916
Over 5 years	**13,357**	13,550
Total	**43,181**	37,819

29. Lease contracts

(a) Right-of-use assets

	Land use rights	Buildings	Computer equipment	Motor vehicles and other	Total
Cost:					
At 1 January 2021	5,957	21,122	4	16	27,099
Additions	33	4,071	5	1	4,110
Decrease	(5)	(2,123)	(2)	(1)	(2,131)
At 31 December 2021	5,985	23,070	7	16	29,078
Accumulated depreciation:					
At 1 January 2021	1,009	6,978	2	6	7,995
Depreciation (Note 10)	182	4,070	3	4	4,259
Decrease	(1)	(1,634)	(2)	(1)	(1,638)
At 31 December 2021	1,190	9,414	3	9	10,616
Impairment loss:					
At 1 January 2021	–	–	–	–	–
Charge	59	–	–	–	59
At 31 December 2021	59	–	–	–	59
Net carrying amount:					
At 31 December 2021	4,736	13,656	4	7	18,403
At 1 January 2021	4,948	14,144	2	10	19,104

	Land use rights	Buildings	Computer equipment	Motor vehicles and other	Total
Cost:					
At 1 January 2020	5,968	18,602	3	18	24,591
Additions	–	3,888	4	2	3,894
Decrease	(11)	(1,368)	(3)	(4)	(1,386)
At 31 December 2020	5,957	21,122	4	16	27,099
Accumulated depreciation:					
At 1 January 2020	830	3,755	1	5	4,591
Depreciation (Note 10)	183	4,228	2	3	4,416
Decrease	(4)	(1,005)	(1)	(2)	(1,012)
At 31 December 2020	1,009	6,978	2	6	7,995
Net carrying amount:					
At 31 December 2020	4,948	14,144	2	10	19,104
At 1 January 2020	5,138	14,847	2	13	20,000

The Group mainly leases land use rights and buildings for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee.

29. Lease contracts *(continued)*

(b) Lease liabilities

Analysis of the Group's lease liabilities by remaining maturity is as follows:

	2021	2020
Within 1 month (inclusive)	**506**	527
1 month to 3 months (inclusive)	**536**	488
3 months to 1 year (inclusive)	**2,989**	2,805
1 year to 2 years (inclusive)	**3,228**	3,395
2 year to 5 years (inclusive)	**4,925**	5,182
Over 5 years	**1,628**	1,845
Total	**13,812**	14,242

Interest expense on lease liabilities are set out in note 7.

(c) Short-term leases and leases of low-value assets

Short-term lease expense and leases of low-value assets expense are disclosed in note 10. The Group entered into short-term leases for buildings, computer equipment, motor vehicles and other.

(d) During the year of 2021, total cash outflow of the Group's leases amounted to RMB4,835 million (2020: RMB4,644 million).

(e) As at 31 December 2021 and 2020, the leases committed but not yet commenced were not significant.

30. Intangible assets

	Software and other	Core deposits	Total
Cost/appraisal value:			
At 1 January 2021	9,576	1,118	10,694
Additions	479	–	479
Exchange difference	(10)	(35)	(45)
At 31 December 2021	10,045	1,083	11,128
Accumulated amortisation:			
At 1 January 2021	5,442	489	5,931
Charge for the year (Note 10)	1,114	39	1,153
Exchange difference	(6)	(16)	(22)
At 31 December 2021	6,550	512	7,062
Net carrying amount:			
At 31 December 2021	3,495	571	4,066
At 1 January 2021	4,134	629	4,763

	Software and other	Core deposits	Total
Cost/appraisal value:			
At 1 January 2020	8,161	1,186	9,347
Additions	1,419	–	1,419
Exchange difference	(4)	(68)	(72)
At 31 December 2020	9,576	1,118	10,694
Accumulated amortisation:			
At 1 January 2020	4,294	478	4,772
Charge for the year (Note 10)	1,148	40	1,188
Exchange difference	–	(29)	(29)
At 31 December 2020	5,442	489	5,931
Net carrying amount:			
At 31 December 2020	4,134	629	4,763
At 1 January 2020	3,867	708	4,575

31. Goodwill

	As at 1 January 2021	Addition during the year	Release during the year	As at 31 December 2021	Impairment loss at 1 January 2021 and 31 December 2021	Net value at 1 January 2021 and 31 December 2021
CMB WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
Zhaoyin Internet (note (iii))	1	–	–	1	–	1
Total	10,533	–	–	10,533	(579)	9,954

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. On the acquisition date, the fair value of CMB WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million, being the excess of acquisition cost over the fair value of the identifiable net assets, was recognised as goodwill. The details about CMB WLB are set out in Note 24.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million, of which the Bank accounted for RMB414 million. A sum of RMB355 million, being the excess of acquisition cost of RMB769 million over the fair value of the identifiable net assets, was recognised as goodwill. The details about CMFM are set out in Note 24.

(iii) On 1 April 2015, CMBICHC acquired the 100% equity interests in Zhaoyin Internet Technology (Shenzhen) Corporation Limited ("Zhaoyin Internet"). On the acquisition date, the fair value of Zhaoyin Internet's identifiable net assets was RMB3 million. A sum of RMB1 million, being the excess of acquisition cost over the fair value of the identifiable net assets, was recognised as goodwill. Zhaoyin Internet's scope of business comprises development and sales of computer software and hardware; sales of communication and office automation equipment; and IT consulting.

Impairment test for goodwill

The recoverable amounts of the CGUs are determined based on value in use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing the impairment of goodwill, the Group assumed that the terminal growth rate is comparable to the forecast long-term economic growth rate issued by authoritative institutions. A pre-tax discount rates of CMB WLB and CMFM adopted by the Group are 7% and 10% (2020: 9% and 12%). The Group believes any reasonably possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amounts of the CGUs to exceed their recoverable amounts.

32. Deferred tax assets and deferred tax liabilities

	2021	2020
Deferred tax assets	**81,639**	72,893
Deferred tax liabilities	**(1,353)**	(1,073)
Net amount	**80,286**	71,820

(a) Analysed by nature of deferred tax assets and liabilities

The components of deferred tax assets/liabilities are as follows:

	2021		2020	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers and other assets at amortised cost	**284,360**	**71,191**	245,221	61,340
Financial assets at FVTOCI	**(11,092)**	**(2,763)**	(6,673)	(1,406)
Financial instruments at FVTPL	**92**	**23**	6,309	1,577
Salaries and welfare payable	**47,928**	**11,947**	37,592	9,363
Other	**5,582**	**1,241**	8,665	2,019
Total	**326,870**	**81,639**	291,114	72,893
Deferred tax liabilities				
Financial assets at FVTOCI	**(5)**	**(1)**	10	2
Financial instruments at FVTPL	**(144)**	**(27)**	8	2
Other	**(7,755)**	**(1,325)**	(6,677)	(1,077)
Total	**(7,904)**	**(1,353)**	(6,659)	(1,073)

32. Deferred tax assets and deferred tax liabilities *(continued)*

(b) Movements of deferred tax

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	Salaries and welfare payable	Other	Total
At 1 January 2021	61,340	(1,404)	1,579	9,363	942	71,820
Recognised in profit or loss	9,850	1,020	(1,584)	2,584	(1,068)	10,802
Recognised in other comprehensive Income	–	(2,383)	–	–	14	(2,369)
Exchange difference	1	3	1	–	28	33
At 31 December 2021	71,191	(2,764)	(4)	11,947	(84)	80,286

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	Salaries and welfare payable	Other	Total
At 1 January 2020	59,232	(2,244)	(313)	6,621	899	64,195
Recognised in profit or loss	2,160	336	1,899	2,742	28	7,165
Recognised in other comprehensive Income	–	507	–	–	(3)	504
Exchange difference	(52)	(3)	(7)	–	18	(44)
At 31 December 2020	61,340	(1,404)	1,579	9,363	942	71,820

Note: No deferred tax liability has been recognised in respect of temporary differences associated with investments in subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

33. Other assets

	2021	2020
Amounts pending for settlement	78,719	48,423
Continuing involvement assets	5,274	3,128
Interest receivable	3,913	2,972
Prepaid lease payments	257	314
Repossessed assets (a)	513	612
Guarantee deposits	519	510
Receivable from reinsurers	186	190
Prepayment for leasehold improvement and other miscellaneous items	4,987	4,985
Premium receivables	135	150
Post-employment benefits: defined benefit plan (Note 39(b))	65	60
Other	27,953	24,115
Total	122,521	85,459

(a) Repossessed assets

	2021	2020
Land and buildings	623	700
Other repossessed assets	31	14
Total	654	714
Less: Impairment allowances	(141)	(102)
Net repossessed assets	513	612

Note: In 2021, the Group disposed of repossessed assets with a total carrying value of RMB66 million (2020: RMB228 million).

34. Deposits from banks and other financial institutions

	2021	2020
Principal (a)	**751,254**	719,764
Interest payable	**1,764**	3,638
Total	**753,018**	723,402

(a) Analysed by nature of counterparties

	2021	2020
In Mainland China	**701,085**	712,403
– Banks	**77,788**	143,846
– Other financial institutions	**623,297**	568,557
Outside Mainland China	**50,169**	7,361
– Banks	**48,301**	6,964
– Other financial institutions	**1,868**	397
Total	**751,254**	719,764

35. Placements from banks and other financial institutions

	2021	2020
Principal (a)	**170,257**	143,117
Interest payable	**393**	400
Total	**170,650**	143,517

(a) Analysed by nature of counterparties

	2021	2020
In Mainland China	**114,496**	96,910
– Banks	**107,214**	75,768
– Other financial institutions	**7,282**	21,142
Outside Mainland China	**55,761**	46,207
– Banks	**55,570**	46,011
– Other financial institutions	**191**	196
Total	**170,257**	143,117

36. Financial liabilities at fair value through profit or loss

	2021	2020
Financial liabilities held for trading (a)	**17,017**	20,990
Financial liabilities designated at fair value through profit or loss (b)	**46,744**	39,361
Total	**63,761**	60,351

(a) Financial liabilities held for trading

	2021	2020
Financial liabilities related to precious metal	**16,406**	20,361
Short position on bonds	**611**	629
Total	**17,017**	20,990

(b) Financial liabilities designated at fair value through profit or loss

	2021	2020
In Mainland China	**34,677**	22,362
– Precious metal contracts with other banks	**11,596**	1,589
– Other	**23,081**	20,773
Outside Mainland China	**12,067**	16,999
– Certificates of deposit issued	**377**	605
– Debt securities issued	**7,600**	13,914
– Other	**4,090**	2,480
Total	**46,744**	39,361

As at 31 December 2021 and 2020, the difference between the fair values of the Group’s financial liabilities designated at fair value through profit or loss and the contractual payable amount at maturity is not significant. The amounts of changes in the fair value of these liabilities that are attributable to changes in credit risk of the Group are not significant during the years ended 31 December 2021 and 2020 and as at 31 December 2021 and 2020.

37. Amounts sold under repurchase agreements

	2021	2020
Principal (a) (b)	157,572	142,881
Interest payable	88	46
Total	157,660	142,927

(a) Analysed by nature of counterparties

	2021	2020
In Mainland China	155,322	137,228
– Banks	147,410	136,248
– Other financial institutions	7,912	980
Outside Mainland China	2,250	5,653
– Banks	1,854	4,868
– Other financial institutions	396	785
Total	157,572	142,881

(b) Analysed by underlying assets

	2021	2020
Debt securities	152,071	108,352
– Government bonds	90,956	45,684
– Bonds issued by policy banks	48,833	53,445
– Bonds issued by commercial banks and other financial institutions	2,774	4,872
– Other debt securities	9,508	4,351
Discounted bills	5,501	34,529
Total	157,572	142,881

38. Deposits from customers

	2021	2020
Principal (a)	**6,347,078**	5,628,336
Interest payable	**38,076**	35,799
Total	**6,385,154**	5,664,135

(a) Analysed by nature of counterparties

	2021	2020
Corporate customers	**4,058,924**	3,595,690
– Demand deposits	**2,652,817**	2,306,134
– Time deposits	**1,406,107**	1,289,556
Retail customers	**2,288,154**	2,032,646
– Demand deposits	**1,557,861**	1,400,520
– Time deposits	**730,293**	632,126
Total	**6,347,078**	5,628,336

(b) The deposits taken from customers as collateral or for the purpose of guarantees are as follows:

	2021	2020
Guarantee for acceptance bills	**134,858**	103,858
Guarantee for loans	**18,878**	19,183
Guarantee for issuing letters of credit	**21,574**	15,861
Deposit for letters of guarantee	**32,412**	29,463
Other	**31,208**	25,878
Total	**238,930**	194,243

39. Staff welfare scheme

(a) Salaries and welfare payable

	2021			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Short-term employee benefits (i)	14,155	53,827	(49,917)	18,065
Post-employment benefits – defined contribution plans (ii)	1,240	4,884	(4,495)	1,629
Other long-term employee benefits (iii)	67	17	(17)	67
Total	15,462	58,728	(54,429)	19,761

	2020			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Short-term employee benefits (i)	10,872	44,407	(41,124)	14,155
Post-employment benefits – defined contribution plans (ii)	699	3,410	(2,869)	1,240
Other long-term employee benefits (iii)	67	30	(30)	67
Total	11,638	47,847	(44,023)	15,462

(i) Short-term employee benefits

	2021			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salaries and bonus	11,121	43,716	(40,519)	14,318
Welfare expense	24	2,908	(2,913)	19
Social insurance	408	3,158	(3,036)	530
– Medical insurance	391	3,046	(2,922)	515
– Injury insurance	6	27	(27)	6
– Maternity insurance	11	85	(87)	9
Housing reserve	191	2,119	(2,144)	166
Labour union and employee education expenses	2,411	1,926	(1,305)	3,032
Total	14,155	53,827	(49,917)	18,065

	2020			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salaries and bonus	8,451	34,037	(31,367)	11,121
Welfare expense	69	4,156	(4,201)	24
Social insurance	120	2,640	(2,352)	408
– Medical insurance	107	2,541	(2,257)	391
– Injury insurance	6	20	(20)	6
– Maternity insurance	7	79	(75)	11
Housing reserve	246	1,921	(1,976)	191
Labour union and employee education expenses	1,986	1,653	(1,228)	2,411
Total	10,872	44,407	(41,124)	14,155

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plans

	2021			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Basic retirement insurance	130	2,566	(2,539)	157
Supplementary pension	1,088	2,257	(1,895)	1,450
Unemployment insurance	22	61	(61)	22
Total	1,240	4,884	(4,495)	1,629

	2020			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Basic retirement insurance	69	1,449	(1,388)	130
Supplementary pension	610	1,916	(1,438)	1,088
Unemployment insurance	20	45	(43)	22
Total	699	3,410	(2,869)	1,240

In accordance with the regulations in the PRC, the Group participates in statutory pension schemes organised by the municipal and provincial governments for its employees (endowment insurance). During the year ended 31 December 2021, the Group's contributions to these pension schemes are determined by local governments and vary at a range of 14% to 16% (2020: 12% to 16%) of the staff salaries.

In addition to the above statutory pension schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance) in accordance with relevant annuity policies for corporate entities in the PRC. During the year ended 31 December 2021, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2020: 0% to 8.33%).

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations.

(iii) Other long-term employee benefits

	2021			
	Beginning balance	Charge for the year	Payment in the year	Ending balance
Cash settled share-based transactions	67	17	(17)	67

	2020			
	Beginning balance	Charge for the year	Payment in the year	Ending balance
Cash settled share-based transactions	67	30	(30)	67

The Group has offered 10 phases of H share appreciation rights under the Scheme, the remaining seventh to tenth phases have not been exercised as of 31 December 2021. The share appreciation rights of the Scheme vest after 3 years from the grant date and are then exercisable within a period of 7 years. Each of the share appreciation right is linked to one H-share.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised share appreciation rights at the end of 2021 (in millions)	Exercise conditions	Contract period of share appreciation rights
Share appreciation rights granted on 7 Jul 2014 (Phase VII)	0.225	3 years after the grant date	10 years
Share appreciation rights granted on 22 Jul 2015 (Phase VIII)	0.458	3 years after the grant date	10 years
Share appreciation rights granted on 24 Aug 2016 (Phase IX)	0.510	3 years after the grant date	10 years
Share appreciation rights granted on 25 Aug 2017 (Phase X)	0.570	3 years after the grant date	10 years

(2) The number and weighted average exercise prices of share appreciation rights are as follows:

	2021		2020	
	Weighted average exercise price (HKD)	**Number of share appreciation rights (in million)**	Weighted average exercise price (HKD)	Number of share appreciation rights (in million)
Outstanding as at the beginning of the year	**18.34**	**2.87**	18.57	4.14
Exercised during the year	**17.23**	**(0.42)**	14.90	(1.27)
Forfeited during the year	**19.11**	**(0.69)**	–	–
Outstanding at the end of the year	**16.21**	**1.76**	18.34	2.87
Exercisable at the end of the year	**14.92**	**1.35**	16.05	1.34

The share appreciation rights outstanding at 31 December 2021 had a weighted average exercise price of HKD16.21 (2020: HKD18.34) and a weighted average remaining contractual life of 4.36 years (2020: 5.55 years).

Pursuant to the requirements set out in the Scheme, if there are any dividends distributed, capital reserve converted into shares, share split or dilution, adjustments to the exercise price will be applied.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(3) Fair value of share appreciation rights and assumptions

The fair value of services received in return for share appreciation rights granted are measured by reference to the fair value of share appreciation rights granted. The estimate of the fair value of the share appreciation rights granted is measured based on the Black-Scholes model. The contractual life of the rights are used as an input to the model.

	2021			
	Phase VII	**Phase VIII**	**Phase IX**	**Phase X**
Fair value at measurement date (in RMB Yuan)	**40.54**	**33.66**	**33.40**	**25.98**
Share price (in HKD)	**61.75**	**61.75**	**61.75**	**61.75**
Exercise price (in HKD)	**7.44**	**14.59**	**13.16**	**23.70**
Expected volatility	**37.41%**	**37.41%**	**37.41%**	**37.41%**
Share appreciation rights remaining life (year)	**2.50**	**3.50**	**4.58**	**5.58**
Expected dividends yield	**3.36%**	**3.36%**	**3.36%**	**3.36%**
Risk-free interest rate	**1.43%**	**1.43%**	**1.43%**	**1.43%**

	2020			
	Phase VII	Phase VIII	Phase IX	Phase X
Fair value at measurement date (in RMB Yuan)	29.03	22.81	22.91	17.05
Share price (in HKD)	48.50	48.50	48.50	48.50
Exercise price (in HKD)	8.94	16.09	14.66	25.20
Expected volatility	36.10%	36.10%	36.10%	36.10%
Share appreciation rights remaining life (year)	3.50	4.50	5.58	6.58
Expected dividends yield	3.51%	3.51%	3.51%	3.51%
Risk-free interest rate	1.43%	1.43%	1.43%	1.43%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share appreciation rights) and adjusted for any expected changes to future volatility based on publicly available information. Expected dividend yield is based on historical dividend yields. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share appreciation rights were granted under service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share appreciation rights granted.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(4) The number of share appreciation rights granted:

	2021					
	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised/ Forfeited (in thousands)
Tian Huiyu	225	300	300	330	1,155	75
Liu Jianjun	–	–	–	–	–	870
Wang Liang	–	157	210	240	607	203
Xiong Liangjun	–	–	–	–	–	660
Total	225	457	510	570	1,762	1,808

	2020					
	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised (in thousands)
Li Hao	–	–	–	–	–	2,131
Tang Zhihong	–	–	–	–	–	1,903
Tian Huiyu	225	300	300	330	1,155	75
Liu Jianjun	–	52	158	240	450	420
Wang Liang	–	157	210	240	607	203
Xu Shiqing	50	180	–	–	230	100
Xiong Liangjun	–	52	135	240	427	233
Total	275	741	803	1,050	2,869	5,065

Notes:

In 2021, senior management had exercised 0.42 million shares of appreciation rights (2020: 1.27 million) and the weighted average exercise price was HKD17.23 (2020: HKD14.90).

(b) Post-employment benefits – defined benefit plan

The Group's subsidiary CMB WLB operates a defined benefit plan (the "plan") for the staff, which includes a defined benefit scheme and a defined benefit pension scheme. Contributions to the plan are determined based on periodic valuations by qualified actuaries on the assets and liabilities of the plan. The plan provides benefits based on members' final salary. The costs are solely funded by CMB WLB.

The latest actuarial valuation of the plan as at 31 December 2021 was performed by Towers Watson Hong Kong Limited, a professional actuarial firm in accordance with IAS 19 *Employee Benefits*. The present values of the defined benefit obligation and current service cost of the plan are calculated based on the projected unit credit method. At the valuation date, the plan had a funding level of 123% (2020: 118%).

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The amounts recognised in the consolidated statement of financial position as at 31 December 2021 and 2020 are analysed as follows:

	2021	2020
Fair value of the plan assets	**349**	401
Present value of the funded defined benefit obligation	**(284)**	(341)
Net asset recognised in the consolidated statement of financial position	**65**	60

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the plan is expected to be paid in 2022.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2021 and 2020.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2021	2020
Current service cost	**(10)**	(12)
Net interest income	**–**	–
Net expense for the year included in retirement benefit costs	**(10)**	(12)

The actual gain on the plan assets for the year ended 31 December 2021 was RMB2 million (2020: RMB64 million).

The movements in the defined benefit obligation during the year are as follows:

	2021	2020
Present value of obligation at 1 January	**341**	363
Current service cost	**10**	12
Interest cost	**1**	6
Actual benefits paid	**(42)**	(25)
Actuarial gains or losses due to liability experience	**(6)**	2
Actuarial gains or losses due to financial assumption changes	**(22)**	5
Actuarial gains or losses due to demographic assumption changes	**10**	–
Exchange difference	**(8)**	(22)
Actual obligation at 31 December	**284**	341

The movements in the fair value of the plan assets during the year are as follows:

	2021	2020
Fair value of the plan assets at 1 January	**401**	385
Interest income	**1**	6
Expected return on plan assets	**1**	58
Actual benefits paid	**(42)**	(25)
Exchange difference	**(12)**	(23)
Fair value of the plan assets at 31 December	**349**	401

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The major categories of the plan assets are as follows:

	2021		2020	
	Amount	**%**	Amount	%
Equities	**202**	**57.9**	259	64.5
Bonds	**71**	**20.3**	64	16.0
Cash	**76**	**21.8**	78	19.5
Total	**349**	**100.0**	401	100.0

As at 31 December 2021, deposit with the Bank included in the amount of the plan assets was RMB53 million (2020: RMB65 million).

The principal actuarial assumptions adopted in the valuation are as follows:

	2021 %	2020 %
Discount rate		
– Defined benefit scheme	**1.4**	0.4
– Defined benefit pension scheme	**0.4**	0.1
Long-term average rate of salary increase for the plan	**5.0**	5.0
Pension increase rate for the defined benefit pension plan	**–**	–

In 2021 and 2020, there were no significant change in the amount of retirement benefit plan liabilities due to changes in the above-mentioned actuarial assumptions.

40. Tax payable

	2021	2020
Corporate income tax	**16,539**	13,907
Value added tax	**4,399**	3,347
Other	**1,553**	1,394
Total	**22,491**	18,648

41. Contract liabilities

	2021	2020
Credit card points	**6,065**	5,309
Other deferred fee and commission income	**1,471**	1,520
Total	**7,536**	6,829

42. Provisions

	2021	2020
Expected credit loss on provisions	**12,790**	7,236
Other	**1,870**	993
Total	**14,660**	8,229

The expected credit loss for loan commitments and financial guarantee contracts by stages are as follows:

	2021			
	–Stage 1 (12-month ECL)	**–Stage 2 (Lifetime ECL-not credit-impaired)**	**–Stage 3 (Lifetime ECL-credit-impaired)**	**Total**
Expected credit loss on provisions	**8,210**	**3,724**	**856**	**12,790**

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Expected credit loss on provisions	5,560	1,073	603	7,236

43. Debt securities issued

	Notes	2021	2020
Subordinated notes issued	(a)	**34,236**	34,302
Long-term debt securities issued	(b)	**159,306**	146,559
Negotiable interbank certificates of deposit		**240,284**	144,816
Certificates of deposit issued		**10,715**	18,479
Interest payable		**2,104**	1,985
Total		**446,645**	346,141

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	180 months	28 Dec 2012	5.20	RMB11,700	11,694	–	2	–	11,696
Fixed rate bond	120 months	15 Nov 2018	4.65	RMB20,000	19,995	–	(1)	–	19,994
Total					31,689	–	1	–	31,690

As at the end of the reporting period, subordinated note issued by CMB WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed to floating rate bond	120 months	22 Nov 2017	3.75 (for the first 5 years); T*+1.75% (from 6th year onwards, if the notes are not called by the Bank)	USD400	2,613	–	(67)	–	2,546
Total					2,613	–	(67)	–	2,546

* T represents the 5 years US Treasury rate.

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued

As at the end of reporting period, debt securities issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	17 Aug 2018	3.95	RMB30,000	29,983	–	17	–	(30,000)	–
Medium term note (i)	36 months	19 Jun 2019	0.25	EUR300	2,411	–	2	(249)	–	2,164
Medium term note	36 months	19 Jun 2019	3M Libor+0.74	USD600	3,920	–	–	(97)	–	3,823
Fixed rate bond	36 months	5 Jul 2019	3.45	RMB30,000	29,991	–	(1)	–	–	29,990
Fixed rate bond	36 months	24 Sep 2019	3.33	RMB20,000	19,996	–	1	–	–	19,997
Medium term note	33 months	27 Sep 2019	3M Libor+0.74	USD60	392	–	–	(10)	–	382
Medium term note (ii)	36 months	25 Sep 2020	1.10	USD400	2,610	–	(2)	(62)	–	2,546
Medium term note (iii)	36 months	25 Sep 2020	0.95	USD300	1,955	–	(6)	(41)	–	1,908
Fixed rate bond	36 months	6 Nov 2020	3.48	RMB10,000	9,998	–	–	–	–	9,998
Fixed rate bond	36 months	11 Mar 2021	3.40	RMB10,000	–	9,999	(1)	–	–	9,998
Fixed rate bond	36 months	3 Jun 2021	3.18	RMB20,000	–	19,997	(2)	–	–	19,995
Fixed rate bond	36 months	24 Aug 2021	2.90	RMB10,000	–	9,999	(1)	–	–	9,998
Medium term note (iv)	24 months	1 Sep 2021	1.25	USD300	–	1,912	2	(2)	–	1,912
Medium term note (v)	60 months	1 Sep 2021	0.55	USD300	–	1,912	7	(7)	–	1,912
Total					101,256	43,819	16	(468)	(30,000)	114,623

Notes:

(i) Financial bonds issued by the Bank that were held by CMB WLB amounted to EUR 37 million as of 31 December 2021, equivalent to RMB263 million (31 December 2020: EUR 37 million, equivalent to RMB293 million).

(ii) Financial bonds issued by the Bank that were held by CMB WLB amounted to USD30 million as of 31 December 2021, equivalent to RMB191 million (31 December 2020: USD30 million, equivalent to RMB196 million).

(iii) Financial bonds issued by the Bank that were held by CMB WLB amounted to USD30 million as of 31 December 2021, equivalent to RMB191 million (31 December 2020: USD30 million, equivalent to RMB196 million).

(iv) Financial bonds issued by the Bank that were held by CMB WLB amounted to USD45 million as of 31 December 2021, equivalent to RMB287 million (31 December 2020: nil).

(v) Financial bonds issued by the Bank that were held by CMB WLB amounted to USD33 million as of 31 December 2021, equivalent to RMB210 million (31 December 2020: nil).

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

As at the end of the reporting period, debt securities issued by CMBFLC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	60 months	29 Nov 2016	3.25	USD900	5,873	–	6	(65)	(5,814)	–
Fixed rate bond (i)	36 months	14 Mar 2018	5.24	RMB4,000	3,999	–	1	–	(4,000)	–
Fixed rate bond (ii)	36 months	9 May 2018	4.80	RMB4,000	3,999	–	1	–	(4,000)	–
Fixed rate bond	36 months	16 Jul 2018	4.50	RMB4,000	3,998	–	2	–	(4,000)	–
Fixed rate bond	36 months	13 Mar 2019	3.50	RMB1,500	1,498	–	2	–	–	1,500
Fixed rate bond	60 months	13 Mar 2019	4.00	RMB500	499	–	–	–	–	499
Fixed rate bond	36 months	27 May 2019	3.68	RMB3,000	2,996	–	3	–	–	2,999
Fixed rate bond (iii)	60 months	3 Jul 2019	3.00	USD900	5,843	–	10	(148)	–	5,705
Fixed rate bond (iv)	120 months	3 Jul 2019	3.63	USD100	648	–	1	(16)	–	633
Fixed rate bond	36 months	17 Jul 2019	3.60	RMB3,000	2,995	–	3	–	–	2,998
Fixed rate bond (v)	12 months	17 Apr 2020	1.73	USD40	261	–	–	–	(261)	–
Fixed rate bond	120 months	14 Jul 2020	4.25	RMB2,000	1,992	–	1	–	–	1,993
Fixed rate bond (vi)	60 months	12 Aug 2020	1.88	USD800	5,204	–	6	(132)	–	5,078
Fixed rate bond (vii)	120 months	12 Aug 2020	2.75	USD400	2,588	–	3	(65)	–	2,526
Fixed rate bond (viii)	36 months	17 Nov 2020	3.85	RMB4,000	3,989	–	4	–	–	3,993
Fixed rate bond	12 months	29 Dec 2020	1.50	USD20	131	–	–	(2)	(129)	–
Fixed rate bond (ix)	36 months	28 Jan 2021	3.60	RMB4,000	–	4,000	(8)	–	–	3,992
Fixed rate bond (x)	60 months	4 Feb 2021	2.00	USD400	–	2,584	4	(49)	–	2,539
Fixed rate bond (xi)	120 months	5 Feb 2021	2.88	USD400	–	2,588	5	(73)	–	2,520
Fixed rate bond	18 months	19 Mar 2021	1.16	USD50	–	326	–	(8)	–	318
Fixed rate bond (xii)	36 months	24 Mar 2021	3.58	RMB2,000	–	2,000	(4)	–	–	1,996
Fixed rate bond	60 months	24 Mar 2021	2.00	USD20	–	130	1	(5)	–	126
Fixed rate bond (xiii)	36 months	16 Sep 2021	1.25	USD600	–	3,876	2	(73)	–	3,805
Fixed rate bond	60 months	16 Sep 2021	1.75	USD300	–	1,938	1	(46)	–	1,893
Fixed rate bond (xiv)	36 months	16 Sep 2021	0.50	EUR100	–	760	–	(39)	–	721
Fixed rate bond (xv)	12 months	13 Dec 2021	3M Libor+0.55	USD60	–	382	–	–	–	382
Fixed rate bond	24 months	22 Dec 2021	0.50	EUR30	–	216	–	–	–	216
Total					46,513	18,800	44	(721)	(18,204)	46,432

Notes:

(i) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to nil as of 31 December 2021 (31 December 2020: RMB260 million).

(ii) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to nil as of 31 December 2021 (31 December 2020: RMB140 million).

(iii) Fixed rate bonds issued by CMB International Leasing Management Limited ("CMBILM"), a wholly-owned subsidiary of CMBFLC that were held by the Bank amounted to USD152 million as of 31 December 2021, equivalent to RMB967 million (31 December 2020: USD98 million, equivalent to RMB639 million). Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to USD30 million as of 31 December 2021, equivalent to RMB191 million (31 December 2020: USD30 million, equivalent to RMB196 million).

(iv) Fixed rate bonds issued by CMBILM that were held by the Bank amounted to USD43 million as of 31 December 2021, equivalent to RMB273 million (31 December 2020: USD43 million, equivalent to RMB282 million).

(v) Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to nil as of 31 December 2021 (31 December 2020: USD40 million, equivalent to RMB261 million).

(vi) Fixed rate bonds issued by CMBILM that were held by the Bank amounted to USD21 million as of 31 December 2021, equivalent to RMB132 million (31 December 2020: nil). Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to USD32 million as of 31 December 2021, equivalent to RMB204 million (31 December 2020: USD32 million, equivalent to RMB209 million).

(vii) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to USD5 million as of 31 December 2021, equivalent to RMB32 million (31 December 2020: nil).

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

Notes: *(continued)*

(viii) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to RMB500 million as of 31 December 2021(31 December 2020: RMB500 million).

(ix) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to RMB800 million as of 31 December 2021(31 December 2020: nil).

(x) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to USD24 million as of 31 December 2021, equivalent to RMB155 million (31 December 2020: nil).

(xi) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to USD53 million as of 31 December 2021, equivalent to RMB335 million (31 December 2020: nil).

(xii) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to RMB70 million (31 December 2020: nil).

(xiii) Fixed rate bonds issued by CMBILM that were held by the Bank amounted to USD30 million as of 31 December 2021, equivalent to RMB191 million (31 December 2020: nil). Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to USD8 million as of 31 December 2021, equivalent to RMB51 million (31 December 2020: nil).

(xiv) Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to EUR 10 million as of 31 December 2021, equivalent to RMB72 million (31 December 2020: nil).

(xv) Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to USD60 million as of 31 December 2021, equivalent to RMB382 million (31 December 2020: nil).

As at the end of the reporting period, long-term debt securities issued by CMBICHC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	9 Jul 2018	3.72	USD 300	1,962	–	–	(25)	(1,937)	–
Fixed rate bond (i)	36 months	2 June 2021	1.38	USD 600	–	3,874	(6)	(52)	–	3,816
Total					1,962	3,874	(6)	(77)	(1,937)	3,816

(i) Fixed rate bonds issued by CMBICHC that were held by CMB WLB amounted to USD11 million as of 31 December 2021, equivalent to RMB68 million (31 December 2020: nil).

44. Other liabilities

	2021	2020
Clearing and settlement accounts	**50,565**	22,557
Salary risk allowances (note)	**38,500**	31,200
Continuing involvement liability	**5,274**	3,128
Insurance liabilities	**2,063**	2,021
Collecting on behalf of customers	**951**	3,610
Cheques and remittances returned	**47**	127
Other payable	**42,170**	41,812
Total	**139,570**	104,455

Note: Salary risk allowances are specific funds withheld from the employees' annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence of legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances.

45. Share capital

By type of shares:

	2021 and 2020 No. of shares (in million)
Listed shares	
– A Shares	20,629
– H Shares	4,591
Total	25,220

All H Shares are ordinary shares and rank pari passu with the A Shares. There is no restriction on these shares.

	Capital	
	No. of shares (in million)	Amount
At 1 January 2021 and at 31 December 2021	**25,220**	**25,220**

46. Other equity instruments

(a) Preference Shares

	Issuance date	Accounting classification	Dividend rate	Issue price	No. (millions of shares)	Amount (RMB in million)	Due date	Conversion conditions	Con-version
Offshore Preference Shares in 2017 (note (i))	25 Oct 2017	Equity instruments	4.40%	USD20/Share	50	6,597	Perpetual existence	Note (iii)	None
Domestic Preference Shares in 2017 (note (ii))	22 Dec 2017	Equity instruments	4.81%	RMB100/Share	275	27,468	Perpetual existence	Note (iii)	None
Total					325	34,065			

(i) Pursuant to the approvals by the relevant regulatory authorities in China, the Bank issued US Dollar traded and settled non-cumulative Offshore Preference Shares in the aggregate nominal value of USD1,000 million on 25 October 2017. Each Offshore Preference Share has a nominal value of USD20 and 50 million Offshore Preference Shares were issued in total. The dividend rate is initially at 4.40% and subject to reset per agreement subsequently, but not exceeds 16.68%.

(ii) Pursuant to the approvals by the relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares in the aggregate nominal value of RMB27,500 million on 22 December 2017. Each Domestic Preference Share has a nominal value of RMB100 and 275 million Domestic Preference Shares were issued in total. The dividend rate is initially at 4.81% and subject to reset per agreement subsequently, but not exceeds 16.68%.

(iii) Both Domestic and Offshore Preference Shares have clauses that state certain events would trigger mandatory conversion, those clauses are as follows:

(1) Upon the occurrence of any additional Tier-1 Capital Instrument Trigger Event, that is, the Core Tier-1 Capital Adequacy Ratio drops to 5.125% or below, the Bank shall have the right to convert, without the consent of the holders of Preference Shares, all or part of the Preference Shares then issued and outstanding into Ordinary A Shares (Domestic Preference Shares) or Ordinary H Shares (Offshore Preference Shares) based on the total nominal value of the Preference Shares in order to restore the Core Tier-1 Capital Adequacy Ratio of the Bank to above 5.125%. In the case of partial conversion, the Preference Shares shall be converted on a pro rata basis and on identical conditions.

(2) Upon the occurrence of a Tier-2 Capital Trigger Event, the Bank shall have the right to convert, without the consent of the holders of Preference Shares, all or part of the Preference Shares then issued and outstanding into Ordinary A Shares (Domestic Preference Shares) or Ordinary H Shares (Offshore Preference Shares) based on the total nominal value of the Preference Shares. A Tier-2 Capital Trigger Event refers the earlier of the following events: 1) CBIRC having concluded that without a conversion or write-off, the Bank would become non-viable, and 2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

Upon the occurrence of the above mandatory conversion events, the Bank shall report to the CBIRC for review and determination. The Bank shall fulfill the relevant information disclosure requirements of the Securities Law, the CSRC and Hong Kong's relevant laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

Dividends on the Offshore and Domestic Preference Shares shall be paid in cash. Save for such dividend at the agreed dividend rate, the holders of the above Preference Shares are not entitled to share the remaining profits of the Bank with the ordinary shareholders. Dividend is non-cumulative. The Bank has the right to cancel any dividend on Preference Shares, and such cancellation shall not be deemed as a default. After the cancellation of all or part of the dividend to preference shareholders, the Bank shall not make any ordinary shares distribution, until the Preference Shares dividend is resumed in full. As the dividends on the Offshore and Domestic Preference Shares are non-cumulative, the Bank will not distribute the dividends that were cancelled in prior years to Preference Shares holders.

The Offshore and Domestic Preference Shares have no maturity date. However, after the fifth anniversary of the issuance date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Offshore and Domestic Preference Shares may be redeemed in whole or in part at the discretion of the Bank, but the Bank does not have the obligation to redeem preference shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that Preference Shares will be redeemed.

After deducting the issuance expenses from the Domestic Preference Shares and Offshore Preference Shares above, the total net funds raised amounted to RMB34,065 million, which has been included in additional Tier 1 capital of the Bank.

46. Other equity instruments *(continued)*

(b) Perpetual Bonds

	Issuance date	Accounting classification	Interest rate	Issue price	No. (millions of units)	Amount (RMB in million)	Due date	Conversion conditions	Conversion
Domestic Perpetual Bonds (note (i))	9 Jul 2020	Equity instruments	3.95%	RMB100/Unit	500	49,989	Perpetual existence	None	None
Domestic Perpetual Bonds (note (ii))	7 Dec 2021	Equity instruments	3.69%	RMB100/Unit	430	42,989	Perpetual existence	None	None
Total					930	92,978			

The changes of Perpetual Bonds issued were as follows:

		1 January 2021		Increase		31 December 2021	
	Issuance date	No. (millions of units)	Amount (RMB in million)	No. (millions of units)	Amount (RMB in million)	No. (millions of units)	Amount (RMB in million)
Domestic Perpetual Bonds (note (i))	9 Jul 2020	500	49,989	–	–	500	49,989
Domestic Perpetual Bonds (note (ii))	7 Dec 2021	–	–	430	42,989	430	42,989
Total		500	49,989	430	42,989	930	92,978

Note:

(i) With the approval of the relevant regulatory authorities in China, the Bank issued RMB50,000 million of 2020 China Merchants Bank Co., Ltd. Undated Additional Tier-1 Capital Bonds (Series 1) (the "Perpetual Bonds 2020") in the national inter-bank bond market on 9 July 2020. The unit face value is RMB100. The coupon rate adjusted period is every 5 years from the issuance of the Perpetual Bonds 2020. In any coupon rate adjusted period, the coupon rate of the Perpetual Bonds will remain at a prescribed fixed rate. The Perpetual Bonds 2020 will continue to be outstanding so long as the Bank continues to operate.

(ii) With the approval of the relevant regulatory authorities in China, the Bank issued RMB43,000 million of 2021 China Merchants Bank Co., Ltd. Undated Additional Tier-1 Capital Bonds (the "Perpetual Bonds 2021, together with Perpetual Bonds 2020, Perpetual Bonds") in the national inter-bank bond market on 7 December 2021. The unit face value is RMB100. The coupon rate adjusted period is every 5 years from the issuance of the Perpetual Bonds 2021. In any coupon rate adjusted period, the coupon rate of the Perpetual Bonds will remain at a prescribed fixed rate. The Perpetual Bonds 2021 will continue to be outstanding so long as the Bank continues to operate.

From the fifth anniversary since the issuance of the Perpetual Bonds, the Bank has the right to redeem in whole or in part the Perpetual Bonds on the annual interest payment date (including the interest payment date on the fifth year since the issuance date) subject to the approval of the CBIRC and the satisfaction of the redemption preconditions. If, after the issuance, the Perpetual Bonds no longer qualify as additional Tier 1 capital as a result of an unforeseeable change to relevant provisions of supervisory regulation, the Bank has the right to redeem the whole but not part of the Perpetual Bonds. The investors do not have the right to sell back the Perpetual Bonds to the Bank.

The claims in respect of the Perpetual Bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the Perpetual Bonds, and will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional Tier-1 capital instruments of the Bank that rank pari passu with the Perpetual Bonds.

The coupon rate will be reset on each benchmark rate reset date (i.e. the date of every five years from the issuance date). The adjusted coupon rate will be determined based on the benchmark interest rate at adjustment date plus the fixed spread as determined at the time of issuance. The Perpetual Bonds do not contain interest rate step-up mechanism or any other redemption incentives. The Bank has the right to cancel, in whole or in part, distributions on the Perpetual Bonds and any such cancellation will not constitute an event of default. The bond interests are non-cumulative, and any cancelled distribution is not carried to the following year. The Bank will fully consider the interests of bondholders when exercising this right. The Bank can use the cancelled bond interest for the current period at its discretion to repay other due debts. Cancellation of any distributions to the Perpetual Bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Upon the occurrence of a Non-Viability Trigger Event, the Bank has the right to write off in whole or in part, without the need for the consent of the bond holders, the principal amount of the Perpetual Bonds. A Non-Viability Trigger Event refers to the earlier of the following events: (i) the CBIRC having concluded that without a write-off, the Bank would become non-viable; (ii) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable. The write-off will not be restored.

After deducting the issuance expenses, the funds raised by the bonds have been used to supplement additional Tier 1 capital of the Bank in accordance with applicable laws and the approval of the relevant authorities.

46. Other equity instruments *(continued)*

(c) Relative Information Attributed to Equity Instrument Holders

	2021	2020
Equity attributed to shareholders of the Bank	**858,745**	723,750
– Equity attributed to ordinary shareholders of the Bank	**731,702**	639,696
– Equity attributed to other equity instrument holders of the Bank	**127,043**	84,054
Including: Net profit	**3,613**	1,651
Total comprehensive income	**3,613**	1,651
Distributions in current year	**(3,613)**	(1,651)
Cumulative undistributed dividends	**–**	–
Equity attributed to non-controlling interests	**6,936**	6,604
– Equity attributed to non-controlling holders of ordinary shares	**3,300**	2,851
– Equity attributed to non-controlling holders of perpetual debt capital (Note 62)	**3,636**	3,753

47. Capital reserve

Capital reserve primarily represents share premium of the Bank and can be converted into share capital with the shareholders' approval.

	2021	2020
At 1 January and 31 December	**67,523**	67,523

48. Investment revaluation reserve

	2021	2020
Debt instruments measured at FVTOCI: investment revaluation reserve	**11,459**	4,281
Fair value gain on equity instruments designated at FVTOCI	**2,578**	3,064
Remeasurement of defined benefit scheme	**88**	73
Share of other comprehensive income of equity-accounted investees	**922**	789
Total	**15,047**	8,207

49. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges. Subsequent recognition of the hedged cash flow is accounted for in accordance with the accounting policy adopted for cash flow hedge in Note 4(5).

50. Surplus reserve

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") and is provided at 10% of the audited profit after tax of the Bank. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

	2021	2020
At 1 January	**71,158**	62,291
Provided for the year	**10,979**	8,867
At 31 December	**82,137**	71,158

51. General reserve

According to the relevant regulations of the Ministry of Finance, in addition to the impairment allowances, the Bank maintains a general reserve according to a certain proportion of the balance of risk assets to make up for unidentified potential losses. The general reserve is treated as profit distribution and is an integral part of equity. In principle, the balance of general reserve shall not be less than 1.5% of the ending balance of risk assets. The general reserve of the Group also includes the general reserve maintained by the subsidiaries of the Group according to the applicable laws and regulations of their industry or region. The Bank and the Group's subsidiaries have maintained general reserves in accordance with the regulatory requirements as of 31 December 2021 and 2020.

	2021	2020
At 1 January	**98,082**	90,151
Provided for the year	**17,206**	7,931
At 31 December	**115,288**	98,082

52. Profit appropriations

(a) Dividends approved/declared by shareholders

	2021	2020
Ordinary share dividends in 2020, approved and declared: RMB1.253 per share	**31,601**	–
Ordinary share dividends in 2019, approved and declared: RMB1.20 per share	–	30,264

(b) Proposed profit appropriations

	2021	2020
Statutory surplus reserve	**10,979**	8,867
General reserve	**17,206**	7,931
Dividends		
– cash dividend: RMB1.522 per shares (2020: RMB1.253 per shares)	**38,385**	31,601
Total	**66,570**	48,399

2021 final dividends is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 18 March 2022 and will be submitted to the 2021 annual general meeting for approval.

53. Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

54. The bank's statement of financial position and changes in the bank's equity

	2021	2020
Assets		
Cash	12,794	12,547
Precious metals	4,554	7,873
Balances with central banks	543,652	508,385
Balances with banks and other financial institutions	41,632	73,318
Placements with banks and other financial institutions	188,376	217,325
Amounts held under resale agreements	523,516	282,240
Loans and advances to customers	5,023,050	4,510,864
Financial assets at fair value through profit or loss	290,941	451,978
Derivative financial assets	23,179	46,526
Debt investments at amortised cost	1,183,662	1,047,040
Debt investments at fair value through other comprehensive income	552,498	449,428
Equity investments designated at fair value through other comprehensive income	6,392	6,693
Investments in subsidiaries	49,495	49,495
Interests in joint ventures	12,582	7,630
Interests in associates	5,521	–
Investment properties	945	1,057
Property and equipment	26,833	26,300
Right-of-use assets	17,701	18,200
Intangible assets	3,228	3,961
Deferred tax assets	79,712	71,043
Other assets	109,871	74,233
Total assets	8,700,134	7,866,136
Liabilities		
Borrowing from central banks	159,987	331,622
Deposits from banks and other financial institutions	732,631	699,161
Placements from banks and other financial institutions	55,710	59,494
Financial liabilities at fair value through profit or loss	36,105	36,600
Derivative financial liabilities	26,866	49,624
Amounts sold under repurchase agreements	137,857	126,673
Deposits from customers	6,150,241	5,443,144
Salaries and welfare payable	15,853	12,194
Tax payable	20,926	17,205
Contract liabilities	7,536	6,829
Lease liabilities	13,164	13,468
Provisions	14,503	8,201
Debt securities issued	398,672	291,246
Other liabilities	119,395	86,218
Total liabilities	7,889,446	7,181,679
Equity		
Share capital	25,220	25,220
Other equity instruments	127,043	84,054
Capital reserve	76,681	76,681
Investment revaluation reserve	14,866	7,951
Hedging reserve	–	(26)
Surplus reserve	82,137	71,158
General reserve	105,941	94,067
Retained earnings	340,271	293,523
Proposed profit appropriations	38,385	31,601
Exchange reserve	144	228
Total equity	810,688	684,457
Total equity and liabilities	8,700,134	7,866,136

54. The bank's statement of financial position and changes in the bank's equity *(continued)*

Details of the changes in the Bank's equity are as follows:

	Share capital	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Total
At 1 January 2021	25,220	34,065	49,989	76,681	7,951	(26)	71,158	94,067	293,523	31,601	228	684,457
Changes in equity for the year	–	–	42,989	–	6,915	26	10,979	11,874	46,748	6,784	(84)	126,231
Net profit for the year	–	–	–	–	–	–	–	–	109,794	–	–	109,794
Other comprehensive income for the year	–	–	–	–	8,720	26	–	–	–	–	(84)	8,662
Total comprehensive income for the year	–	–	–	–	8,720	26	–	–	109,794	–	(84)	118,456
Issue of perpetual bonds	–	–	42,989	–	–	–	–	–	–	–	–	42,989
Profit appropriations	–	–	–	–	–	–	10,979	11,874	(64,851)	6,784	–	(35,214)
Appropriation to statutory surplus reserve	–	–	–	–	–	–	10,979	–	(10,979)	–	–	–
Appropriation to general reserve	–	–	–	–	–	–	–	11,874	(11,874)	–	–	–
Dividends paid for the year 2020	–	–	–	–	–	–	–	–	–	(31,601)	–	(31,601)
Proposed dividends for the year 2021	–	–	–	–	–	–	–	–	(38,385)	38,385	–	–
Dividends paid for preference shares	–	–	–	–	–	–	–	–	(1,638)	–	–	(1,638)
Distribution to perpetual bonds	–	–	–	–	–	–	–	–	(1,975)	–	–	(1,975)
Transfers within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	(1,805)	–	–	–	1,805	–	–	–
At 31 December 2021	25,220	34,065	92,978	76,681	14,866	–	82,137	105,941	340,271	38,385	144	810,688

54. The bank's statement of financial position and changes in the bank's equity *(continued)*

	Share capital	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Total
At 1 January 2020	25,220	34,065	–	76,681	8,676	(26)	62,291	85,820	255,155	30,264	206	578,352
Changes in equity for the year	–	–	49,989	–	(725)	–	8,867	8,247	38,368	1,337	22	106,105
Net profit for the year	–	–	–	–	–	–	–	–	88,674	–	–	88,674
Other comprehensive income for the year	–	–	–	–	(665)	–	–	–	–	–	22	(643)
Total comprehensive income for the year	–	–	–	–	(665)	–	–	–	88,674	–	22	88,031
Issue of perpetual bonds	–	–	49,989	–	–	–	–	–	–	–	–	49,989
Profit appropriations	–	–	–	–	–	–	8,867	8,247	(50,366)	1,337	–	(31,915)
Appropriation to statutory surplus reserve	–	–	–	–	–	–	8,867	–	(8,867)	–	–	–
Appropriation to general reserve	–	–	–	–	–	–	–	8,247	(8,247)	–	–	–
Dividends paid for the year 2019	–	–	–	–	–	–	–	–	–	(30,264)	–	(30,264)
Proposed dividends for the year 2020	–	–	–	–	–	–	–	–	(31,601)	31,601	–	–
Dividends paid for preference shares	–	–	–	–	–	–	–	–	(1,651)	–	–	(1,651)
Transfers within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	(60)	–	–	–	60	–	–	–
At 31 December 2020	25,220	34,065	49,989	76,681	7,951	(26)	71,158	94,067	293,523	31,601	228	684,457

55. Notes to consolidated cash flow statement

(a) Analysis of the balances of cash and cash equivalents (including assets with original maturity within 3 months):

	2021	2020
Cash and Balances with central banks	**79,129**	37,496
Balance with banks and other financial institutions	**75,919**	83,688
Placements with banks and other financial institutions	**65,897**	111,706
Amounts held under resale agreements	**527,341**	282,867
Debt securities investments	**53,468**	37,033
Total	**801,754**	552,790

55. Notes to consolidated cash flow statement *(continued)*

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were classified in the Group's consolidated cash flows statement as cash flows from financing activities.

	Negotiable interbank certificates of deposit	Certificates of deposit issued (Note)	Debt securities issued (Note)	Interest payable	Dividend payable	Other financial liabilities	Lease liabilities	Total
At 1 January 2021	144,816	19,084	194,775	1,985	26	23,047	14,242	397,975
Cash changes:								
Proceeds from the issue	319,707	14,692	63,872	–	–	6,860	–	405,131
Repayment	(226,012)	(21,363)	(55,771)	–	–	(3,697)	(4,835)	(311,678)
Interest/dividend paid	(3,768)	–	–	(7,630)	(35,685)	–	–	(47,083)
Non-cash changes:								
Additions of lease liabilities	–	–	–	–	–	–	3,850	3,850
Accrued interest	–	–	–	7,749	–	–	555	8,304
Dividend declared	–	–	–	–	35,685	–	–	35,685
Discount or premium amortisation	5,541	(811)	53	–	–	–	–	4,783
Fair value adjustments	–	(15)	(257)	–	–	656	–	384
Exchange difference	–	(495)	(1,530)	–	–	(216)	–	(2,241)
At 31 December 2021	240,284	11,092	201,142	2,104	26	26,650	13,812	495,110

	Negotiable interbank certificates of deposit	Certificates of deposit issued (Note)	Debt securities issued (Note)	Interest payable	Dividend payable	Other financial liabilities	Lease liabilities	Total
At 1 January 2020	349,284	26,774	209,271	2,829	26	9,325	14,379	611,888
Cash changes:								
Proceeds from the issue	213,011	22,592	33,606	–	–	14,417	–	283,626
Repayment	(413,820)	(28,992)	(45,486)	–	–	(867)	(4,644)	(493,809)
Interest/dividend paid	(10,670)	–	–	(8,820)	(32,321)	–	–	(51,811)
Non-cash changes:								
Additions of lease liabilities	–	–	–	–	–	–	3,911	3,911
Accrued interest	–	–	–	7,976	–	–	596	8,572
Dividend declared	–	–	–	–	32,321	–	–	32,321
Discount or premium amortisation	7,042	(88)	(278)	–	–	–	–	6,676
Fair value adjustments	–	43	179	–	–	262	–	484
Exchange difference	(31)	(1,245)	(2,517)	–	–	(90)	–	(3,883)
At 31 December 2020	144,816	19,084	194,775	1,985	26	23,047	14,242	397,975

Note： Including financial liabilities designated at fair value through profit or loss.

(c) Significant non-cash transactions

There were no significant non-cash transactions during the years ended 31 December 2021 and 2020.

56. Operating segments

The Group's principal activities are providing corporate and personal banking services, conducting treasury business, providing asset management and other financial services.

The Group manages its businesses by divisions, which are organised by both business lines and geography.

(1) Wholesale finance business

The financial services for corporate clients, government agencies, and financial institutions include: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business such as placement and repurchase, asset custody business, financial market business, and other services.

(2) Retail finance business

The financial services provided to retail customers include: loan and deposit service, bank card service, wealth management services, private banking and other services.

(3) Other Business

Other business includes: property leasing and businesses operated by subsidiaries other than CMB WLB, associates and joint ventures. None of these segments meet any of the quantitative thresholds so far for segment division.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking services provided to external parties. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and apportion according to the relevant factors.

The accounting policies of the operating segments are the same as the Group's accounting policies as stated in Note 4. Operating segment income represents income generated from external customers, inter-segment transactions are offset. No customer contributed 10% or more to the Group's revenue for 2021 and 2020. Internal transactions are conducted at fair value.

56. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale finance business		Retail finance business		Other business		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
External net interest income	**18,923**	16,828	**135,412**	124,362	**49,584**	43,841	**203,919**	185,031
Internal net interest income/(expense)	**69,222**	65,461	**(18,571)**	(21,019)	**(50,651)**	(44,442)	**–**	–
Net interest income	**88,145**	82,289	**116,841**	103,343	**(1,067)**	(601)	**203,919**	185,031
Net fee and commission income	**24,807**	24,017	**60,155**	51,426	**9,485**	4,043	**94,447**	79,486
Other net income	**20,943**	15,723	**2,018**	1,519	**6,050**	5,639	**29,011**	22,881
Operating income	**133,895**	122,029	**179,014**	156,288	**14,468**	9,081	**327,377**	287,398
Operating expenses								
– Property, equipment and investment properties depreciation	**(1,917)**	(1,722)	**(2,860)**	(2,653)	**(4,080)**	(3,340)	**(8,857)**	(7,715)
– Right-of-use assets depreciation	**(1,672)**	(1,722)	**(2,367)**	(2,484)	**(220)**	(210)	**(4,259)**	(4,416)
– Other	**(40,772)**	(34,831)	**(56,451)**	(50,677)	**(6,540)**	(5,175)	**(103,763)**	(90,683)
Reportable segment profit before impairment losses	**89,534**	83,754	**117,336**	100,474	**3,628**	356	**210,498**	184,584
Expected credit losses and impairment losses on other assets	**(25,946)**	(28,317)	**(39,627)**	(36,640)	**(782)**	(68)	**(66,355)**	(65,025)
Share of profits of associates and joint ventures	**–**	–	**–**	–	**4,030**	2,881	**4,030**	2,881
Reportable segment profit before taxation	**63,588**	55,437	**77,709**	63,834	**6,876**	3,169	**148,173**	122,440
Capital expenditure (note(i))	**2,278**	2,550	**3,278**	3,738	**18,206**	10,835	**23,762**	17,123

	Wholesale finance business		Retail finance business		Other business		Total	
	31 December 2021	31 December 2020	**31 December 2021**	31 December 2020	**31 December 2021**	31 December 2020	**31 December 2021**	31 December 2020
Reportable segment assets	**4,954,212**	4,489,868	**2,908,405**	2,617,109	**1,286,507**	1,163,007	**9,149,124**	8,269,984
Of which: Interest in associates and joint ventures	**–**	–	**–**	–	**23,654**	14,922	**23,654**	14,922
Reportable segment liabilities	**4,980,618**	4,477,918	**2,329,192**	2,075,680	**972,858**	994,548	**8,282,668**	7,548,146

Note:

(i) Capital expenditure represents the amount incurred for acquiring long-term segment assets.

56. Operating segments *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets, liabilities and other material items

	2021	2020
Operating income for reportable segments	327,377	287,398
Total profit before income tax for reportable segments	148,173	122,440

	31 December 2021	31 December 2020
Assets		
Total assets for reportable segments	9,149,124	8,269,984
Goodwill	9,954	9,954
Intangible assets	571	629
Deferred tax assets	81,639	72,893
Other unallocated assets	7,733	7,988
Consolidated total assets	9,249,021	8,361,448
Liabilities		
Total liabilities for reportable segments	8,282,668	7,548,146
Tax payable	22,491	18,648
Deferred tax liabilities	1,353	1,073
Other unallocated liabilities	76,828	63,227
Consolidated total liabilities	8,383,340	7,631,094

56. Operating segments *(continued)*

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government in Mainland China. The Group also has branches operating in Hong Kong, New York, Singapore, London, Sydney and Luxembourg, subsidiaries operating in Hong Kong, Shenzhen, Shanghai, Beijing and Luxembourg and representative offices in Beijing, New York and Taipei.

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 revenue. Segment assets and non-current assets are allocated based on the geographical location of the underlying assets.

To support the Bank's operations and management's assessments, the geographical segments are defined as follows:

- "Headquarter" refers to the Group headquarter and credit card centres;
- "Yangtze River Delta region" refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;
- "Bohai Rim region" refers to branches and representative offices in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;
- "Pearl River Delta and West Coast region" refers to branches in Guangdong province and Fujian province;
- "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;
- "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;
- "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;
- "Overseas" refers to overseas branches in Hong Kong, New York, Singapore, Luxembourg, London, Sydney and representative offices in New York and Taipei; and
- "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including CMB WLB, CMBICHC, CMBFLC, CMFM, CMBWM, CMB Europe S.A. and CIGNA & CMAM, etc.

	Total assets		Total liabilities		Non-current assets		Profit before tax		Operating income	
Geographical information	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020	2021	2020	2021	2020
Headquarter	**4,155,509**	3,779,914	**3,492,876**	3,249,998	**51,220**	40,757	**42,939**	19,611	**145,403**	124,809
Yangtze River Delta region	**1,199,329**	1,045,508	**1,177,342**	1,026,332	**6,198**	6,149	**24,092**	24,297	**41,451**	35,897
Bohai Rim region	**725,595**	640,583	**711,389**	625,403	**4,319**	4,525	**17,971**	19,829	**31,286**	28,261
Pearl River Delta and West Coast region	**997,986**	896,144	**979,018**	871,249	**4,432**	4,263	**22,252**	21,606	**35,379**	32,588
Northeast region	**169,282**	165,961	**166,933**	164,666	**1,617**	1,790	**2,919**	1,854	**6,108**	5,785
Central region	**567,191**	513,998	**559,499**	504,742	**3,958**	4,132	**9,744**	12,227	**19,448**	18,040
Western region	**590,272**	517,523	**580,623**	508,471	**3,877**	4,150	**12,191**	11,611	**20,192**	18,321
Overseas	**210,633**	220,214	**208,569**	215,032	**861**	1,053	**1,575**	1,650	**2,632**	2,830
Subsidiaries	**633,224**	581,603	**507,091**	465,201	**61,382**	53,017	**14,490**	9,755	**25,478**	20,867
Total	**9,249,021**	8,361,448	**8,383,340**	7,631,094	**137,864**	119,836	**148,173**	122,440	**327,377**	287,398

Note: Non-current assets include interests in joint ventures, interests in associates, property and equipment, investment properties, right-of-use assets, intangible assets and goodwill.

57. Assets pledged as security

The following assets have been pledged as collateral for borrowing from central banks and liabilities under repurchase or placement arrangements:

	2021	2020
Borrowing from central banks	**159,357**	329,611
Placements from Banks and other financial institutions	**7,517**	7,080
Amounts sold under repurchase agreements	**157,572**	142,881
Subtotal	**324,446**	479,572
Assets pledged		
– Financial assets at fair value through profit or loss	**29,241**	11,291
– Debt investments at amortised cost	**195,166**	345,302
– Debt investments at fair value through other comprehensive income	**34,441**	35,787
– Loans and advances to customers	**81,357**	120,238
Total	**340,205**	512,618

The transactions under repurchase or placement agreements are conducted under terms that are usual and customary to standard borrowing and placing activities.

58. Contingent liabilities and commitments

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum potential loss that would be recognised at the end of the reporting period if counterparties default.

	2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Irrevocable guarantees	197,208	7,353	254	204,815
Of which: Financial guarantees	52,198	6,337	3	58,538
Non-financing letters of guarantees	145,010	1,016	251	146,277
Irrevocable letters of credit	162,320	1,711	188	164,219
Bills of acceptances	339,155	5,684	790	345,629
Irrevocable loan commitments	141,727	4,896	2	146,625
– with an original maturity within 1 year (inclusive)	26,611	–	2	26,613
– with an original maturity over 1 year	115,116	4,896	–	120,012
Credit card unused commitments	1,231,831	7,903	122	1,239,856
Other	126,995	1,555	–	128,550
Total	2,199,236	29,102	1,356	2,229,694

58. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Irrevocable guarantees	212,580	508	265	213,353
Of which: Financial guarantees	95,914	399	3	96,316
Non-financing letters of guarantees	116,666	109	262	117,037
Irrevocable letters of credit	120,748	241	3	120,992
Bills of acceptances	265,213	1,671	292	267,176
Irrevocable loan commitments	209,483	3,132	45	212,660
– with an original maturity within 1 year (inclusive)	120,671	198	45	120,914
– with an original maturity over 1 year	88,812	2,934	–	91,746
Credit card unused commitments	1,128,152	6,468	113	1,134,733
Other	100,419	–	–	100,419
Total	2,036,595	12,020	718	2,049,333

As at 31 December 2021, the Group's irrevocable letters of credit included sight letters of credit of RMB16,974 million (31 December 2020: RMB12,965 million), usance letters of credit of RMB9,552 million (31 December 2020: RMB6,516 million), and other commitments of RMB137,693 million (31 December 2020: RMB101,511 million).

Irrevocable loan commitments include credit limits granted to offshore customers by overseas branches, subsidiaries and onshore and offshore syndicated loans etc.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB4,441,835 million at 31 December 2021 (31 December 2020: RMB3,606,998 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective lending agreements. The Group will not assume any risks on the unused credit limits for these loan customers. As a result, such balances are not included in the above contingent liabilities and commitments.

	2021	2020
Credit risk weighted amounts of contingent liabilities and commitments	**593,062**	470,782

The Group calculated the credit risk weighted amount of its contingent liabilities and commitments in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Provisional) issued by the CBIRC. The amount within the scope approved by the CBIRC in April 2014 is calculated using the Internal Ratings-Based Approach, and the Weighted Approach is used to calculate those that are not eligible for the Internal Ratings-Based Approach.

58. Contingent liabilities and commitments *(continued)*

(b) Capital commitments

The authorised capital commitments of the Group were as follows:

	2021	2020
– Contracted for	**480**	507
– Authorised but not contracted for	**234**	294
Total	**714**	801

The lease commitments of the Group as a lessor are detailed in note 58 (e).

(c) Outstanding litigations

At 31 December 2021, the Bank or other group entities was a defendant in certain outstanding litigations with total gross claims of RMB1,678 million (2020: RMB573 million). The Group considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made in the consolidated financial statements.

(d) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to make advances to bond holders if 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 nominal 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 requirements set by the MOF or the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	2021	2020
Redemption obligations	**30,020**	27,095

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

(e) Lease commitments

Operating lease commitments and financial lease commitments where the Group is a lessor at the end of the reporting period are as follows:

	2021	2020
Operating lease commitments	**13,750**	10,419
Financial lease commitments	**7,421**	1,884
Total	**21,171**	12,303

59. Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances through the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Entrusted lending are not assets of the Group and are not recognised in the consolidated statement of financial position. Income received and receivable for providing these services are recognised in the consolidated statement of profit or loss as fee and commission income.

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	2021	2020
Entrusted loans	**263,589**	264,107
Entrusted funds	**(263,589)**	(264,107)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers by the Bank and CMBWM. The funds obtained from wealth management services are invested in investment products, including government bonds, policy bank bonds, short term corporate debt instruments and trust loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of custody, sales and management services.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. The funds received from customer for wealth management business that yet to be invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	2021	2020
Funds received from customers under wealth management services	**2,683,636**	2,386,085

Note: Funds received from customers under wealth management services are the funds received from customers under unconsolidated non-principal-guaranteed wealth management services.

(c) Entrusted management of insurance funds

The entrusted management of insurance funds mainly refers to the business that the Group carries out investment activities on funds entrusted by insurance companies according to the regulatory policies and the investment guidelines from insurance companies, and charges fees for providing such services.

At the end of the reporting period, the balance of entrusted funds was as follows:

	2021	2020
Entrusted management of insurance funds	**86,098**	–

60. Risk management

(a) Credit risk

Credit risk represents the potential losses that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic factors, which may eventually affect their repayment abilities.

The Group designs its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the board of directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate financial business, the Group formulates credit policy guidelines, enhances the standards on credit acceptance and management requirements for corporate, interbank and institutional clients, and implements limits in key risk areas to improve the quality of credit exposure.

With respect to credit risk management of retail financial business, the Group mainly relies on the credit assessment of applicants as the basis for loan approval, which takes into consideration the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or risks migrating measures. Collateral portfolio and legal covenants are reviewed regularly to ensure that they remain sufficient for the given risks and be consistent with market practices.

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss).

The risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers carry out the same business activities, locate in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic factors. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated a limit management policy to monitor and analyse its loan portfolio.

Analysis of loans and advances by industry and loan portfolio are presented in Note 22.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Internal credit risk rating

The Group classifies credit risk based on probability of default. The internal credit risk rating is based on the forecasted default risk, taking into consideration qualitative and quantitative factors. For customers of wholesale business, such factors include net profit growth rate, sales growth rate, industry, etc. For customers of retail business, such factors include maturity, ageing, collateral ratio, etc.

(ii) Significant increase in credit risk

As describe in Note 4(5), the Group recognises lifetime ECL if there are significant increases in credit risk.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument and other items at the reporting date with that at the date of initial recognition. In making this assessment, the Group considers an actual or expected significant deterioration in the financial instrument's internal credit risk rating (Note 60(a)(i)), as well as internal early warning signal, the result of loan classification and overdue information. The Group regularly reviews whether the evaluation criteria are applicable to the current situation. During the reporting period, the Group further deepened the application of the early warning signal and improved the ability of the model to distinguish risks.

For wholesale business, credit risk is considered as significantly increased if any of the following conditions is met: the loan classification is special-mentioned; more than 30 days (inclusive) overdue; the internal credit risk rating of the customer has been downgraded to certain level; the early warning signal of the customer has reached a certain level; or the customer has other significant risk signals identified by the Group.

For retail and credit card business, credit risk is considered as significantly increased if any of the following conditions is met: the loan classification is special-mentioned; more than 30 days (inclusive) overdue; the customer or the debt has credit risk early warning signal; or the customer has other significant risk signals identified by the Group.

The Group has made deferred repayment and interest payment arrangements for some debtors affected by the COVID-19. However, the deferred repayment and interest payment arrangements will not directly lead to the conclusion that the debtors' credit risk has increased significantly. Instead, the Group will make a comprehensive judgement based on the risk indicators.

A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capability to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may not necessarily reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For loan commitment and financial guarantee, the date when the commitment becomes irrevocable is considered as the initial recognition date.

The Group considers that a debt instrument is impaired when its loan classification is substandard, doubtful or loss (debt instruments with more than 90 days overdue are included in these 3 categories).

(iii) Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD): is an estimate of the likelihood of default over 12 months or lifetime horizon;
- loss given default (LGD): is the proportion of the loss arising on default to the exposure at default;
- exposure at default (EAD): is the risk exposure on a debt.

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect forward-looking information.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(iv) Incorporation of forward-looking information

The Group divides financial assets into different asset groups based on their different risk characteristics. According to the risk characteristics of the asset group, the Group collects external data released by authoritative institutions and internal risk data without undue cost or effort for modelling. During the reporting period, in addition to the common economic indicators such as Gross Domestic Product ("GDP"), Consumer Price Index ("CPI"), Producer Price Index ("PPI") and Broad Money Supply ("M2"), the Group expands its macroeconomic index database by including various categories of indicators such as industry index, interest and exchange rate, and survey index. Based on statistical analysis and expert judgements, the Group sets up multiple forward-looking scenarios to predict macroeconomic indicators and risk parameters. The Group will firstly refer to the forecasts issued by external authoritative institutions as the forecasts of economic indicators under the baseline scenario. If there is no external forecasts, the Group will refer to the forecasts issued by the professionals of the Bank and the outputs of the models. For the forecasts of economic indicators under the remaining scenarios, the Group will refer to the actual historical data for analysis and forecast. Taking GDP (year-on-year growth rate) and CPI (month-on-month increase) as an example, the forecasts adopted by the Group for 2022 under the baseline scenario are 5.34% (2021: 8.84%) and 2.43% (2021: 2.11%) respectively.

Combined with quantitative measurement and expert judgement, the Group sets the weighting of multiple scenarios based on the principle of taking the baseline scenario as the main and the other scenarios as supplement. The weight of the baseline scenario of the Group as at 31 December 2021 is the highest. According to the sensitivity test results of the Group, when the weighting of the optimistic scenario increases by 10% and the weighting of the baseline scenario decreases by 10%, the ECL amount at 31 December 2021 will decrease by approximately 3.4% compared to the current result (at 31 December 2020: will decrease by approximately 1%). When the weighting of the pessimistic scenario increases by 10% and the weighting of the baseline scenario decreases by 10%, the ECL amount at 31 December 2021 will increase by approximately 1.5% compared to the current result (at 31 December 2020: will increase by approximately 2.5%).

The Group periodically forecasts macroeconomic indicators, and calculates the ECL based on a weighted 12-month expected credit loss (stage 1) or a weighted lifetime expected credit loss (stage 2 and stage 3).

As the COVID-19 is still evolving, the Group's expected credit loss model as at 31 December 2021 fully reflected the impact of the COVID-19 on the macroeconomic environment through continuous updating of internal and external data, model optimisation and other measures.

(v) Groupings based on shared risk characteristics

The Group divides the primary business into wholesale business, retail business and credit card business. The models are divided based on shared risk characteristics, and the reference indicators include the loan classification, business type and collateral type.

(vi) Maximum exposure

The Group's maximum exposure to credit risk without taking into account of any collateral held or other credit enhancements is the carrying amount of the relevant financial assets (including derivatives) as disclosed in the consolidated statement of financial position and the contract amount of the irrevocable credit commitments disclosed in Note 58(a). At 31 December 2021, the amount of the Group's maximum credit risk exposure was RMB11,235,033 million (31 December 2020: RMB10,192,927 million).

(vii) Renegotiated loans and advances to customers

The carrying amount of loans and advances that were credit impaired and the terms had been renegotiated was RMB16,517 million as at 31 December 2021 (31 December 2020: RMB24,878 million).

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(viii) Credit quality of debt investments

At the end of the reporting period, the analysis of the credit quality of debt investments by designated external credit assessment institution, Standard & Poor's, is as follows:

	2021	2020
Impaired gross amount of debt investments	**340**	710
Impairment allowances	**(228)**	(428)
Subtotal	**112**	282
Neither overdue nor impaired		
AAA	**1,345,363**	823,893
AA+ to AA-	**29,468**	242,828
A+ to A-	**422,427**	398,206
Lower than A-	**28,415**	83,314
Unrated	**57,994**	50,525
Impairment allowances	**(10,935)**	(7,047)
Subtotal	**1,872,732**	1,591,719
Total	**1,872,844**	1,592,001

Note 1: Bonds issued by the governments and policy banks held by the Group amounted to RMB1,596,105 million as at 31 December 2021 (31 December 2020: RMB1,290,843 million).

Note 2: The impairment allowances above is for debt investments at amortised cost only.

(ix) Collateral

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	2021	2020
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	**4,124**	7,358

(x) Movements of loans and advances and debt investments measured at amortised cost

Loans and advances measured at amortised cost:

	2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Balance as at the beginning of the year	4,517,239	76,286	53,615	4,647,140
Net changes for the year	468,264	(4,154)	(1,093)	463,017
Transfer to				
– Stage 1	20,436	(20,293)	(143)	–
– Stage 2	(69,411)	69,966	(555)	–
– Stage 3	(23,692)	(10,451)	34,143	–
Write-offs	–	–	(35,105)	(35,105)
Balance as at the end of the year	4,912,836	111,354	50,862	5,075,052

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(x) Movements of loans and advances and debt investments measured at amortised cost *(continued)*

Loans and advances measured at amortised cost: *(continued)*

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Balance as at the beginning of the year	4,088,065	80,141	52,565	4,220,771
Net changes for the year	471,854	(8,929)	7,178	470,103
Transfer to				
– Stage 1	10,882	(10,782)	(100)	–
– Stage 2	(31,708)	32,735	(1,027)	–
– Stage 3	(21,854)	(16,879)	38,733	–
Write-offs	–	–	(43,734)	(43,734)
Balance as at the end of the year	4,517,239	76,286	53,615	4,647,140

Debt investments at amortised cost:

	2021			
	–Stage 1 (12-month ECL)	**–Stage 2 (Lifetime ECL-not credit-impaired)**	**–Stage 3 (Lifetime ECL-credit-impaired)**	**Total**
Balance as at the beginning of the year	**1,044,826**	**971**	**14,590**	**1,060,387**
Net changes for the year	**140,141**	**(656)**	**9,487**	**148,972**
Transfer to				
– Stage 1	**–**	**–**	**–**	**–**
– Stage 2	**(1,647)**	**1,647**	**–**	**–**
– Stage 3	**–**	**–**	**–**	**–**
Write-offs	**–**	**–**	**–**	**–**
Balance as at the end of the year	**1,183,320**	**1,962**	**24,077**	**1,209,359**

	2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit-impaired)	Total
Balance as at the beginning of the year	916,206	580	4,681	921,467
Net changes for the year	129,902	(29)	10,869	140,742
Transfer to				
– Stage 1	–	–	–	–
– Stage 2	(420)	420	–	–
– Stage 3	(862)	–	862	–
Write-offs	–	–	(1,822)	(1,822)
Balance as at the end of the year	1,044,826	971	14,590	1,060,387

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(xi) Credit quality of financial instruments

The staging analysis for loans and advances to customers and debt investments at amortised cost are disclosed in note 22, note 23(b) and 60(a)(x)respectively. The staging analysis for credit commitments and the expected credit loss allowances of financial guarantees and loan commitments are disclosed in note 58(a) and 42 respectively. The staging analysis for other financial instruments is as follows:

	2021							
	Principal				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit-impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit-impaired)	Total
Balances with central banks	553,655	–	–	553,655	–	–	–	–
Balances with banks and other financial institutions	80,653	–	11	80,664	(367)	–	(11)	(378)
Placements with banks and other financial institutions	196,245	106	–	196,351	(2,859)	(1)	–	(2,860)
Amounts held under resale agreements	528,424	–	140	528,564	(4,123)	–	(140)	(4,263)
Debt investments at FVTOCI	626,007	2,236	112	628,355	(4,700)	(875)	(1,047)	(6,622)

	2020							
	Principal				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit-impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL-not credit-impaired)	Stage 3 (Lifetime ECL-credit-impaired)	Total
Balances with central banks	525,118	–	–	525,118	–	–	–	–
Balances with banks and other financial institutions	103,437	–	11	103,448	(266)	–	(11)	(277)
Placements with banks and other financial institutions	225,411	1,105	–	226,516	(345)	(31)	–	(376)
Amounts held under resale agreements	286,739	–	140	286,879	(603)	–	(140)	(743)
Debt investments at FVTOCI	510,011	14	282	510,307	(2,915)	–	(1,099)	(4,014)

Note: The balances disclosed above do not include interest receivable.

60. Risk management *(continued)*

(b) Market risk

Market risk refers to the risk of loss due to changes in observable market factors such as interest rates, exchange rates, commodity prices and stock prices, resulting in changes in the fair value or future cash flows of the Group's financial instruments. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments and positions under the trading book are held for trading purposes or for the purposes of hedging the risks arising from the trading book position, and these financial instruments can be traded without any restriction. The financial instruments under the banking book are assets and liabilities held by the Group for determinable return with relative stable market value or for the purposes of hedging the risks, which include both the Group's on-balance sheet and off-balance sheet exposure.

(i) Foreign exchange risk

Foreign exchange risk arises from the holding of foreign currency assets, liabilities and equity items, and the foreign currency and foreign currency derivative positions, which expose the Group to potential losses in the event of unfavourable foreign exchange rate movement. The financial assets and liabilities of the Group are denominated in RMB, and the other currencies are mainly in USD and HKD. The Group segregates the policy setting, execution and supervision of foreign exchange risk management, and establishes a foreign currency risk management governance structure. This structure specifies the roles, responsibilities and reporting lines of the board of directors, the board of supervisors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group is prudent in its foreign exchange risk appetite, and would not voluntarily take foreign exchange risk, which suits the current development stage of the Group. The current foreign exchange risk management policies and procedures of the Group meet the regulatory requirements and the requirements of the Group.

(1) Trading book

The Group has established a market risk structure and system of the trading book, which covers exchange rate risk, to quantify the exchange rate risk of the trading book to facilitate centralised management. The structure, process and method of exchange rate risk management of trading book are consistent with that of the interest rate risk management of trading book.

The Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, covers interest rate, foreign exchange rate, and commodity risk factors), exchange rate scenario stress test loss index, exchange rate sensitivity index, and cumulative loss index in its management of foreign exchange risk. The management methods include delegation, setting limits, daily monitoring and continuous reporting, etc.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book

The Group's foreign exchange risk under the banking book is centrally managed by the Head Office. The Asset and Liability Management Department, as the treasurer of the Bank is in charge of the banking book foreign exchange risk management. The Internal Audit Department is responsible for auditing this. The treasurer is responsible for managing the foreign exchange risk under the banking book with a prudent approach and compliance with the regulatory requirements, and through approaches such as transaction limits and adjustment of plans.

The banking book foreign exchange risk of the Group arises from the mismatch of the non-RMB financial assets and liabilities. The Group stringently monitors its foreign exchange risk exposures to control it within an acceptable range.

The Group has adopted foreign exchange exposure analysis, scenario simulation analysis and stress testing for the measurement and analysis of foreign exchange risk. The Group regularly measures and analyses the foreign exchange risk exposure fluctuations, monitors and reports foreign exchange risk on a monthly basis under the limit control framework, and adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to mitigate the foreign exchange risk on its banking book.

The Group continues to strengthen banking book exchange rate risk monitoring and authorisation management of limits to ensure that risks are controlled within a reasonable range.

(3) Assets and liabilities by original currency are shown as follows:

	2021						
	Equivalent in RMB					Main original currency	
	RMB	USD	HKD	Other	Total	USD	HKD
Assets							
Cash and balances with central banks	487,777	57,919	18,482	2,787	566,965	9,089	22,611
Amounts due from banks and other financial institutions	668,673	108,887	12,162	8,356	798,078	17,085	14,879
Loans and advances to customers	4,992,946	156,000	141,605	34,960	5,325,511	24,478	173,238
Financial investments (including derivative financial assets)	2,037,147	108,939	20,348	10,081	2,176,515	17,095	24,893
Other assets	254,488	111,972	10,513	4,979	381,952	17,569	12,862
Total	8,441,031	543,717	203,110	61,163	9,249,021	85,316	248,483
Liabilities							
Borrowing from central banks and amounts due to banks and other financial institutions	1,115,553	108,820	4,894	9,327	1,238,594	17,075	5,988
Deposits from customers	5,830,585	346,349	129,300	40,844	6,347,078	54,346	158,184
Financial liabilities at FVTPL (including derivative financial liabilities)	71,041	18,554	1,438	10	91,043	2,911	1,759
Debt securities issued	390,550	50,425	221	3,345	444,541	7,912	270
Other liabilities	235,507	16,336	9,317	924	262,084	2,565	11,399
Total	7,643,236	540,484	145,170	54,450	8,383,340	84,809	177,600
Net position	797,795	3,233	57,940	6,713	865,681	507	70,883
Net off-balance sheet position:							
Credit commitments (note (i))	2,117,722	71,179	24,448	16,345	2,229,694	11,169	29,909
Derivatives:							
– forward purchased	459,207	451,419	8,554	16,144	935,324	70,833	10,465
– forward sold	(388,786)	(395,153)	(10,651)	(9,748)	(804,338)	(62,004)	(13,030)
– net currency option position	(93,522)	38,175	8	3,059	(52,280)	5,990	10
Total	(23,101)	94,441	(2,089)	9,455	78,706	14,819	(2,555)

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(3) Assets and liabilities by original currency are shown as follows: (continued)

	2020						
	Equivalent in RMB					Main original currency	
	RMB	USD	HKD	Other	Total	USD	HKD
Assets							
Cash and balances with central banks	482,885	31,302	21,446	2,573	538,206	4,786	25,419
Amounts due from banks and other financial institutions	430,766	142,362	26,582	15,737	615,447	21,769	31,507
Loans and advances to customers	4,423,821	193,624	134,443	42,814	4,794,702	29,606	159,350
Financial investments (including derivative financial assets)	1,955,095	98,394	27,110	14,111	2,094,710	15,045	32,132
Other assets	211,776	89,613	13,099	3,895	318,383	13,701	15,525
Total	7,504,343	555,295	222,680	79,130	8,361,448	84,907	263,933
Liabilities							
Borrowing from central banks and amounts due to banks and other financial institutions	1,222,006	90,234	13,122	10,011	1,335,373	13,798	15,553
Deposits from customers	5,079,939	354,012	158,228	36,157	5,628,336	54,132	187,541
Financial liabilities at FVTPL (including derivative financial liabilities)	80,802	26,958	2,432	220	110,412	4,122	2,883
Debt securities issued	291,536	48,293	902	3,425	344,156	7,384	1,069
Other liabilities	185,522	15,592	8,523	3,180	212,817	2,384	10,102
Total	6,859,805	535,089	183,207	52,993	7,631,094	81,820	217,148
Net position	644,538	20,206	39,473	26,137	730,354	3,087	46,785
Net off-balance sheet position:							
Credit commitments (note (i))	1,920,009	89,591	21,901	17,832	2,049,333	13,699	25,958
Derivatives:							
– forward purchased	524,948	499,708	19,346	13,595	1,057,597	76,410	22,930
– forward sold	(449,079)	(425,752)	(13,061)	(26,723)	(914,615)	(65,102)	(15,481)
– net currency option position	(46,676)	20,570	18	45,821	19,733	3,145	21
Total	29,193	94,526	6,303	32,693	162,715	14,453	7,470

Notes:

(i) Credit commitments generally expire before they are drawn down, therefore the above net position does not represent the future cash outflows.

(ii) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(3) Assets and liabilities by original currency are shown as follows: (continued)

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and equity. The following table sets forth the results of the Group's foreign exchange risk sensitivity analysis on the assets and liabilities of all foreign currencies involved at 31 December 2021 and 31 December 2020.

	2021		2020	
Change in foreign currency exchange rate	Down by 1%	Up by 1%	Down by 1%	Up by 1%
(Decrease)/increase in net profit	(79)	79	(232)	232
(Decrease)/increase in equity	(262)	262	(402)	402

Actual changes in the Group's net profit and equity resulting from increases or decreases in foreign exchange rates may be different from the results of this sensitivity analysis.

(ii) Interest rate risk

Interest rate risk arises from unfavourable changes in interest rates and maturity profiles which may result in loss to the income and decline in market value of financial instruments and positions held by the Group.

(1) Trading book

According to the basic principles of risk management, the Group has built and continuously improved the market risk management system, and established the management process of market risk identification, measurement, monitoring, control and reporting, covering interest rate risk, exchange rate risk, commodity and other risks involved in the trading book business. Under the market risk preference formulated by the board of directors, the Group manages the trading book by clearly identifying, accurately measuring and effectively managing the trading book market risk, to ensure that the trading book risk exposure is within an acceptable range and achieves a reasonable balance of risk and return. The Group constantly improves the risk-adjusted return level to maximise the shareholders' value.

The trading book market risk governance organisation structure defines the responsibilities, division of labour and reporting lines of the board of directors, Risk and Capital Management Committee under the board of directors, senior management and relevant departments of the Bank, and safeguards the achievement of management objectives. The Market Risk Management Department is responsible for the Group's trading book market risk, and undertakes the task of risk policy formulation and management.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(1) Trading book (continued)

According to the business practices and market risk governance organisation structure, the Group establishes the trading book market risk limits management system. A top level limit is set based on the risk appetite determined by the board of directors, and is transmitted from top to bottom level by level. Within the scope of their authorisation, management departments at all levels allocate and set limits according to risk characteristics, product types and trading strategies, etc. The business departments carry out the business according to the authorisation and limits requirements, and the supervisory and administrative departments at all levels continuously monitor and report according to the limits management regulations.

The trading book market risk management adopts the scale index, stop loss index, sensitivity index, value at risk index, stress test index and other risk measurement indices as the limits index, and sets the limit value by comprehensively considering the risk appetite, risk tolerance, business operation strategy, risk return, management conditions and other factors.

The Group uses valuation, sensitivity analysis, value-at-risk analysis, pressure test and other measurement methods to identify and quantify risk factors in the interest rate market. The Group applies the market risk measurement model in its daily risk management and takes market risk measurement as the basis for business planning, resource allocation, financial market business operation and risk management.

(2) Banking book

The Group has established the governance and management framework according to the interest rate risk management policy for the banking book, which specifies the roles, responsibilities and reporting lines of the board of directors, senior management, designated committees and relevant departments to ensure the effectiveness of interest rate risk management. Interest rate risk of the banking book is centrally managed by the Asset and Liability Management Department. Internal Audit Department is responsible for auditing this.

The Group has mainly adopted scenario simulation analysis, re-pricing exposure analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Stress test is a form of scenario simulation used to assess the changes in net interest income at risk and economic value of equity indicators when there is an extreme fluctuation in interest rates. The Group conducts stress test on interest rate risk of banking book on a monthly basis. The results of stress test throughout the year of 2021 showed that the interest rate risk of banking book of the Bank was generally stable with various indicators staying within the set limits.

The preference of the Group in respect of the interest rate risk in the banking book is neutrally prudent. Based on the risk measurement and monitoring results, the Group will propose the corresponding risk management policy at the regular meetings and through the reporting mechanism of the Assets and Liabilities Management Committee. Assets and Liabilities Management Department is responsible for its implementation. The key measures for risk management include the adjustment in business volume, duration structure and interest rate structure of on-balance sheet asset and liability business and the utilisation of off-balance sheet derivative to offset risk exposure.

The Group measures and monitors interest rate risk of banking book through the asset and liability management system. Major models and parameter assumptions used in the measurement are verified independently by the Risk Management Department before official use and reviewed and verified regularly after official use.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(3) The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period.

	2021					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central banks	566,965	553,655	–	–	–	13,310
Amounts due from banks and other financial institutions	798,078	723,941	63,581	10,507	49	–
Loans and advances to customers (note (i))	5,325,511	2,134,671	2,750,245	376,357	64,238	–
Financial investments (including derivative financial assets)	2,176,515	159,659	288,349	884,079	795,611	48,817
Other assets (note (ii))	381,952	–	–	–	–	381,952
Total assets	9,249,021	3,571,926	3,102,175	1,270,943	859,898	444,079
Liabilities						
Borrowing from central banks and amounts due to banks and other financial institutions	1,238,594	1,081,661	149,900	6,311	722	–
Deposits from customers	6,347,078	4,820,271	718,509	804,755	348	3,195
Financial liabilities at FVTPL (including derivative financial liabilities)	91,043	1,428	2,075	8,177	158	79,205
Lease liabilities	13,812	1,042	2,989	8,153	1,628	–
Debt securities issued	444,541	96,239	220,608	88,974	38,720	–
Other liabilities (note (ii))	248,272	84	–	–	–	248,188
Total liabilities	8,383,340	6,000,725	1,094,081	916,370	41,576	330,588
Asset-liability gap	865,681	(2,428,799)	2,008,094	354,573	818,322	113,491

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(3) The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period. (continued)

	2020					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central banks	538,206	525,118	–	–	–	13,088
Amounts due from banks and other financial institutions	615,447	524,010	87,213	3,840	384	–
Loans and advances to customers (note (i))	4,794,702	1,861,076	2,496,358	365,315	71,953	–
Financial investments (including derivative financial assets)	2,094,710	351,146	369,495	781,707	524,737	67,625
Other assets (note (ii))	318,383	–	–	–	–	318,383
Total assets	8,361,448	3,261,350	2,953,066	1,150,862	597,074	399,096
Liabilities						
Borrowing from central banks and amounts due to banks and other financial institutions	1,335,373	952,312	351,961	14,152	3,619	13,329
Deposits from customers	5,628,336	4,387,216	599,077	638,419	292	3,332
Financial liabilities at FVTPL (including derivative financial liabilities)	110,412	460	6,336	8,367	130	95,119
Lease liabilities	14,242	1,015	2,805	8,577	1,845	–
Debt securities issued	344,156	110,389	105,553	120,655	7,559	–
Other liabilities (note (ii))	198,575	763	15	–	4	197,793
Total liabilities	7,631,094	5,452,155	1,065,747	790,170	13,449	309,573
Asset-liability gap	730,354	(2,190,805)	1,887,319	360,692	583,625	89,523

Notes: (i) For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2021 and 31 December 2020, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.

(ii) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 31 December 2021 and 31 December 2020.

	2021		2020	
Change in interest rates (in basis points)	Up by 25	Down by 25	Up by 25	Down by 25
(Decrease)/increase in net interest income	**(3,605)**	**3,605**	(3,266)	3,266
(Decrease)/increase in equity	**(6,830)**	**6,927**	(5,373)	5,444

The above-mentioned interest rate sensitivity analysis shows the changes in net interest income and equity in the next 12 months under the assumption of changes in interest rates in the above table. As the actual situation and assumptions may be different, the actual changes in the Group's net interest income and equity caused by the increase or decrease in interest rates may be different from the results of this sensitivity analysis.

60. Risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group is not able to obtain sufficient funds at a reasonable cost and in a timely manner to deal with the appreciation of asset growth, to meet its maturity obligations, or to perform other payment obligations.

According to the liquidity risk management policy, the Group segregates the policy setting, execution and supervision of liquidity risk management, and puts in place a governance framework which defines the roles, responsibilities and reporting lines of the board of directors, the board of supervisors, senior management, designated committees and relevant departments to ensure the effectiveness of the liquidity risk management. The board of directors takes the ultimate responsibility for liquidity risk management, ensures the Group can effectively identify, measure, monitor and control liquidity risk and is responsible for determining liquidity risk level which the Group can tolerate. The Risk and Capital Management Committee under the board of directors discharges responsibilities in liquidity risk management on behalf of the board of directors. The board of supervisors is responsible for the supervision and evaluation of the performance of the board of directors and senior management in the liquidity risk management and reports to the general meeting of shareholders. The senior management is responsible for the liquidity risk management work and develops a timely understanding of changes in liquidity risks, and reports the same to the board of directors. Assets and Liabilities Committee (ALCO), under the authority of the senior management, exercises the corresponding liquidity risk management functions. The Assets and Liabilities Management Department of the Head Office is a day-to-day working body of ALCO, and is responsible for various concrete management work including formulating policies and procedures relating to liquidity risk management and conducting qualitative and quantitative analysis of liquidity risk. The Internal Audit Department of the Head Office conducts comprehensive audit on the Group's liquidity risk management.

The Group is prudent in managing its liquidity risk, which suits its current development stage. The Group's existing liquidity risk management policies and systems meet regulatory requirements and its own management needs.

The Group's liquidity risk management is coordinated by Head Office with branches acting in concert. The Asset and Liability Management Department acting as the treasurer of the Group is in charge of daily liquidity risk management. According to a prudent basis under regulatory requirements, the treasurer is conducting centralised liquidity management through limits management, budget control, initiative debt management as well as internal fund transfer pricing.

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as medium and long-term structures. It monitors the limit indicators closely at fixed intervals.

The Group regularly conducts stress testing to assess its liquidity risk resistance under extreme circumstances. Except for the annual stress testing required by the regulatory authorities, the Group conducts monthly stress testing on the liquidity risk of local and foreign currencies. The Group sets up liquidity contingency plans and conducts liquidity contingency drills to continuously improve its capability to handle any liquidity crisis.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by contractual remaining maturity is as follows:

	2021								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue	Total
Cash and balances with central banks (note (i))	79,129	–	–	–	–	–	487,836	–	566,965
Amounts due from banks and other financial institutions	59,862	601,897	60,072	65,405	10,793	49	–	–	798,078
Loans and advances to customers	20,719	545,165	368,482	1,333,756	1,387,033	1,650,468	–	19,888	5,325,511
Financial investments and derivative financial assets (note (ii))	4,058	88,783	60,315	304,846	912,392	795,813	10,071	237	2,176,515
– Financial investments at FVTPL (including derivative financial assets)	4,058	67,589	31,524	95,228	134,821	35,217	3,076	–	371,513
– Debt investments at amortised cost	–	8,882	11,185	133,930	425,327	590,091	–	237	1,169,652
– Debt investments at FVTOCI	–	12,312	17,606	75,688	352,244	170,505	–	–	628,355
– Equity investments designated at FVTOCI	–	–	–	–	–	–	6,995	–	6,995
Other assets (note (iv))	103,999	10,432	13,946	14,551	14,891	6,107	214,113	3,913	381,952
Total assets	267,767	1,246,277	502,815	1,718,558	2,325,109	2,452,437	712,020	24,038	9,249,021
Borrowing from central banks and amounts due to banks and other financial institutions	627,957	313,745	122,210	153,551	18,350	2,781	–	–	1,238,594
Deposits from customers (note (iii))	4,185,788	315,077	316,452	719,506	809,176	1,079	–	–	6,347,078
Financial liabilities at FVTPL (including derivative financial liabilities)	12,942	13,301	11,720	13,740	20,629	18,711	–	–	91,043
Lease liabilities	–	506	536	2,989	8,153	1,628	–	–	13,812
Debt securities issued	–	21,181	70,472	222,647	88,974	41,267	–	–	444,541
Other liabilities (note (iv))	160,991	37,159	15,455	24,744	9,404	519	–	–	248,272
Total liabilities	4,987,678	700,969	536,845	1,137,177	954,686	65,985	–	–	8,383,340
(Short)/long position	(4,719,911)	545,308	(34,030)	581,381	1,370,423	2,386,452	712,020	24,038	865,681

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2020								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue	Total
Cash and balances with central banks (note (i))	60,560	–	–	–	–	–	477,646	–	538,206
Amounts due from banks and other financial institutions	91,125	369,355	62,201	88,213	4,169	384	–	–	615,447
Loans and advances to customers	12,178	488,169	311,334	1,201,347	1,298,657	1,469,872	–	13,145	4,794,702
Financial investments and derivative financial assets (note (ii))	5,409	183,039	135,457	383,294	842,201	535,708	7,710	1,892	2,094,710
– Financial investments at FVTPL (including derivative financial assets)	5,409	173,666	63,803	203,872	77,242	18,432	571	–	542,995
– Debt investments at amortised cost	–	2,270	31,937	110,511	467,217	420,686	–	1,648	1,034,269
– Debt investments at FVTOCI	–	7,103	39,717	68,911	297,742	96,590	–	244	510,307
– Equity investments designated at FVTOCI	–	–	–	–	–	–	7,139	–	7,139
Other assets (note (iv))	70,325	6,035	9,720	7,170	26,015	5,842	190,006	3,270	318,383
Total assets	239,597	1,046,598	518,712	1,680,024	2,171,042	2,011,806	675,362	18,307	8,361,448
Borrowing from central banks and amounts due to banks and other financial institutions	542,955	251,299	171,884	351,464	14,152	3,619	–	–	1,335,373
Deposits from customers (note (iii))	3,704,751	326,452	354,084	600,093	642,047	909	–	–	5,628,336
Financial liabilities at FVTPL (including derivative financial liabilities)	14,264	8,777	10,745	32,994	20,374	23,258	–	–	110,412
Lease liabilities	–	527	488	2,805	8,577	1,845	–	–	14,242
Debt securities issued	–	61,167	45,304	105,552	124,574	7,559	–	–	344,156
Other liabilities (note (iv))	99,722	48,613	15,632	25,081	8,895	632	–	–	198,575
Total liabilities	4,361,692	696,835	598,137	1,117,989	818,619	37,822	–	–	7,631,094
(Short)/long position	(4,122,095)	349,763	(79,425)	562,035	1,352,423	1,973,984	675,362	18,307	730,354

Notes:

(i) For cash and balances with central banks, the amounts with indefinite maturities represent statutory deposit reserve and fiscal deposit balances.

(ii) For financial investments at FVTPL included in financial investments, their maturity dates do not represent the Group's intention to hold them to maturity.

(iii) Deposits from customers that are repayable on demand include matured time deposits which are pending for customers' instructions.

(iv) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following table provides an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, financial liabilities, lease liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flows on these instruments and lease liabilities may vary significantly from this analysis.

	2021									
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue
Non-derivative financial assets										
Cash and balances with central banks	566,965	566,965	79,129	–	–	–	–	–	487,836	–
Amounts due from banks and other financial institutions	798,078	800,869	59,862	602,201	62,062	65,229	11,466	49	–	–
Loans and advances to customers	5,325,511	6,680,629	20,719	560,371	398,738	1,503,759	1,831,318	2,345,796	–	19,928
Financial investments	2,153,125	2,540,798	3,715	90,330	67,149	339,704	1,050,476	979,116	10,071	237
– Financial investments at FVTPL	348,123	355,501	3,715	64,405	28,852	90,837	127,527	37,089	3,076	–
– Debt investments at amortised cost	1,169,652	1,453,059	–	12,008	17,405	159,993	529,031	734,385	–	237
– Debt investments at FVTOCI	628,355	725,243	–	13,917	20,892	88,874	393,918	207,642	–	–
– Equity investments designated at FVTOCI	6,995	6,995	–	–	–	–	–	–	6,995	–
Other assets	154,308	154,308	102,918	9,891	13,745	13,795	1,848	528	7,670	3,913
Total	8,997,987	10,743,569	266,343	1,262,793	541,694	1,922,487	2,895,108	3,325,489	505,577	24,078
Non-derivative financial liabilities and lease liabilities										
Borrowing from central banks and amounts due to banks and other financial institutions	1,238,594	1,245,870	628,157	315,523	123,610	156,000	19,668	2,912	–	–
Deposits from customers	6,347,078	6,500,805	4,215,760	318,932	323,909	754,023	887,030	1,151	–	–
Financial liabilities at FVTPL	63,761	64,232	12,926	10,408	7,387	4,748	10,068	18,695	–	–
Lease liabilities	13,812	15,087	–	511	545	3,080	8,974	1,977	–	–
Debt securities issued	444,541	459,323	–	22,002	70,839	226,189	94,221	46,072	–	–
Other liabilities	158,091	158,091	74,533	36,128	15,454	23,052	8,406	518	–	–
Total	8,265,877	8,443,408	4,931,376	703,504	541,744	1,167,092	1,028,367	71,325	–	–
Gross loan commitments	–	1,386,481	1,386,481	–	–	–	–	–	–	–

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2020									
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue
Non-derivative financial assets										
Cash and Balances with central banks	538,206	538,206	60,560	–	–	–	–	–	477,646	–
Amounts due from banks and other financial institutions	615,447	617,381	98,748	369,529	55,856	88,847	4,017	384	–	–
Loans and advances to customers	4,794,702	6,066,759	12,178	506,096	350,584	1,372,740	1,700,755	2,109,999	–	14,407
Financial investments	2,047,438	2,513,915	5,196	266,655	155,314	464,750	1,031,094	579,923	9,091	1,892
– Financial investments at FVTPL	495,723	503,234	5,196	170,739	56,381	183,702	69,024	17,599	593	–
– Debt investments at amortised cost	1,034,269	1,350,789	–	50,876	40,743	185,488	603,526	467,772	736	1,648
– Debt investments at FVTOCI	510,307	652,753	–	45,040	58,190	95,560	358,544	94,552	623	244
– Equity investments designated at FVTOCI	7,139	7,139	–	–	–	–	–	–	7,139	–
Other assets	126,744	137,759	69,028	25,423	9,732	6,760	12,701	383	10,760	2,972
Total	**8,122,537**	**9,874,020**	**245,710**	**1,167,703**	**571,486**	**1,933,097**	**2,748,567**	**2,690,689**	**497,497**	**19,271**
Non-derivative financial liabilities and lease liabilities										
Borrowing from central banks and amounts due to banks and other financial institutions	1,335,373	1,346,594	543,102	252,465	174,326	357,759	15,160	3,782	–	–
Deposits from customers	5,628,336	5,696,986	3,704,881	316,664	350,989	617,139	706,355	958	–	–
Financial liabilities at FVTPL	60,351	61,043	14,219	6,308	1,098	7,413	8,828	23,177	–	–
Lease liabilities	14,242	15,705	–	524	484	2,836	9,586	2,275	–	–
Debt securities issued	344,156	366,059	–	61,274	45,680	111,340	139,139	8,626	–	–
Other liabilities	125,366	125,366	29,660	47,950	15,629	22,876	8,619	632	–	–
Total	**7,507,824**	**7,611,753**	**4,291,862**	**685,185**	**588,206**	**1,119,363**	**887,687**	**39,450**	**–**	**–**
Gross loan commitments	–	1,344,434	1,344,434	–	–	–	–	–	–	–

Note: Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(d) Operational risk

Operational risk arises from the loss due to deficiency in internal procedures, staffing or IT structure, as well as external events which have effect on operation, including legal risk but not strategy risk and reputation risk.

During the reporting period, through stepping up the identification, evaluation and monitoring of operational risk in key areas, and by focusing on process, policy, employee system, and existing problems of critical control segments, the Group further improves the risk management framework and method, appraisal and assessment mechanism, and strengthens economic capital allocation mechanism with the goal of enhancing the ability and effectiveness of operational risk's management of the Group. All major indexes meet the requirements of the Group's risk preference.

In view of the challenges from internal and external operations and management, the Group will, based on its risk appetite, continue to upgrade its risk management capabilities and strengthen operational risk monitoring and controls, in order to prevent and reduce operational risk losses.

(e) Capital management

The objectives of the Group's capital management are to:

- Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion, social responsibility and strategic planning implementation to achieve a comprehensive, coordinated and sustainable growth;
- Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;
- Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate customer pricing and decision-making, and increase capital deployment efficiency;
- Reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns for shareholders.

The Group manages its capital structure and adjusts it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, additional tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio under an approach stipulated by the CBIRC. The Group and the Bank submit required information to the CBIRC every quarter.

60. Risk management *(continued)*

(e) Capital management *(continued)*

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers all branches of the Bank. As at 31 December 2021, the Group's subsidiaries that were within the scope in respect of capital adequacy ratio calculation included: CMB WLB, CMBICHC, CMBFLC, CMFM, CMBWM, CIGNA & CMAM and CMB Europe S.A.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional) and other relevant regulations. On 18 April 2014, the CBIRC approved the Bank to adopt the Advanced Measurement Approach. Within the approved scope, the Bank could calculate corporation and financial institutions risk exposure using the Foundation Internal Ratings-Based Approach, retail risk exposure using the Advanced Internal Ratings-Based Approach, market risk using the Internal Model-Based Approach, and operational risk using the Standardised Measurement Approach. At the same time, the CBIRC implemented a transition period for commercial banks that were approved to adopt the Advanced Measurement Approach. During the transition period, commercial banks should use both the Advanced Measurement Approach and other approaches to calculate capital adequacy ratios, and comply with the capital floor requirements.

The Group's capital management focuses on the capital adequacy ratio management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resistance. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plan and manage its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(f) Use of derivatives

Derivatives include forwards, swaps and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into interest rate, foreign currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivatives can be divided into financial instruments that are held for cash flow hedging purpose and that are at fair value through profit or loss.

The Group formulates appropriate hedging strategies and uses proper tools in light of the risk profile of interest rates or foreign exchange rates associated with its assets and liabilities, as well as its analysis and judgement regarding future movements of interest rates or foreign exchange rates.

The Group is exposed to foreign exchange risk when assets or liabilities are denominated in foreign currencies. Such risk can be offset through the use of foreign exchange forwards or foreign exchange options.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

In cash flow hedges, the Group uses interest rate swaps as hedging instruments to hedge the interest rate risks arising from RMB loans and interbank assets portfolios.

The following tables provide an analysis of the notional amounts and the corresponding fair values of derivatives of the Group by remaining maturities at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume that has not been delivered at the end of the reporting period, and do not represent the amounts at risk.

	2021						
	Notional amounts with remaining life					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives	567,612	823,679	1,240,265	4,966	2,636,522	11,831	(11,974)
Interest rate swaps	565,833	823,679	1,240,265	4,966	2,634,743	11,831	(11,974)
Bond futures	391	–	–	–	391	–	–
Bond options	1,388	–	–	–	1,388	–	–
Currency derivatives	647,081	506,850	29,615	1,052	1,184,598	10,041	(13,966)
Forwards	26,577	14,373	1,517	1,052	43,519	985	(164)
Foreign exchange swaps	485,140	357,685	20,086	–	862,911	7,530	(7,048)
Futures	587	1,157	–	–	1,744	–	–
Options	134,777	133,635	8,012	–	276,424	1,526	(6,754)
Other derivatives	134,230	5,424	277	–	139,931	1,472	(1,237)
Equity options purchased	62,094	907	–	–	63,001	344	–
Equity options written	62,094	907	–	–	63,001	–	(265)
Commodity trading swaps	10,001	3,475	60	–	13,536	1,128	(751)
Equity swaps	41	135	217	–	393	–	(221)
Cash flow hedge derivatives							
Interest rate derivatives	–	–	2,883	702	3,585	46	–
Interest rate swaps	–	–	2,883	702	3,585	46	–
Derivatives managed in conjunction with financial instruments designated at FVTPL							
Interest rate derivatives	191	967	581	–	1,739	–	(17)
Interest rate swaps	191	967	581	–	1,739	–	(17)
Currency derivatives	–	72	1,360	–	1,432	–	(88)
Foreign exchange swaps	–	72	1,360	–	1,432	–	(88)
Total	1,349,114	1,336,992	1,274,981	6,720	3,967,807	23,390	(27,282)

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2020						
	Notional amounts with remaining life					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives	561,831	1,232,396	1,499,175	2,913	3,296,315	12,568	(12,327)
Interest rate swaps	561,522	1,223,977	1,499,110	2,913	3,287,522	12,559	(12,318)
Bond forwards	–	–	65	–	65	6	(3)
Bond futures	89	9	–	–	98	–	–
Bond options	220	8,410	–	–	8,630	3	(6)
Currency derivatives	630,018	614,205	17,309	3,570	1,265,102	33,098	(36,220)
Forwards	58,155	31,280	1,452	2,703	93,590	1,691	(1,461)
Foreign exchange swaps	440,943	477,298	12,789	867	931,897	20,063	(20,136)
Futures	17	706	–	–	723	–	–
Options	130,903	104,921	3,068	–	238,892	11,344	(14,623)
Other derivatives	5,924	138,635	631	-	145,190	1,538	(1,451)
Equity options purchased	488	67,353	–	–	67,841	490	–
Equity options written	488	67,353	–	–	67,841	–	(464)
Commodity trading swaps	4,948	3,929	631	–	9,508	1,048	(987)
Cash flow hedge derivatives							
Interest rate derivatives	32	1,030	2,871	819	4,752	–	(15)
Interest rate swaps	32	1,030	2,871	819	4,752	–	(15)
Derivatives managed in conjunction with financial instruments designated at FVTPL							
Interest rate derivatives	471	909	1,358	–	2,738	–	(47)
Interest rate swaps	471	909	1,358	–	2,738	–	(47)
Currency derivatives	–	1,499	74	–	1,573	68	(1)
Foreign exchange swaps	–	1,499	74	–	1,573	68	(1)
Total	1,198,276	1,988,674	1,521,418	7,302	4,715,670	47,272	(50,061)

There was no ineffective portion of cash flow hedges during the years ended 31 December 2021 and 2020.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

The credit risk weighted amounts in respect of these derivatives are as follows:

	2021	2020
Default risk weighted assets of counterparties	**3,627**	9,644
Interest rate derivatives	**139**	266
Currency derivatives	**3,048**	5,574
Other derivatives	**440**	3,804
Credit valuation adjustment risk weighted assets	**2,382**	6,011
Total	**6,009**	15,655

Note: Since 2019, the Group has calculated the exposure of derivatives according to the Notice of the Measures on Default Risk Weighted Assets of Counterparties in Respect of Derivatives and the related requirements issued by the CBIRC. These amounts have taken the effects of bilateral netting arrangements into account. The risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Provisional) issued by the CBIRC. The amounts within the scope approved by the CBIRC in April 2014 are calculated using the Internal Ratings-Based Approach, and the Weighted Approach is adopted to calculate those that are not eligible for the Internal Ratings-Based approach.

(g) Fair value information

(i) Methods of determining fair value of financial instruments

A number of the Group's accounting policies and disclosure requirements stipulate the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework to govern the measurement of fair values. This includes a valuation team that takes the responsibility for overseeing all significant fair value measurements including the three levels of fair values.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to determine fair value, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the classification of levels in the fair value hierarchy.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques.

The following tables present the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value on a recurring basis at each reporting date. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level of input that is significant to the entire fair value measurement. The levels are defined as follows:

– Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

– Level 2 inputs: other than quoted prices included in level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities inputs;

– Level 3 inputs: inputs that are unobservable for assets or liabilities.

The Group recognises transfers among levels of the fair value hierarchy when they occur.

The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis

The tables below analyse financial instruments, measured at fair value at the end of the reporting period, by the levels in the fair value hierarchy:

	2021			
	Level 1	Level 2	Level 3	Total
Assets				
Financial investments measured at FVTPL	20,517	292,849	4,879	318,245
– Debt securities	19,102	127,411	373	146,886
– Long position in precious metal contracts	102	–	–	102
– Equity investments	1,180	2	3,727	4,909
– Fund investments	133	161,865	772	162,770
– Wealth management products	–	2,396	–	2,396
– Other	–	1,175	7	1,182
Financial investments designated at FVTPL	1,022	28,856	–	29,878
– Debt securities	1,022	28,856	–	29,878
Derivative financial assets	–	23,390	–	23,390
Loans and advances to customers at FVTPL	–	–	7,281	7,281
Debt investments at FVTOCI	127,847	508,191	–	636,038
Loans and advances to customers at FVTOCI	–	431,291	56,713	488,004
Equity investments designated at FVTOCI	2,269	–	4,726	6,995
Total	151,655	1,284,577	73,599	1,509,831
Liabilities				
Financial liabilities held for trading	16,832	185	–	17,017
– Financial liabilities related to precious metal	16,406	–	–	16,406
– Short position on bonds	426	185	–	611
Financial liabilities designated at FVTPL	19,569	19,028	8,147	46,744
– Placement of precious metal from financial institutions	11,596	–	–	11,596
– Certificates of deposit issued	–	377	–	377
– Debt securities issued	7,600	–	–	7,600
– Other	373	18,651	8,147	27,171
Derivative financial liabilities	–	27,282	–	27,282
Total	36,401	46,495	8,147	91,043

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

	2020			
	Level 1	Level 2	Level 3	Total
Assets				
Financial investments measured at FVTPL	25,283	436,470	2,713	464,466
– Debt securities	24,267	121,780	456	146,503
– Long position in precious metal contracts	96	–	–	96
– Equity investments	836	836	1,738	3,410
– Fund investments	84	136,229	519	136,832
– Wealth management products	–	1,259	–	1,259
– Non-standard assets – Bills	–	175,303	–	175,303
– Other	–	1,063	–	1,063
Financial investments designated at FVTPL	2,618	28,625	14	31,257
– Debt securities	2,618	28,625	14	31,257
Derivative financial assets	–	47,272	–	47,272
Loans and advances to customers at FVTPL	–	–	6,856	6,856
Debt investments at FVTOCI	109,282	407,271	–	516,553
Loans and advances to customers at FVTOCI	–	331,070	44,289	375,359
Equity investments designated at FVTOCI	2,075	–	5,064	7,139
Total	139,258	1,250,708	58,936	1,448,902
Liabilities				
Financial liabilities held for trading	20,491	499	–	20,990
– Financial liabilities related to precious metal	20,361	–	–	20,361
– Short position on bonds	130	499	–	629
Financial liabilities designated at FVTPL	15,503	18,209	5,649	39,361
– Placement of precious metal from financial institutions	1,589	–	–	1,589
– Certificates of deposit issued	–	605	–	605
– Debt securities issued	13,914	–	–	13,914
– Other	–	17,604	5,649	23,253
Derivative financial liabilities	–	50,061	–	50,061
Total	35,994	68,769	5,649	110,412

During the years ended 31 December 2021 and 2020, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(1) Basis of determining the market prices for recurring fair value measurements categorised as Level 1

Bloomberg etc. are used for financial instruments with quoted prices in an active market.

(2) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised as Level 2

Fair value of RMB denominated bonds whose value is available on China Bond website on the valuation date is measured using the latest available valuation results.

Fair value of foreign currency bonds without quoted prices in an active market, is measured by using the comprehensive valuations issued by Bloomberg, etc.

Fair value of foreign exchange forwards contracts in derivative financial assets is measured by discounting the differences between the contract prices and market future prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of the reporting period.

Fair value of option contracts such as foreign exchange options, commodity options and equity options is measured by using the Black-Scholes model, based on market data such as risk-free interest rate, underlying market prices and price volatility of foreign exchange, commodities, and equity contract. The above market data used are quoted price in an active market, provided by Bloomberg, Refinitiv, Wind and other market information providers.

Fair value of interest rate swaps, foreign exchange swaps, and non-option commodity contracts in derivative financial assets is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of the reporting period. The discount rates used are the related currency denominated swap yield curve as at the end of reporting period.

Observable quoted price in market is used as the basis of determining the value of investment funds.

The fair value of loans and advances to customers at FVTOCI in Mainland China is measured based on the rate of rediscounted bills announced by the Shanghai Commercial Paper Exchange Corporation Ltd. The Group uses 10-day average discount rate as the basis for calculating the value of discounted bills. The fair value of loans and advances to customers at FVTOCI outside Mainland China is measured by discounted cash flow approach. The discount rates used are determined by factors such as credit rating of the loan customer provided by S&P, Moody's or Fitch, customer industry, term to maturity of the loan, loan currency and the issuer credit spread.

The fair value of non-standard bills at FVTPL in Mainland China is measured based on the rate of rediscounted bills announced by the Shanghai Commercial Paper Exchange Corporation Ltd. The Group uses 10-day average discount rate as the basis for calculating the value of discounted bills.

The fair value of certificates of deposit issued is measured by using the comprehensive valuations on Bloomberg.

The fair value of other financial liabilities designated at FVTPL is measured based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3:

	Fair value as at 31 December 2021	Valuation techniques	Unobservable inputs
Equity investments designated at FVTOCI	873	Market approach	Liquidity discount, risk-adjusted discount rate
Equity investments designated at FVTOCI	3,853	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	7,281	Discounted cash flow approach	Risk-adjusted discount rate
Loans and advances to customers at FVTOCI	56,713	Discounted cash flow approach	Risk-adjusted discount rate
Financial investments measured at FVTPL			
– Equity investments	3,491	Market approach	Liquidity discount
– Equity investments	12	Market approach (Price-to-Book Ratio)	Liquidity discount
– Equity investments	209	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	15	Net asset value approach	Net assets, liquidity discount
– Debt securities	373	Discounted cash flow approach	Risk-adjusted discount rate
– Fund investments	767	Net fund value approach	Net assets
– Fund investments	5	Market approach	Liquidity discount
– Other	7	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	664	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	7,483	Net fund value approach	Net assets, liquidity discount

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3: *(continued)*

	Fair value as at 31 December 2020	Valuation techniques	Unobservable inputs
Equity investments designated at FVTOCI	1,200	Market approach	Liquidity discount
Equity investments designated at FVTOCI	3,864	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	6,856	Discounted cash flow approach	Risk-adjusted discount rate
Loans and advances to customers at FVTOCI	44,289	Discounted cash flow approach	Risk-adjusted discount rate
Financial investments measured at FVTPL			
– Debt securities	456	Discounted cash flow approach	Risk-adjusted discount rate
– Equity investments	1,738	Market approach	Liquidity discount
– Fund investments	502	Net fund value approach	Net assets
– Fund investments	17	Market approach	Liquidity discount
Financial investments designated at FVTPL	14	Discounted cash flow approach	Risk-adjusted discount rate
Financial liabilities designated at FVTPL	206	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	5,443	Net fund value approach	Net assets, liquidity discount

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3: (continued)

1) Valuation of financial instruments with significant unobservable inputs

The following tables show the movements from the beginning balances to the ending balances for Level 3 financial instruments:

Assets	Financial investments at FVTPL	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2021	2,727	6,856	44,289	5,064	58,936
Profit or loss					
– In profit or loss	339	287	1,365	–	1,991
– In other comprehensive income	–	–	48	1,050	1,098
Addition for the year	1,832	143	118,229	721	120,925
Disposals or settlement on maturity	(68)	–	(107,218)	(2,158)	(109,444)
Exchange difference	49	(5)	–	49	93
At 31 December 2021	4,879	7,281	56,713	4,726	73,599
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	339	287	–	–	626

Assets	Financial investments at FVTPL	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2020	2,968	5,779	30,346	3,748	42,841
Profit or loss					
– In profit or loss	454	296	1,210	–	1,960
– In other comprehensive income	–	–	20	1,469	1,489
Addition for the year	539	796	86,003	82	87,420
Disposals or settlement on maturity	(1,106)	–	(73,290)	–	(74,396)
Exchange difference	(128)	(15)	–	(235)	(378)
At 31 December 2020	2,727	6,856	44,289	5,064	58,936
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	454	296	–	–	750

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3: (continued)

1) Valuation of financial instruments with significant unobservable inputs (continued)

Financial liabilities at fair value through profit or loss	2021	2020
Balance as at 1 January	**5,649**	3,105
In profit or loss	**470**	402
Addition for the year	**3,105**	2,686
Disposals and settlement on maturity	**(860)**	(453)
Exchange difference	**(217)**	(91)
Balance as at 31 December	**8,147**	5,649
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	**419**	390

2) Transfers among different levels occurred during the reporting period, the reasons for theses transfers and the principle of determining the dates of transfers for financial instruments measured at fair value on recurring basis

During the years ended 31 December 2021 and 2020, there were no significant transfers among different levels for financial instruments which are measured at fair value on a recurring basis.

3) Changes in valuation techniques and the reasons for the changes

During the years ended 31 December 2021 and 2020, the Group did not change the valuation techniques for the financial assets and liabilities disclosed above which are measured at fair value on recurring basis.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) Financial assets and financial liabilities that are not measured at fair value

(1) Financial Assets

The Group's financial assets that are not measured at fair value mainly include balances with central banks, balances and placements with banks and other financial institutions, amounts held under resale agreements, loans and advances to customers at amortised cost and investments at amortised cost.

Except for loans and advances measured at amortised cost and debt instrument investments measured at amortised cost, most of the financial assets mature within 1 year, and their carrying values approximate to their fair values. Loans and advances are stated at amortised costs less allowances for impairment loss (Note 22). Loans and advances at amortised cost are mostly priced at floating rates with reference to the PBOC benchmark interest rates or Loan Prime Rates (LPRs) and repriced at least annually, and impairment allowances are made to reduce the carrying amounts of impaired loans to estimated recoverable amounts. Accordingly, the carrying value of loans and advances is close to their fair value.

Debt investments measured at amortised cost are carried at amortised cost less allowances for impairment losses. The fair value of the listed investments is disclosed in Note 23(b).

The carrying value, fair value and fair value hierarchy of debt investments at amortised cost not measured at fair value are listed as below:

The Level 1 fair value measurement is based on unadjusted quoted prices in active markets using Bloomberg etc. For Level 2, the latest valuation results released by China Bond website are used to measure fair value of bonds denominated in RMB. The Level 2 category also includes foreign currency bonds without active quoted price, which are measured using the published comprehensive valuation by Bloomberg. The Level 3 fair value is measured using discounted cash flow valuation technique.

	2021					2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Debt investments at amortised cost	1,169,652	1,235,725	6,659	1,097,435	131,631	1,034,269	1,049,374	3,387	914,025	131,962

Note: The above financial assets do not include interest receivable.

(2) Financial Liabilities

Financial liabilities that are not measured at fair value mainly include deposits from customers, amounts due to banks and other financial institutions, amounts sold under repurchase agreements, and debts securities issued by the Group. The carrying value of financial liabilities approximate to their fair value at the end of the reporting period, except for the financial liabilities set out below:

	2021					2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	34,236	35,173	–	35,173	–	34,302	35,243	–	35,243	–
Long-term debt securities issued	159,306	160,893	–	160,893	–	146,559	149,115	–	149,115	–
Total	193,542	196,066	–	196,066	–	180,861	184,358	–	184,358	–

Note: The above financial liabilities do not include interest payable.

61. Material related party transactions

(a) Material connected person information

Details of the Bank's major shareholders and their parent companies are as follows:

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB16,900 million	7,559,427,375	29.97% (note (i)(viii))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited liability	Miao Jianmin
– China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB7,000 million	3,289,470,337	13.04% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Limited liability	Miao Jianmin
– Shenzhen Yan Qing Investment and Development Co., Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Xu Xin
– Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Xu Xin
– China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB7,778 million	1,147,377,415	4.55%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Hong Xiaoyuan
– Best Winner Investment Co., Ltd.	British Virgin Islands	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–
– China Merchants Union (BVI) Ltd.	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited liability	–
– China Merchants Industry Development (Shenzhen) Co., Ltd.	Shenzhen	USD10 million	55,196,540	0.22%	–	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited liability	Wang Xiaoding

61. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China COSCO Shipping Corporation Limited.	Beijing	RMB11,000 million	2,515,193,034	9.97% (note(iii))	–	International shipping business, supporting services to international shipping, imports and exports of goods and technology, international freight forwarding agent, etc.	Shareholder's parent company	Limited liability	Xu Lirong
– China Ocean Shipping Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	–	Transportation business, leasing business, ship purchasing and marketing business, warehousing business, etc.	Shareholder	Limited liability	Xu Lirong
– COSCO Shipping (Guangzhou) Co., Ltd.	Guangzhou	RMB3,191 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited liability	Shou Jian
– Guangzhou Haining Maritime Technology Service Co., Ltd.	Guangzhou	RMB2 million	103,552,616	0.41%	–	Business services	Shareholder	Limited liability	Huang Biao
– COSCO Shipping (Shanghai) Co., Ltd.	Shanghai	RMB1,399 million	75,617,340	0.30%	–	Shipping business, leasing business, ship repairing and building etc.	Shareholder	Limited liability	Zhao Bangtao
– COSCO Shipping Investment Holdings Co., Ltd.	Hong Kong	HKD500 million	54,721,930	0.22%	–	Leasing business, financing business, insurance business etc.	Shareholder	Limited liability	Wang Daxiong
– Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	Guangzhou	RMB299 million	10,121,823	0.04%	–	Ship purchasing and marketing business, shipping agency, leasing business, shipping business etc.	Shareholder	Limited liability	Ren Zhaoping

61. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China Insurance Security Fund Co., Ltd	Beijing	RMB100 million	815,030,635	3.23% (note(iv))	–	Investing and establishing insurance companies, supervising and managing various domestic and international businesses of holding investment enterprises, and investment business permitted by national laws and regulations, etc.	Shareholder's parent company	Limited liability	Yu Hua
– Dajia Life Insurance Co., Ltd	Beijing	RMB30,790 million	815,030,635	3.23%	–	Life insurance, health insurance, accident insurance, and other personal insurance services, etc.	Shareholder	Joint stock limited company	He Xiaofeng
China Communications Construction Group Limited.	Beijing	RMB7,274 million	422,770,418	1.68% (note(v))	–	General contraction for construction	Shareholder's parent company	Limited liability	Wang Tongzhou
– China Communications Construction Company Limited.	Beijing	RMB16,175 million	301,089,738	1.19%	–	General contraction for construction, leasing and repair, technical consulting service, imports and exports, investment and management business	Shareholder	Joint stock limited company	Wang Tongzhou
Shanghai Automotive Industry Corporation (Group)	Shanghai	RMB21,599 million	310,125,822	1.23% (note(vi))	–	Production and sale of vehicles, asset management business, domestic trade business, consulting service	Shareholder's parent company	Limited liability	Chen Hong
– SAIC Motor Corporation Limited	Shanghai	RMB11,683 million	310,125,822	1.23%	–	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong

61. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
Hebei Port Group Co., Ltd.	Qinhuangdao	RMB8,000 million	296,291,627	1.17% (note(vii))	–	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited liability	Cao Ziyu
CMB International Capital Holdings Corporation Limited (CMBICHC)	Hong Kong	HKD4,129 million	–	–	100%	Investment bank and investment managements	Subsidiary	Limited liability	Tian Huiyu
CMB Financial Leasing Company Limited (CMBFLC)	Shanghai	RMB12,000 million	–	–	100%	Finance lease	Subsidiary	Limited liability	Shi Shunhua
CMB Wing Lung Bank Limited (CMB WLB)	Hong Kong	HKD1,161 million	–	–	100%	Banking	Subsidiary	Limited liability	Zhu Qi
China Merchants Fund Management Co., Ltd. (CMFM)	Shenzhen	RMB1,310 million	–	–	55%	Fund Management	Subsidiary	Limited liability	Wang Xiaoqing
CMB Wealth Management Co., Ltd	Shenzhen	RMB5,000 million	–	–	100%	Asset management	Subsidiary	Limited liability	Chen Yisong
CMB Europe S.A	Luxembourg	EUR50 million	–	–	100%	Banking	Subsidiary	Limited liability	Li Biao
Cigna & CMB Asset Management Company Limited	Beijing	RMB500 million	–	–	Note 24 (vii)	Asset management	Subsidiary	Limited liability	Wang Xiaoqing

Notes:

(i) CMG holds 29.97% of the Bank (2020: 29.97%) through its subsidiaries.

(ii) As the largest direct shareholder, CMSNCL, a subsidiary of CMG, holds 13.04% of the Bank as at 31 December 2021 (2020: 13.04%).

(iii) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (2020: 9.97%) through its subsidiaries.

(iv) China Insurance Security Fund Co., Ltd ("China Insurance Security Fund") holds 3.23% of the Bank (2020: 4.11%) through its 98.23% holding in Dajia Insurance Group Co., Ltd.

(v) China Communications Construction Group Limited ("China Communications Construction Group") holds 1.68% of the Bank through its subsidiaries (2020:1.68%).

(vi) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.23% of the Bank through its subsidiaries (SAIC Motor Corporation Limited) (2020: 1.23%).

(vii) Hebei Port Group Company Ltd. directly holds 1.17% of the Bank (2020: 1.17%).

(viii) The sum of the direct holding percentage of CMG's shareholdings in the Bank and the sum of the above-mentioned relevant percentages may differ slightly due to rounding.

61. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

The registered capital of the Group's related parties as at 31 December 2021 and 2020 are as follows:

Name of related party	2021	2020
CMG	**RMB16,900,000,000**	RMB16,900,000,000
CMSNCL	**RMB7,000,000,000**	RMB7,000,000,000
Shenzhen Yan Qing Investment and Development Co., Ltd.	**RMB600,000,000**	RMB600,000,000
Shenzhen Chu Yuan Investment and Development Co., Ltd.	**RMB600,000,000**	RMB600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	**RMB7,778,000,000**	RMB7,777,800,000
Best Winner Investment Co., Ltd.	**USD50,000**	USD50,000
China Merchants Union (BVI) Ltd.	**USD60,000**	USD60,000
China Merchants Industry Development (Shenzhen) Co., Ltd.	**USD10,000,000**	USD10,000,000
China Insurance Security Fund Co., Ltd	**RMB100,000,000**	RMB100,000,000
Dajia Life Insurance Co., Ltd	**RMB30,790,000,000**	RMB30,790,000,000
China COSCO Shipping Corporation Limited.	**RMB11,000,000,000**	RMB11,000,000,000
China Ocean Shipping Co., Ltd.	**RMB16,191,351,300**	RMB16,191,351,300
COSCO Shipping (Guangzhou) Co., Ltd.	**RMB3,191,200,000**	RMB3,191,200,000
Guangzhou Haining Maritime Technology Service Co., Ltd.	**RMB2,000,000**	RMB2,000,000
COSCO Shipping (Shanghai) Co., Ltd.	**RMB1,398,941,000**	RMB1,398,941,000
COSCO Shipping Investment Holdings Co., Ltd.	**HKD500,000,000**	HKD500,000,000
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	**RMB299,020,000**	RMB299,020,000
China Communications Construction Group Limited.	**RMB7,274,023,830**	RMB7,274,023,830
China Communications Construction Company Limited	**RMB16,174,735,425**	RMB16,174,735,425
Shanghai Automotive Industry Corporation (Group)	**RMB21,599,175,737**	RMB21,599,175,737
SAIC Motor Corporation Limited	**RMB11,683,461,365**	RMB11,683,461,365
Hebei Port Group Co., Ltd.	**RMB8,000,000,000**	RMB8,000,000,000
CMBICHC	**HKD4,129,000,000**	HKD4,129,000,000
CMBFLC	**RMB12,000,000,000**	RMB6,000,000,000
CMB WLB	**HKD1,160,950,575**	HKD1,160,950,575
CMFM	**RMB1,310,000,000**	RMB1,310,000,000
CMBWM	**RMB5,000,000,000**	RMB5,000,000,000
CMB Europe S.A.	**EUR50,000,000**	EUR50,000,000
Cigna & CMB Asset Management Company Limited	**RMB500,000,000**	RMB500,000,000

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the Bank													
	CMSNCL		CMBICHC		CMBFLC		CMB WLB		CMFM		CMBWM		CMB Europe S.A.		CIGNA & CMAM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%	RMB	%	EUR	%	RMB	%
At 1 January 2021	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100.00	50,000,000	100.00	500,000,000	note
Change	–	–	–	–	6,000,000,000	100.00	–	–	–	–	–	–	–	–	–	–
At 31 December 2021	3,289,470,337	13.04	4,129,000,000	100.00	12,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100.00	50,000,000	100.00	500,000,000	note

	The Bank held by the largest shareholder		The subsidiaries held by the Bank													
	CMSNCL		CMBICHC		CMBFLC		CMB WLB		CMFM		CMBWM		CMB Europe S.A.		CIGNA & CMAM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%	RMB	%	EUR	%	RMB	%
At 1 January 2020	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100.00	50,000,000	100.00	500,000,000	note
Change	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2020	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100.00	50,000,000	100.00	500,000,000	note

Note: This information is detailed in note 24.

As of 31 December 2021, other than those disclosed above, there were 265 companies that shared common directors, supervisors and senior management including their close family members with the Bank and they can control or exercise significant influence over the companies. (31 December 2020: 337).

61. Material related party transactions *(continued)*

(b) Terms and conditions for related-party transactions

The Group enters into transactions with related parties in the ordinary course of its banking business including lending, investing, deposit taking, securities trading, providing agency and trust services, and off-balance sheet transactions. In the opinion of the directors, the Group enters into such material related-party transactions under normal commercial terms. Interest rates on loans and deposits are set in accordance with such benchmark rates as PBOC rates and LPR:

	2021	2020
Short-term loans	**4.35%**	4.35%
Medium to long-term loans	**4.75% to 4.90%**	4.75% to 4.90%
Demand deposits	**0.35%**	0.35%
Time deposits	**1.10% to 2.75%**	1.10% to 2.75%

There were no loans and advances granted to related parties that were credit impaired during the year (2020: None).

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies held 29.97% (2020: 29.97%) of the Bank's shares as at 31 December 2021 (among them 13.04% of the shares were directly held by CMSNCL (2020: 13.04%)).

The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2021	2020
On-balance sheet:		
– Placements with banks and other financial institutions	**–**	3,000
– Amounts held under resale agreements	**13,967**	1,500
– Loans and advances to customers	**42,645**	37,411
– Financial investments	**1,147**	1,850
– Deposits from banks and other financial institutions	**29,755**	2,667
– Deposits from customers	**45,708**	82,558
– Lease liabilities	**186**	91
Off-balance sheet:		
– Irrevocable guarantees	**3,645**	3,615
– Irrevocable letters of credit	**251**	380
– Bills of acceptances	**188**	292
Interest income	**1,738**	1,228
Interest expense	**(1,599)**	(1,336)
Net fee and commission income	**669**	662
Operating expenses	**(42)**	(22)
Other net income/(expenses)	**38**	(22)

61. Material related party transactions *(continued)*

(d) Companies that share common directors, supervisors or senior management with the Bank (other than those disclosed in Note 61(c)) and they can control or exercise significant influence over the companies

	2021	2020
On-balance sheet:		
– Amounts held under resale agreements	**285**	485
– Loans and advances to customers	**13,366**	34,467
– Financial investments	**595**	733
– Deposits from banks and other financial institutions	**11,137**	1,266
– Amounts sold under repurchase agreements	**–**	410
– Deposits from customers	**41,235**	47,840
– Lease liabilities	**73**	–
Off-balance sheet:		
– Irrevocable guarantees	**1,711**	395
– Irrevocable letters of credit	**46**	22
– Bills of acceptances	**225**	56
Interest income	**927**	2,428
Interest expense	**(984)**	(259)
Net fee and commission income	**273**	719
Operating expenses	**(1,654)**	(1,349)
Other net income	**7**	8

(e) Associates and joint ventures other than those disclosed in Note 61(c)

	2021	2020
On-balance sheet:		
– Placements with banks and other financial institutions	**14,500**	14,500
– Loans and advances to customers	**6,044**	4,690
– Deposits from banks and other financial institutions	**1,251**	967
– Deposits from customers	**693**	387
Off-balance sheet:		
– Irrevocable guarantees	**8,700**	8,700
Interest income	**516**	594
Interest expense	**(20)**	(16)
Net fee and commission income	**1,695**	1,090
Operating expenses	**(6)**	(5)

(f) Other major shareholders holding more than 5% shares of the Bank and exercising significant influence over the Bank

	2021	2020
On-balance sheet:		
– Amounts held under resale agreements	**399**	–
– Loans and advances to customers	**17,654**	38,862
– Financial investments	**2,512**	2,478
– Deposits from banks and other financial institutions	**7,502**	5,467
– Deposits from customers	**19,704**	40,062
– Lease liabilities	**46**	16
Off-balance sheet:		
– Irrevocable guarantees	**7,895**	32,577
– Irrevocable letters of credit	**337**	823
– Bills of acceptances	**5,068**	5,454
Interest income	**738**	1,145
Interest expense	**(585)**	(529)
Net fee and commission income	**1,411**	1,811
Other net (expense)/income	**(10)**	122

61. Material related party transactions *(continued)*

(g) Subsidiaries

	2021	2020
On-balance sheet		
– Balances with banks and other financial institutions	**1,950**	4,072
– Placements with banks and other financial institutions	**37,055**	37,331
– Loans and advances to customers	**–**	477
– Financial investments	**3,454**	1,819
– Deposits from banks and other financial institutions	**7,657**	8,789
– Placements from banks and other financial institutions	**–**	4
– Amounts sold under repurchase agreements	**816**	668
– Deposits from customers	**3,546**	6,596
Off-balance sheet		
– Irrevocable letters of credit	**1,998**	1,048
– Bills of acceptances	**81**	113
Interest income	**1,124**	989
Interest expense	**(258)**	(195)
Net fee and commission	**(1,294)**	(3,031)
Operating expenses	**(96)**	(112)
Other net income	**111**	174

All significant balances and transactions between the Bank and its subsidiaries have been eliminated in the consolidated financial statements.

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

	2021 in thousands	2020 in thousands
Salaries and other emoluments	**39,264**	40,839
Discretionary bonuses	**–**	13,508
Share-based payment	**17,312**	30,290
Contributions to defined contribution retirement schemes	**567**	503
Total	**57,143**	85,140

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 39(a)(iii)) to senior management under the Bank's H share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in Note 4(17); and the amounts are charged to the consolidated statement of profit or loss and other comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2021 and 2020.

62. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the subsidiaries. In the opinion of the directors of the Bank, the Group does not have any subsidiary with significant non-controlling interests during the reporting period.

(a) Perpetual debt capital

CMB WLB, the Group's subsidiary, issued perpetual debt of US$170 million on 27 April 2017 and another perpetual debt of US$400 million on 24 January 2019. Movements of perpetual debt capital which were issued by CMB WLB are as follows:

	Principal	**Distributions/Paid**	**Total**
At 1 January 2021	**3,753**	**–**	**3,753**
Perpetual debt capital issued	**–**	**–**	**–**
Distributions in 2021	**–**	**227**	**227**
Paid in 2021	**–**	**(227)**	**(227)**
Exchange difference	**(117)**	**–**	**(117)**
At 31 December 2021	**3,636**	**–**	**3,636**

	Principal	Distributions/Paid	Total
At 1 January 2020	3,979	–	3,979
Perpetual debt capital issued	–	–	–
Distributions in 2020	–	234	234
Paid in 2020	–	(234)	(234)
Exchange difference	(226)	–	(226)
At 31 December 2020	3,753	–	3,753

There is no maturity for the instruments and the payments of distribution can be cancelled at the discretion of the issuer. Cancelled interest is non-cumulative. There is no contractual obligation to deliver cash to other parties. During the years ended 31 December 2021 and 2020, CMB WLB did not cancel the payment of distribution and the corresponding amounts were paid to the perpetual debt holders accordingly.

63. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases, such transfers may give rise to full or partial derecognition of the financial assets concerned, and in other cases the transfers may not qualify for derecognition as the Group retains substantially all the risks and rewards of these transferred assets. As a result, the Group continues to recognise these transferred assets.

Securitisation of credit assets

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

With respect to the credit assets that are securitised and qualified for derecognition, based on the criteria set out in Note 4(5), the Group derecognises the transferred credit assets in their entirety. During the year ended 31 December 2021, the Group transferred loans amounting to RMB56,068 million (2020: RMB72,001 million) in securitisation arrangements, as well as substantially all the risks and rewards associated with the loans. The full amount of such securitised loans were then derecognised.

63. Transfers of financial assets *(continued)*

Securitisation of credit assets *(continued)*

In the cases that the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and for which the Group retains control, the Group recognises an asset in the consolidated statement of financial position to the extent of the Group's continuing involvement in the transferred assets, the remaining portion is derecognised. The extent of the Group's continuing involvement is the extent of the risks and rewards exposed by the Group to the value changes of the transferred assets. For the year ended 31 December 2021, the carrying amount of the securitised credit assets at the time of transfer under the securitisation arrangements in which the Group retained a continuing involvement was RMB15,942 million (2020: RMB17,491 million). The carrying amount of the continuing involvement asset and the corresponding continuing involvement liability amounting to RMB5,274 million as at 31 December 2021 (2020: RMB3,128 million) are recognised in other assets and other liabilities in the consolidated statement of financial position.

Transfers of credit assets to third parties

During the year 2021, in addition to securitisation transactions, the Group transferred credit assets amounting to RMB548 million (2020: RMB924 million) to independent third parties directly during the year ended 31 December 2021. The Group determined that these transferred assets qualified for full derecognition, based on the criteria set out in Note 4(5), since the Group has transferred substantially all the risks and rewards of the transferred assets to the counterparties.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities, discounted bills held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold 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 determines that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. Instead, it recognises a financial liability for cash received as collateral.

64. Interests in unconsolidated structured entities

The scope of the Group's consolidated financial statements is determined on a control basis. Control means that the investor has the power over the investee, enjoys variable returns by participating in the relevant activities of the investee, and has the ability to use the power to affect the amount of its return.

The Group has the power over structured entities, and the other investors have no substantive rights. In the meantime, the Group is entitled to variable returns, and will consolidate entities, in which the Group has the right to affect the amount of its return.

In addition to the above-mentioned structured entities that have been included in the Group's consolidated financial statements, the Group's equity information on structured entities which is not covered by the consolidated financial statements is as follows:

(a) Interests in the structured entities sponsored by third parties institutions

The Group holds interests in some structured entities sponsored by third parties through investments in the units issued by these structured entities. Such interests include investments in wealth management products, asset management schemes, trust beneficiary rights, assets backed securities and fund investments, and the Group does not consolidate these structured entities. The purpose of the Group holding these structured entities is to obtain investment income, capital appreciation or both.

The following tables set out an analysis of the balance of interests held by the Group in the structured entities sponsored by third parties and an analysis of the line items in the consolidated statement of financial positions as at 31 December 2021 and 31 December 2020 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	2021				
	Balance				
	Financial investments at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	–	76,978	–	76,978	76,978
Trust beneficiary rights	–	31,897	–	31,897	31,897
Asset-backed securities	2,537	307	1,205	4,049	4,049
Fund investments	156,112	–	–	156,112	156,112
Total	158,649	109,182	1,205	269,036	269,036

	2020				
	Balance				
	Financial investments at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	63,453	99,916	–	163,369	163,369
Trust beneficiary rights	–	37,663	–	37,663	37,663
Asset-backed securities	3,096	2,691	1,442	7,229	7,229
Fund investments	134,828	–	–	134,828	134,828
Wealth management products	34	–	–	34	34
Total	201,411	140,270	1,442	343,123	343,123

The maximum exposures of investments in funds, trust beneficiary rights, asset management schemes, wealth management products and asset backed securities are the balance of these assets.

64. Interests in unconsolidated structured entities *(continued)*

(b) Interests in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products, funds and assets management schemes. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issuance of investment products to investors. Interest of the Group in these unconsolidated structured entities is fees and commission charged for the services provided.

As at 31 December 2021, the amount of unconsolidated non-principal-guaranteed wealth management products sponsored by the Group was RMB2,777,537 million (31 December 2020: RMB2,445,644 million).

As at 31 December 2021, the amount of unconsolidated funds sponsored by the Group was RMB1,085,813 million (31 December 2020: RMB785,489 million).

As at 31 December 2021, the amount of unconsolidated asset management schemes sponsored by the Group was RMB174,555 million (31 December 2020: RMB177,750 million).

As at 31 December 2021, amounts held under resale agreements transacted between the Group and the non-principal-guaranteed wealth management products sponsored by the Group were RMB30,896 million (31 December 2020: RMB48,898 million). The above transactions were conducted in accordance with normal business terms and conditions.

As at 31 December 2021, the amount of unconsolidated non-principal-guaranteed wealth management products held by the Group was RMB 2,396 million (31 December 2020: RMB 1,225 million).

As at 31 December 2021, the amount of unconsolidated fund products held by the Group was RMB6,658 million (31 December 2020: RMB2,004 million).

During the year ended 31 December 2021, the amount of wealth management products sponsored by the Group transferred to investments measured at amortised cost of the Group was RMB11,004 million (2020: RMB12,629 million).

During the year ended 31 December 2021, the amount of fee and commission income the Group received from such non-principal-guaranteed wealth management products was RMB11,998 million (2020: RMB10,162 million).

During the year ended 31 December 2021, the amount of fee and commission income the Group received from such unconsolidated funds was RMB4,223 million (2020: RMB2,330 million).

During the year ended 31 December 2021, the amount of fee and commission income the Group received from such unconsolidated asset management schemes was RMB627 million (2020: RMB537 million).

The total amount of non-principal-guaranteed wealth management products sponsored by the Group after 1 January 2021 with a maturity date before 31 December 2021 was RMB1,529,874 million (2020: RMB1,924,836 million).

65. Comparative figures

Certain comparative figures in the footnotes have been amended to conform to changes in disclosures in current year.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries and regions.

In accordance with the Advanced Measurement Approach approved by the CBIRC in April 2014, the Group calculates core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	2021	2020
Core tier-1 capital adequacy ratio	**12.66%**	12.29%
Tier-1 capital adequacy ratio	**14.94%**	13.98%
Capital adequacy ratio	**17.48%**	16.54%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**67,491**	67,491
Surplus reserves	**82,104**	71,057
Regulatory general reserve	**115,288**	98,082
Retained earnings	**424,768**	365,168
Qualifying portion of non-controlling interests	**–**	282
Other (note (i))	**12,788**	7,361
Total core tier-1 capital	**727,659**	634,661
Regulatory deductions from core tier-1 capital	**23,322**	24,569
Net core tier-1 capital	**704,337**	610,092
Additional tier-1 capital (note (ii))	**127,043**	84,092
Net tier-1 capital	**831,380**	694,184
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**24,170**	28,340
Surplus provision for loans impairment	**115,472**	97,119
Qualifying portion of non-controlling interests	**1,584**	1,647
Total tier-2 capital	**141,226**	127,106
Regulatory deductions from core tier-2 capital		–
Net tier-2 capital	**141,226**	127,106
Net capital	**972,606**	821,290
Total risk-weighted assets	**5,563,724**	4,964,542

Notes:

(i) : Under CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional), other includes investment revaluation reserve, exchange reserve, hedging reserve in the consolidated financial statements, etc.

(ii) : The Group's additional tier-1 capital includes preference shares, perpetual bonds, etc.

In 2021, in accordance with the advanced capital management approach approved by CBIRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 12.15%, tier-1 capital adequacy ratio is 14.59%, capital adequacy ratio is 17.23 %, net capital is RMB875,859 million and total risk-weighted assets is RMB5,082,896 million.

In 2021, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 11.17%, tier-1 capital adequacy ratio is 13.19%, capital adequacy ratio is 14.71%, net capital is RMB927,277 million and total risk-weighted assets is RMB6,303,544 million.

In 2021, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Bank's core tier-1 capital adequacy ratio is 10.60%, tier-1 capital adequacy ratio is 12.73%, capital adequacy ratio is 14.26%, net capital is RMB830,529 million and total risk-weighted assets is RMB5,824,290 million.

(B) Leverage ratio

In accordance with the CBIRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio is as follows. The basis used herein may differ from those adopted in Hong Kong or other countries and regions.

The difference between regulatory items and accounting items:

	2021	2020
Total consolidated assets as per published financial statements	**9,249,021**	8,361,448
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(54,231)**	(48,399)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**(8,526)**	(18,274)
Adjustment for securities financing transactions	**27,776**	45,094
Adjustment for off-balance sheet items	**1,204,181**	1,079,726
Other adjustments	**(23,322)**	(24,569)
Balance of adjusted on-balance sheet and off-balance sheet assets	**10,394,899**	9,395,026

Leverage ratio, net tier-1 capital, adjusted on-balance sheet and off-balance sheet exposures and other information:

	2021	2020
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	**8,647,884**	7,983,402
Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(23,322)**	(24,569)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**8,624,562**	7,958,833
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	**5,374**	14,080
Add-on amounts for potential future exposure associated with all derivatives transactions	**9,489**	14,918
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	**–**	–
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	**–**	–
Less: Exempted central counterparty leg of client-cleared trade exposures	**–**	–
Effective notional amount of written credit derivatives	**–**	–
Less: Adjusted effective notional deductions for written credit derivatives	**–**	–
Total derivative exposures	**14,863**	28,998
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**523,517**	282,375
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
Counterparty credit risk exposure for SFT assets	**27,776**	45,094
Agent transaction exposures	**–**	–
Total securities financing transaction exposures	**551,293**	327,469
Off-balance sheet exposure at gross notional amount	**2,576,292**	2,368,667
Less: Adjustments for conversion to credit equivalent amounts	**(1,372,111)**	(1,288,941)
Balance of adjusted off-balance sheet assets	**1,204,181**	1,079,726
Net tier-1 capital	**831,380**	694,184
Balance of adjusted on-balance sheet and off-balance sheet assets	**10,394,899**	9,395,026
Leverage ratio	**8.00%**	7.39%

(C) Liquidity coverage ratio

The Group prepared and disclosed information on liquidity coverage ratio in accordance with the "Measures for the Disclosure of Information on Liquidity Coverage Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other countries and regions. The average of liquidity coverage ratio of the Group was 164.82% in the fourth quarter of 2021, an increase of 20.71 percentage points from the previous quarter, mainly due to the increase in high quality liquid assets. The breakdown of the Group's average value of each item of liquidity coverage ratio in the fourth quarter of 2021 is set out below:

Serial No.		Unweighted amount (average value)	Weighted amount (average value)
Stock of high quality liquid assets			
1	**Total stock of high quality liquid assets**		**1,315,276**
Cash outflows			
2	Retail and small business customers deposits, of which:	2,379,673	210,446
3	Stable deposits	550,436	27,522
4	Less stable deposits	1,829,237	182,924
5	Unsecured wholesale funding, of which:	4,037,557	1,328,347
6	Operational deposits (excluding correspondent banks)	2,564,926	638,309
7	Non-operational deposits (including all counterparties)	1,454,047	671,454
8	Unsecured debt issuance	18,584	18,584
9	Secured funding	/	10,866
10	Additional requirements, of which:	1,727,728	422,626
11	Cash outflows arising from derivative contract and other transactions arising from related collateral requirements	345,429	345,429
12	Cash outflows arising from secured debt instruments funding	–	–
13	Undrawn committed credit and liquidity facilities	1,382,299	77,197
14	Other contractual obligations to extend funds	73,126	73,126
15	Other contingent funding obligations	6,071,119	92,547
16	**Total cash outflows**		**2,137,958**
Cash inflows			
17	Secured lending (including reverse repo and securities borrowing)	297,686	297,226
18	Contractual inflows from fully performing loans	1,080,407	694,648
19	Other cash inflows	354,702	348,081
20	**Total cash inflows**	**1,732,795**	**1,339,955**

		Adjusted value
21	**Total stock of high quality liquid assets**	**1,315,276**
22	**Net cash outflows**	**798,003**
23	**Liquidity coverage ratio (%)**	**164.82%**

Note:

(i) The domestic data in the above table is a simple arithmetic average of the 92-day value for the latest quarter and the month-end average for the data of subsidiaries.

(ii) The high quality liquid assets in the above table are prepared based on the central bank reserve available under cash and pressure conditions, as well as the bond in line with definition of Tier 1 and Tier 2 assets set by China Banking and Insurance Regulatory Commission on the "Measures for the Liquidity Risk Management of Commercial Banks".

(D) Net stable funding ratio

The Group prepared and disclosed information on net stable funding ratio in accordance with the "Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other countries and regions. The Group's net stable funding ratio at the end of the fourth quarter of 2021 was 123.88%, representing an increase of 5.01 percentage points as compared with the previous quarter, which was basically stable. The breakdown of the Group's net stable fund ratio in the last two quarters is set out below:

31 December 2021

Serial No.		Unweighted amount				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
Available stable funding (ASF) item						
1	Capital	861,035	–	–	20,000	881,035
2	Regulatory capital	849,335	–	–	20,000	869,335
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,916,922	684,121	50,334	5,224	2,421,524
5	Stable deposits	599,073	1,947	183	1,429	572,572
6	Less stable deposits	1,317,849	682,174	50,151	3,795	1,848,952
7	Wholesale funding	2,901,087	1,892,144	293,020	239,208	2,501,785
8	Operational deposits	2,598,197	–	–	–	1,299,099
9	Other wholesale funding	302,890	1,892,144	293,020	239,208	1,202,686
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	39,745	89,705	48,117	195,638	179,823
12	NSFR derivative liabilities				39,874	
13	All other liabilities and equity not included in the above categories	39,745	89,705	48,117	155,764	179,823
14	Total ASF					5,984,167
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					228,498
16	Deposits held at other financial institutions for operational purposes	39,853	8,329	–	–	24,091
17	Performing loans and securities	313	2,357,601	1,074,105	3,334,716	4,164,678
18	Performing loans to financial institutions secured by Level 1 HQLA	–	474,378	–	–	71,157
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	313	536,930	177,453	24,877	194,190
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,147,428	828,084	1,810,662	2,492,938
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	125,673	106,521	169,404	226,210
22	Performing residential mortgages, of which:	–	36,012	30,283	1,313,371	1,147,834
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	162,853	38,285	185,806	258,559
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	25,675	116,307	56,013	50,202	218,099

(D) Net stable funding ratio *(Continued)*

31 December 2021 *(Continued)*

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12 months	≥ 12 months	Weighted amount
Required stable funding (RSF) item *(continued)*						
27	Physical traded commodities, including gold	4,637				3,941
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				132	112
29	NSFR derivative assets				36,445	–
30	NSFR derivative liabilities before deduction of variation margin posted				8,164	8,164
31	All other assets not included in the above categories	21,038	116,307	56,013	13,625	205,882
32	Off-balance sheet items				4,724,177	195,227
33	Total RSF					4,830,593
34	Net Stable Funding Ratio (%)					123.88%

30 September 2021

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12 months	≥ 12 months	Weighted amount
Available stable funding (ASF) item						
1	Capital	789,164	–	–	20,000	809,164
2	Regulatory capital	777,464	–	–	20,000	797,464
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,770,522	656,819	37,436	7,618	2,254,186
5	Stable deposits	560,572	4,658	161	1,304	538,425
6	Less stable deposits	1,209,950	652,161	37,275	6,314	1,715,761
7	Wholesale funding	2,521,735	2,194,603	306,908	224,206	2,360,339
8	Operational deposits	2,454,091	–	–	–	1,227,046
9	Other wholesale funding	67,644	2,194,603	306,908	224,206	1,133,293
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	36,390	91,306	51,446	167,565	149,773
12	NSFR derivative liabilities				43,515	
13	All other liabilities and equity not included in the above categories	36,390	91,306	51,446	124,050	149,773
14	Total ASF					5,573,462
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					251,477
16	Deposits held at other financial institutions for operational purposes	50,698	5,142	–	–	27,920
17	Performing loans and securities	18,243	2,281,881	1,048,018	3,253,463	4,082,195
18	Performing loans to financial institutions secured by Level 1 HQLA	–	214,190	–	–	28,576
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	18,243	691,380	209,292	20,227	234,833
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,138,620	778,066	1,771,438	2,428,763
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	128,990	107,200	176,512	232,827

(D) Net stable funding ratio *(continued)*

30 September 2021 *(continued)*

Serial No.		Unweighted amount				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
Required stable funding (RSF) item *(continued)*						
22	Performing residential mortgages, of which:	–	35,737	29,352	1,286,395	1,124,244
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	201,954	31,308	175,403	265,779
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	26,203	62,020	22,705	41,118	122,428
27	Physical traded commodities, including gold	4,098				3,483
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				162	138
29	NSFR derivative assets				37,304	–
30	NSFR derivative liabilities before deduction of variation margin posted				8,795	8,795
31	All other assets not included in the above categories	22,105	62,020	22,705	3,652	110,012
32	Off-balance sheet items				9,112,573	204,768
33	Total RSF					4,688,788
34	Net Stable Funding Ratio (%)					118.87%

Note:

(i) The Group calculates net stable funding ratio in accordance with the "Measures for the Liquidity Risk Management of Commercial Banks" and relevant statistical regulations.

(ii) Items to be reported in the "no maturity" time include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

(iii) The item 26 "Other assets" unweighted amount in the above table does not include the item 30 "NSFR derivative liabilities before deduction of variation margin posted".

(E) Currency concentrations other than RMB

	2021			
	USD	HKD (in millions of RMB)	Other	Total
Non-structural position				
Spot assets	**495,257**	**35,808**	**59,918**	**590,983**
Spot liabilities	**512,533**	**15,558**	**83,915**	**612,006**
Forward purchased	**491,072**	**4,528**	**56,172**	**551,772**
Forward written	**492,022**	**19,146**	**32,156**	**543,324**
Net option position	**13,086**	**361**	**417**	**13,864**
Net long position	**(5,140)**	**5,993**	**436**	**1,289**
Net structural position	**19,155**	**33,220**	**991**	**53,366**

	2020			
	USD	HKD (in millions of RMB)	Other	Total
Non-structural position				
Spot assets	514,789	42,491	76,940	634,220
Spot liabilities	498,529	27,393	70,538	596,460
Forward purchased	496,469	9,019	87,616	593,104
Forward written	512,955	14,274	89,931	617,160
Net option position	11,721	169	(2,754)	9,136
Net long position	11,495	10,012	1,333	22,840
Net structural position	9,537	31,120	1,005	41,662

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investment properties, property and equipment, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

(F) International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims in foreign currencies on third parties within the Mainland China as international claims.

International claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills, certificates of deposit and securities investment.

International claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk is transferred only when the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2021			
	Banks and other financial institutions	**Public sector entities**	**Other**	**Total**
Foreign currencies transactions in Mainland China	**61,952**	**4,288**	**138,985**	**205,225**
Asia Pacific excluding Mainland China	**86,411**	**31,240**	**169,165**	**286,816**
– of which attributed to Hong Kong	**66,216**	**28,841**	**146,732**	**241,789**
Europe	**9,556**	**2,103**	**18,401**	**30,060**
North and South America	**25,361**	**54,449**	**18,010**	**97,820**
Total	**183,280**	**92,080**	**344,561**	**619,921**

	2020			
	Banks and other financial institutions	Public sector entities	Other	Total
Foreign currencies transactions in Mainland China	71,342	6,050	111,106	188,498
Asia Pacific excluding Mainland China	65,102	35,237	150,158	250,497
– of which attributed to Hong Kong	37,344	33,862	135,236	206,442
Europe	7,936	1,175	19,162	28,273
North and South America	35,131	28,197	30,223	93,551
Total	179,511	70,659	310,649	560,819

(G) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	2021		2020	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Transportation, storage and postal services	412,417	47	381,898	42
Property development	367,642	52	342,667	53
Manufacturing	309,635	39	256,173	36
Production and supply of electric power, heating power, gas and water	187,611	47	161,777	39
Leasing and commercial services	170,009	26	143,805	28
Wholesale and retail	138,352	36	132,055	38
Construction	117,453	21	101,442	21
Water, environment and public utilities management	64,427	41	52,911	46
Telecommunications, software and IT services	58,267	44	54,491	35
Finance	57,988	28	74,892	43
Mining	28,854	32	31,097	31
Others	66,364	23	65,330	27
Corporate loans and advances subtotal	1,979,019	40	1,798,538	40
Discounted bills	431,305	100	327,479	100
Residential mortgage	1,364,534	100	1,264,466	100
Credit cards	840,254	–	746,560	–
Micro-finance loans	560,657	81	474,545	85
Others	173,527	16	156,713	25
Retail loans and advances subtotal	2,938,972	63	2,642,284	65
Gross loans and advances to customers	5,349,296	57	4,768,301	58

(G) Further analysis on loans and advances to customers analysed by industry sector *(Continued)*

Operation outside Mainland China

	2021		2020	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Finance	37,345	16	39,402	21
Property development	34,062	51	48,125	59
Transportation, storage and postal services	33,186	84	30,526	87
Manufacturing	23,763	28	26,962	31
Wholesale and retail	8,920	26	17,720	37
Telecommunications, software and IT services	7,727	25	9,644	19
Production and supply of electric power, heating power, gas and water	7,077	18	8,636	24
Mining	5,651	21	9,579	36
Leasing and commercial services	4,749	46	11,223	66
Construction	3,481	69	2,177	40
Water, environment and public utilities management	821	60	2,383	83
Others	5,137	51	12,317	62
Corporate loans and advances subtotal	171,919	42	218,694	47
Discounted bills	–	–	3,257	100
Residential mortgage	9,872	100	10,349	100
Credit cards	117	–	127	–
Micro-finance loans	1,214	99	1,183	99
Others	37,616	98	27,217	97
Retail loans and advances subtotal	48,819	98	38,876	97
Gross loans and advances to customers	220,738	55	260,827	55

(G) Further analysis on loans and advances to customers analysed by industry sector *(Continued)*

When the amount of loans and advances to customers for an industry/category accounts for 10% or above of the total amount of loans and advances to customers, the amount of overdue loans, impaired loans and credit impairment allowances in each expected credit loss stage are disclosed as follows:

	2021				
	Overdue loans and advances	Impaired loans and advances	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)
Residential mortgage	3,966	3,821	19,333	1,525	2,677
Credit card	26,823	13,846	21,585	8,506	12,987
Micro-business loan	3,101	3,500	11,285	728	3,007

	2020				
	Overdue loans and advances	Impaired loans and advances	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)
Residential mortgage	4,019	3,759	9,042	726	2,729
Credit card	20,065	12,424	7,428	13,630	11,770
Micro-business loan	2,877	3,026	20,793	880	2,548

As at 31 December 2021, for corporate loans and advances measured at amortised cost, the fair value of collateral held against impaired loans and advances is RMB3,304 million (31 December 2020: RMB6,262 million).

(H) Overdue loans and advances to customers

(i) By geographical segments

	2021	2020
Headquarters	**13,812**	15,328
Yangtze River Delta region	**3,711**	4,704
Bohai Rim region	**3,490**	6,370
Pearl River Delta and West Coast region	**5,052**	5,400
Northeast region	**1,510**	2,357
Central region	**4,066**	2,914
Western region	**2,295**	2,875
Outside Mainland China	**166**	342
Subsidiaries	**997**	694
Total	**35,099**	40,984

(ii) By overdue period

	2021	2020
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	**8,629**	10,445
– between 6 and 12 months (inclusive)	**7,710**	9,667
– over 12 months	**18,760**	20,872
Total	**35,099**	40,984
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	**0.15%**	0.21%
– between 6 and 12 months (inclusive)	**0.14%**	0.19%
– over 12 months	**0.33%**	0.41%
Total	**0.62%**	0.81%

(H) Overdue loans and advances to customers *(Continued)*

(iii) Collateral information

	2021	2020
Secured portion of overdue loans and advances	**12,953**	15,148
Unsecured portion of overdue loans and advances	**20,884**	25,315
Value of collateral held against overdue loans and advances	**29,922**	43,862

The amount of the Group's overdue loans and advances to financial institutions as at 31 December 2021 was RMB1 million (2020: RMB150 million).

Note: The above analysis represents loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collateral of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(I) Renegotiated loans and advances to customers

	2021		2020	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Renegotiated loans and advances to customers (Note)	**16,517**	**0.30%**	24,878	0.49%
Less:				
– Renegotiated loans and advances overdue more than 90 days	**10,406**	**0.19%**	15,169	0.30%
– Renegotiated loans and advances overdue less than 90 days	**6,111**	**0.11%**	9,709	0.19%

Note: Represents the restructured non-performing loans.

The amount of the Group's renegotiated loans and advances to financial institutions as at 31 December 2021 was 1 million (2020: 1 million).

(J) Non-bank mainland china exposures

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in the Mainland China. As of 31 December 2021 and 31 December 2020, most of the Bank's exposures arose from businesses with Mainland China non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

Independent Auditor's Report

Deloitte. 德勤

To the shareholders of China Merchants Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 168 to 315, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost, and financial guarantees and loan commitments	
We identified expected credit loss ("ECL") allowance of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments as a key audit matter due to the materiality of these items' balance and significant management judgement and estimates involved in deriving the ECL estimates. As at 31 December 2022, as set out in Note 22(a), the Group reported loans and advances to customers at amortised cost of RMB5,443,438 million and expected credit loss allowances of RMB255,759 million; in Note 23(b), the Group reported debt investments at amortised cost of RMB1,599,139 million and expected credit loss allowances of RMB43,682 million; in Note 42, the Group reported the expected credit loss allowances of financial guarantees and loan commitments of RMB20,217 million. Key judgements and estimates in respect of the measurement of ECLs include: the significant management judgement and estimates of model design and its application; the identification of a significant increase in credit risk (SICR); the identification of credit impairment events; the determination of inputs used in the ECL model, as well as the determination of the forward-looking information to incorporate.	Our audit procedures in relation to the expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments included the following: We understood management's process and tested the design and operating effectiveness of key controls across the processes relevant to the ECL estimation of the Group. These controls included the development, validation and review of the ECL model; the controls over the model data input, including manual input controls and automated transmission controls; the automated controls over the ECL model calculation process; the controls over the identification of SICR indicators and credit impairment events. We assessed whether the ECL model applied by the Group has covered all the exposures that should be taken into consideration. In respect of different portfolios of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments, we involved our internal modelling specialist to assist us in assessing the appropriateness of the Group's methodology of ECL modelling. We reviewed relevant documents and evaluated the appropriateness and application of the ECL model.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost, and financial guarantees and loan commitments	
Principal accounting policies and significant accounting estimates and judgement applied in determining the expected credit loss allowances of loans and advances to customers at amortised cost, debt investments at amortised cost and financial guarantees and loan commitments are set out in Notes 4(5) and 5(4) to the consolidated financial statements.	With the support of our internal modelling specialist, we assessed the key definitions and application of parameters and assumptions in the ECL model. This included assessing stage determination, probability of default, loss given default, exposure at default and forward-looking information. We selected samples to check whether the calculation in the ECL model is consistent with the methodology. We selected samples to conduct credit reviews in order to assess the appropriateness of the significant judgements made by the management regarding the occurrence of SICR and credit impairment events, and whether the identification of such events are proper and timely. In addition, we selected samples and tested their data input into the ECL model to evaluate the completeness and accuracy of the data input. For loans and advances at amortised cost and debt investments at amortised cost at stage 3, we selected samples to test the reasonableness of future cash flows from the borrowers estimated by the Group, including the expected recoverable amount of collateral, to assess whether there were material misstatements in credit loss allowances.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Consolidation of structured entities	
We identified consolidation of structured entities as a key audit matter since significant judgement is applied by management to determine whether or not the Group has control over certain structured entities. The structured entities of the Group include wealth management products, asset management schemes, trust beneficiary rights, assets-backed securities and funds, as disclosed in Note 64 to the consolidated financial statements. As described in Note 4(1), the consolidation of structured entities is determined based on control. Control is achieved when the investor has power over the investee, the investor is exposed, or has rights, to variable returns from its involvement with the investee; and the investor has the ability to use its power to affect its returns. When performing the assessment on whether the Group has control over the structured entities, the Group considers several factors including, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration for managing the structured entities and the Group's exposure to variability of returns from interests that it holds in the structured entities.	Our audit procedures in relation to consolidation of structured entities included the following: We understood and tested the design and operating effectiveness of key controls over the management process in determining the consolidation scope for interests in structured entities as well as understood the purpose for setting up the structured entities. We reviewed the relevant contract terms, on a sample basis, and assessed the power of the Group over the structured entities, the rights of the Group to variable returns of the structured entities and the ability of the Group to use its power to affect its return, and evaluated management judgement on whether the Group has control over the structured entities and the conclusion about whether or not the consolidation criteria are met.

Other Information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 of the Bank 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 of the Bank 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 of the Bank 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

As part of an audit in accordance with ISAs, we exercise professional judgement 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 of the Bank.
- Conclude on the appropriateness of the directors of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Shi Chung Fai.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

24 March 2023

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2022	2021
Interest income	6	**353,380**	327,056
Interest expense	7	**(135,145)**	(123,137)
Net interest income		**218,235**	203,919
Fee and commission income	8	**103,372**	102,318
Fee and commission expense		**(9,097)**	(7,871)
Net fee and commission income		**94,275**	94,447
Other net income	9	**29,705**	29,011
– Disposal of financial instruments at amortised cost		**170**	(657)
Operating income		**342,215**	327,377
Operating expenses	10	**(122,061)**	(116,879)
Operating profit before impairment losses and taxation		**220,154**	210,498
Expected credit losses	14	**(56,751)**	(65,962)
Impairment losses on other assets		**(815)**	(393)
Share of profits of joint ventures	25	**1,710**	2,877
Share of profits of associates	26	**815**	1,153
Profit before taxation		**165,113**	148,173
Income tax	15	**(25,819)**	(27,339)
Profit for the year		**139,294**	120,834
Attributable to:			
Equity holders of the Bank		**138,012**	119,922
Non-controlling interests		**1,282**	912
Earnings per share			
Basic and diluted (RMB Yuan)	17	**5.26**	4.61

The notes form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2022	2021
Profit for the year		139,294	120,834
Other comprehensive income for the year after tax			
Items that may be reclassified subsequently to profit or loss		1,285	5,856
– Share of other comprehensive (expense)/income from equity-accounted investees		(1,155)	133
– Net fair value (loss)/gain on debt instruments measured at fair value through other comprehensive income		(5,617)	4,156
– Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		3,471	3,036
– Net movement in cash flow hedge reserve		112	105
– Exchange difference on translation of financial statements of foreign operations		4,429	(1,574)
– Other		45	–
Items that will not be reclassified to profit or loss		38	1,333
– Net fair value gain on equity instruments designated at fair value through other comprehensive income		48	1,318
– Remeasurement of defined benefit scheme		(10)	15
Other comprehensive income for the year, net of tax	16	1,323	7,189
Attributable to:			
Equity holders of the Bank		1,053	7,298
Non-controlling interests		270	(109)
Total comprehensive income for the year		140,617	128,023
Attributable to:			
Equity holders of the Bank		139,065	127,220
Non-controlling interests		1,552	803

The notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2022

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2022	2021
Assets			
Cash		**15,209**	13,310
Precious metals		**2,962**	4,639
Balances with central banks	18	**587,818**	553,898
Balances with banks and other financial institutions	19	**91,346**	80,350
Placements with banks and other financial institutions	20	**263,576**	194,421
Amounts held under resale agreements	21	**276,676**	524,601
Loans and advances to customers	22	**5,807,154**	5,335,391
Financial investments at fair value through profit or loss	23(a)	**423,467**	348,123
Derivative financial assets	60(f)	**18,671**	23,390
Debt investments at amortised cost	23(b)	**1,555,457**	1,185,841
Debt investments at fair value through other comprehensive income	23(c)	**780,349**	636,038
Equity investments designated at fair value through other comprehensive income	23(d)	**13,416**	6,995
Interests in joint ventures	25	**14,247**	14,779
Interests in associates	26	**9,597**	8,875
Investment properties	27	**1,268**	1,372
Property and equipment	28	**99,919**	80,415
Right-of-use assets	29(a)	**17,553**	18,403
Intangible assets	30	**3,402**	4,066
Goodwill	31	**9,999**	9,954
Deferred tax assets	32	**90,848**	81,639
Other assets	33	**55,978**	122,521
Total assets		**10,138,912**	9,249,021

The notes form part of these consolidated financial statements.

	Notes	2022	2021
Liabilities			
Borrowing from central banks		**129,745**	159,987
Deposits from banks and other financial institutions	34	**645,674**	753,018
Placements from banks and other financial institutions	35	**192,857**	170,650
Financial liabilities at fair value through profit or loss	36	**63,314**	63,761
Derivative financial liabilities	60(f)	**18,636**	27,282
Amounts sold under repurchase agreements	37	**107,093**	157,660
Deposits from customers	38	**7,590,579**	6,385,154
Salaries and welfare payable	39(a)	**23,866**	19,761
Tax payable	40	**19,458**	22,491
Contract liabilities	41	**6,679**	7,536
Lease liabilities	29(b)	**13,013**	13,812
Provisions	42	**22,491**	14,660
Debt securities issued	43	**223,821**	446,645
Deferred tax liabilities	32	**1,510**	1,353
Other liabilities	44	**125,938**	139,570
Total liabilities		**9,184,674**	8,383,340
Equity			
Share capital	45	**25,220**	25,220
Other equity instruments	46	**120,446**	127,043
– Preference shares	46(a)	**27,468**	34,065
– Perpetual bonds	46(b)	**92,978**	92,978
Capital reserve	47	**65,435**	67,523
Investment revaluation reserve	48	**11,815**	15,047
Hedging reserve	49	**151**	39
Surplus reserve	50	**94,985**	82,137
General reserve	51	**132,471**	115,288
Retained earnings		**449,139**	390,207
Proposed profit appropriation	52(b)	**43,832**	38,385
Exchange reserve	53	**2,009**	(2,144)
Total equity attributable to shareholders of the Bank		**945,503**	858,745
Non-controlling interests		**8,735**	6,936
– Non-controlling interest		**5,948**	3,300
– Perpetual debt capital	62(a)	**2,787**	3,636
Total equity		**954,238**	865,681
Total equity and liabilities		**10,138,912**	9,249,021

The notes form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 24 March 2023.

Miao Jianmin
Director

Wang Liang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

(Expressed in millions of Renminbi unless otherwise stated)

		2022														
		Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
	Notes	Share capital	Preference shares	Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Subtotal	Non-controlling interest	Perpetual debt capital	Total
At 1 January 2022		25,220	34,065	92,978	67,523	15,047	39	82,137	115,288	390,207	38,385	(2,144)	858,745	3,300	3,636	865,681
Changes in equity for the year		–	(6,597)	–	(2,088)	(3,232)	112	12,848	17,183	58,932	5,447	4,153	86,758	2,648	(849)	88,557
(a) Net profit for the year		–	–	–	–	–	–	–	–	138,012	–	–	138,012	1,080	202	139,294
(b) Other comprehensive income for the year	16	–	–	–	–	(3,212)	112	–	–	–	–	4,153	1,053	15	255	1,323
Total comprehensive income for the year		–	–	–	–	(3,212)	112	–	–	138,012	–	4,153	139,065	1,095	457	140,617
(c) Capital movement from equity holders		–	(6,597)	–	(2,088)	–	–	–	–	–	–	–	(8,685)	1,832	(1,104)	(7,957)
(i) Capital invested by non-controlling shareholders		–	–	–	(1,489)	–	–	–	–	–	–	–	(1,489)	1,842	–	353
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(10)	–	(10)
(iii) Redemption of preference shares	46(a)	–	(6,597)	–	(599)	–	–	–	–	–	–	–	(7,196)	–	–	(7,196)
(iv) Redemption of perpetual debt capital	62(a)	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,104)	(1,104)
(d) Profit appropriations		–	–	–	–	–	–	12,848	17,183	(79,100)	5,447	–	(43,622)	(279)	(202)	(44,103)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	–	12,848	–	(12,848)	–	–	–	–	–	–
(ii) Appropriations to general reserve	51	–	–	–	–	–	–	–	17,183	(17,183)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2021		–	–	–	–	–	–	–	–	–	(38,385)	–	(38,385)	(279)	–	(38,664)
(iv) Distribution to perpetual debt capital	62	–	–	–	–	–	–	–	–	–	–	–	–	–	(202)	(202)
(v) Proposed dividends for the year 2022		–	–	–	–	–	–	–	–	(43,832)	43,832	–	–	–	–	–
(vi) Dividends to preference shares		–	–	–	–	–	–	–	–	(1,675)	–	–	(1,675)	–	–	(1,675)
(vii) Distribution to perpetual bonds		–	–	–	–	–	–	–	–	(3,562)	–	–	(3,562)	–	–	(3,562)
(e) Transfers within equity upon disposal of equity instruments designated at fair value through other comprehensive income		–	–	–	–	(20)	–	–	–	20	–	–	–	–	–	–
At 31 December 2022		25,220	27,468	92,978	65,435	11,815	151	94,985	132,471	449,139	43,832	2,009	945,503	5,948	2,787	954,238

The notes form part of these consolidated financial statements.

		2021														
		Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
	Notes	Share capital	Preference shares	Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Subtotal	Non-controlling interest	Perpetual debt capital	Total
At 1 January 2021		25,220	34,065	49,989	67,523	8,207	(66)	71,158	98,082	338,664	31,601	(693)	723,750	2,851	3,753	730,354
Changes in equity for the year		–	–	42,989	–	6,840	105	10,979	17,206	51,543	6,784	(1,451)	134,995	449	(117)	135,327
(a) Net profit for the year		–	–	–	–	–	–	–	–	119,922	–	–	119,922	685	227	120,834
(b) Other comprehensive income for the year	16	–	–	–	–	8,644	105	–	–	–	–	(1,451)	7,298	8	(117)	7,189
Total comprehensive income for the year		–	–	–	–	8,644	105	–	–	119,922	–	(1,451)	127,220	693	110	128,023
(c) Capital contribution from equity holders		–	–	42,989	–	–	–	–	–	–	–	–	42,989	–	–	42,989
Issue of perpetual bonds	46(b)	–	–	42,989	–	–	–	–	–	–	–	–	42,989	–	–	42,989
(d) Profit appropriations		–	–	–	–	–	–	10,979	17,206	(70,183)	6,784	–	(35,214)	(244)	(227)	(35,685)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	–	10,979	–	(10,979)	–	–	–	–	–	–
(ii) Appropriations to general reserve	51	–	–	–	–	–	–	–	17,206	(17,206)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2020		–	–	–	–	–	–	–	–	–	(31,601)	–	(31,601)	(244)	–	(31,845)
(iv) Distribution to perpetual debt capital	62	–	–	–	–	–	–	–	–	–	–	–	–	–	(227)	(227)
(v) Proposed dividends for the year 2021		–	–	–	–	–	–	–	–	(38,385)	38,385	–	–	–	–	–
(vi) Dividends to preference shares		–	–	–	–	–	–	–	–	(1,638)	–	–	(1,638)	–	–	(1,638)
(vii) Distribution to perpetual bonds		–	–	–	–	–	–	–	–	(1,975)	–	–	(1,975)	–	–	(1,975)
(e) Transfers within equity upon disposal of equity instruments designated at fair value through other comprehensive income		–	–	–	–	(1,804)	–	–	–	1,804	–	–	–	–	–	–
At 31 December 2021		25,220	34,065	92,978	67,523	15,047	39	82,137	115,288	390,207	38,385	(2,144)	858,745	3,300	3,636	865,681

The notes form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022
(Expressed in millions of Renminbi unless otherwise stated)

	2022	2021
Operating activities		
Profit before taxation	165,113	148,173
Adjustments for:		
– Impairment losses on loans and advances	45,157	37,020
– Impairment losses on investments and other	12,409	29,335
– Unwinding of discount on the allowances of loans and advances	(386)	(247)
– Depreciation of property and equipment and investment properties	10,279	8,857
– Depreciation of right-of-use assets	4,151	4,259
– Amortisation of other assets	1,193	1,389
– Net gains on debt securities and equity investments	(14,722)	(15,388)
– Interest income on investments	(65,808)	(56,059)
– Interest expense on issued debt securities	9,662	12,532
– Share of profits of associates	(815)	(1,153)
– Share of profits of joint ventures	(1,710)	(2,877)
– Net gains on disposal of properties and equipment and other assets	(282)	(113)
– Interest expense on lease liabilities	510	555
Changes in:		
Balances with central banks	(48,851)	12,874
Loans and advances to customers	(508,891)	(564,924)
Other assets	63,611	(37,395)
Deposits from customers	1,188,664	718,742
Amounts due to banks and other financial institutions	(135,569)	73,321
Amounts due from banks and other financial institutions with original maturity over 3 months	(46,825)	2,160
Borrowing from central banks	(30,073)	(170,100)
Other liabilities	(39,251)	16,596
Cash generated from operating activities before income tax payment	607,566	217,557
Income tax paid	(37,423)	(35,509)
Net cash generated from operating activities	570,143	182,048
Investing activities		
Payment for the purchases of investments	(1,898,898)	(1,225,385)
Proceeds from disposals and redemptions of investments	1,334,013	1,160,739
Investment income received	79,122	71,197
Payment for the acquisition of subsidiaries, associates or joint ventures	(484)	(5,342)
Payment for the purchases of property and equipment and other assets	(34,892)	(24,160)
Proceeds from the disposals of property and equipment and other assets	6,750	2,399
Proceeds from the disposals of subsidiaries, associates or joint ventures	463	855
Net cash used in investing activities	(513,926)	(19,697)

The notes form part of these consolidated financial statements.

	Notes	2022	2021
Financing activities			
Proceeds from the issuance of negotiable interbank certificates of deposit	55(b)	**78,666**	319,707
Proceeds from the issuance of certificates of deposit	55(b)	**20,287**	14,692
Proceeds from the issuance of debt securities	55(b)	**21,481**	63,872
Proceeds from the issuance of perpetual bonds		**–**	42,989
Proceeds from non-controlling interests of subsidiaries		**2,667**	–
Proceeds from other financing activities	55(b)	**10,796**	6,860
Repayment of negotiable interbank certificates of deposit	55(b)	**(250,996)**	(226,012)
Repayment of certificates of deposit	55(b)	**(16,504)**	(21,363)
Repayment of debt securities	55(b)	**(78,735)**	(55,771)
Payment for lease liabilities	55(b)	**(4,932)**	(4,835)
Payment for redemption of preference shares		**(7,196)**	–
Payment for redemption of perpetual debt capital		**(1,104)**	–
Distribution paid on perpetual debt capital		**(202)**	(227)
Payment for dividends distribution		**(38,664)**	(31,845)
Distribution paid on preference shares		**(1,675)**	(1,638)
Distribution paid on perpetual bonds		**(3,562)**	(1,975)
Interest paid on financing activities		**(12,400)**	(11,398)
Payment for other financing activities	55(b)	**(14,959)**	(3,697)
Net cash (used in)/generated from financing activities		**(297,032)**	89,359
Net (decrease)/increase in cash and cash equivalents		**(240,815)**	251,710
Cash and cash equivalents as at 1 January		**801,754**	552,790
Effect of foreign exchange rate changes		**6,259**	(2,746)
Cash and cash equivalents as at 31 December	55(a)	**567,198**	801,754
Cash flows from operating activities include:			
Interest received		**285,050**	269,081
Interest paid		**108,496**	111,177

The notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022
(Expressed in millions of Renminbi unless otherwise stated)

1. Organisation and principal activities

(1) Organisation

China Merchants Bank Co., Ltd. (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002. On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2022, apart from the Head Office, the Bank had 51 branches in the Chinese mainland, Hong Kong, New York, Singapore, Luxembourg, London and Sydney. In addition, the Bank has two representative offices in New York and Taipei.

(2) Principal activities

The principal activities of the Bank and its subsidiaries (the "Group") are providing corporate and personal banking services, conducting treasury business, providing asset management and other financial services.

2. Basis of preparation of consolidated financial statements

(1) Statement of compliance and basis of preparation

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

(2) Basis of measurement

These financial statements are presented in Renminbi ("RMB") and unless otherwise stated, rounded to the nearest million. RMB 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(16).

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period and the measurement principles as explained below.

2. Basis of preparation of consolidated financial statements *(continued)*

(2) Basis of measurement *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the future periods are discussed in Note 5.

3. Application of new and amendments to IFRSs

Amendments to IFRSs effective in current year applied by the Group

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The above-mentioned application of the amendments to IFRSs has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Standards and amendments that are issued but not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	the date to be determined

The new and amendments to IFRSs mentioned above are not expected to have material impact on the consolidated financial statements in the foreseeable future.

4. Principal accounting policies

(1) Business combination

Financial statements include financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. If the intra-group transaction indicates that the relevant assets have impairment losses, the losses shall be recognised in full.

When necessary, adjustments are made by the Group to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the equity holders of the Bank. Non-controlling interests in the results of the Group are presented in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 4(2)) or, an associate (see Note 4(3)).

Business combinations or asset acquisitions

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities or assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities or assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

4. Principal accounting policies *(continued)*

(1) Business combination *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognised in the consolidated statement of profit or loss as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognised at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially recognised at either fair value or the non-controlling interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

(2) Joint ventures

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When judging whether there is a joint control, the Group usually considers the following cases:

– whether any party within the joint arrangement cannot control the relevant activities of the joint ventures;

– whether the decisions about the joint ventures' relevant activities require the unanimous consent of the parties sharing control.

The consolidated statement of profit or loss includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the joint ventures' net assets. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognised immediately in profit or loss in the period in which investment is acquired.

The consolidated statement of profit or loss includes post-tax results of the joint ventures for the year, including any impairment loss on goodwill relating to the investment in the joint ventures recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures. For these purposes, the Group's interest in the joint ventures is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture and has no significant influence on it, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

4. Principal accounting policies *(continued)*

(3) Associates

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

When judging whether there is any significant influence, the Group usually considers the following cases:

– representation on the Board of Directors or equivalent governing body of the investee;

– participation in policy-making processes;

– material transactions between the entity and its investee.

Investments in associates are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognised immediately in profit or loss in the period in which investment is acquired.

The consolidated statement of profit or loss includes the Group's post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For these purposes, the Group's interest in the associates is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

(4) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest based on the fair value of net assets acquired in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment. Goodwill arising on 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 and tested at least annually for impairment (see Note 4(11)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

4. Principal accounting policies *(continued)*

(5) Financial instruments

Initial recognition

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

All regular way purchases or sales of financial assets are recognised or derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

At initial recognition, financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. When determining the effective interest rate, the Group estimates the future cash flow on the basis of considering all contract terms of financial assets or financial liabilities, but does not consider the expected credit loss.

Classification and measurement of financial assets

The Group classifies its financial assets into the following measurement categories at initial recognition: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment, which is not held for trading, in other comprehensive income ("OCI").

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at amortised cost

Financial assets measured at amortised cost are subsequently measured with the effective interest method, and the gains or losses arising from amortisation or impairment are recognised in profit or loss. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment losses are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if debt instruments had been measured at amortised cost. When debt instruments are derecognised, the cumulative gains or losses previously recognised in investment revaluation reserve are reclassified to profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments which are not held for trading as at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other net income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes fair value gains or losses, any dividend or interest earned on the financial asset, and is included in "other net income".

Impairment under ECL model

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under IFRS 9 *Financial Instruments*, including financial assets at amortised cost, debt instrument assets at fair value through other comprehensive income, leases receivable, loan commitments and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group assesses the ECL of financial assets with forward-looking information. 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. In contrast, lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. Assessment are done based on the factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For the above financial instruments that apply the ECL model, except for the purchased or originated credit-impaired financial assets, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by the Group to determine whether to recognise lifetime ECL. When the credit risk of these financial instruments does not increase significantly after the initial recognition, the Group recognises a loss allowance for the financial instrument at an amount equal to 12-month ECL; in the event of a significant increase in credit risk, the Group recognises a loss allowance at an amount equal to lifetime ECL. The Group recognises the loss allowance of receivables that result from transactions that are within the scope of IFRS 15 *Revenue from contracts with customers* at an amount equal to lifetime ECL.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The assessment of whether the credit risk has increased significantly is detailed in Note 60(a).

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Impairment under ECL model *(continued)*

Credit-impaired financial assets

The Group defines whether there is credit impairment based on the internal evaluation results of the credit risk management system for relevant financial assets. The Group considers that financial assets have been credit-impaired when its loan classification is substandard, doubtful or loss or is more than 90 days overdue.

Measurement and recognition of ECL

ECL is measured based on the probability of default, loss given default and the exposure at default. The measurement and recognition of ECL are detailed in Note 60(a).

Generally, ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 *Leases*.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected credit losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, ECL is the present value of the difference between the contractual cash flows that are due to the Group:

- if the holder of the loan commitments draws down the loan, and
- the cash flows that the Group expects to receive if the loan is drawn down.

The loss allowance for loan commitments and financial guarantee contracts is recognised in profit or loss and accumulated in provisions. As for debt instruments measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these financial assets. The loss allowance for other financial assets which are subject to impairment under IFRS 9 *Financial Instruments* is recognised in profit or loss through a loss allowance account.

Classification and measurement of financial liabilities

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading (including derivatives belonging to financial liabilities) or (ii) designated as at FVTPL. Except for hedging accounting, financial liabilities measured at FVTPL are subsequently measured at fair value and all changes in fair value are recognised in profit or loss.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial liabilities *(continued)*

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 *Financial Instruments* permits the entire combined contract to be designated as at FVTPL.

Other financial liabilities

Except for financial liabilities at FVTPL, financial liabilities formed by the transfer of financial assets that do not meet the conditions for derecognition or by continued involvement in transferred financial assets and financial liabilities, financial guarantee contract and loan commitment, other financial liabilities are classified as financial liabilities at amortised cost, which are subsequently measured at amortised cost and the gains or losses arising from derecognition or amortisation are included in profit or loss.

Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedge and cash flow hedge. The Group documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge, at the inception of a hedging relationship. The Group also requires documentation of the 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 attributable to the hedged risks.

Fair value hedge

The gains or losses on the hedging instrument are recognised in consolidated statement of profit or loss. When the hedging for the risk exposure relates to an non-trading equity instrument designated as at FVTOCI, the gains or losses on the hedging instrument are recognised in other comprehensive income.

The carrying amount of the hedged item not already measured at fair value is adjusted for the gain or loss attributable to the risk being hedged and is taken to consolidated statement of profit or loss. The adjustment to the carrying amount of the hedged item is based on a recalculated effective interest rate at the date that amortisation begins and shall be amortised to consolidated statement of profit or loss if the hedged item is a financial instrument measured at amortised cost. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for hedging gains and losses. If the hedged item is debt instruments measured at FVTOCI, the amounts previously recorded as cumulative adjustments of hedging gains or losses are amortised in similar method and recognised in the consolidated statement of profit or loss. The carrying amount of the hedged item is not adjusted.

Cash flow hedge

The effective portions of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in hedging reserve. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from hedging reserve to the consolidated statement of profit or loss in the same period during which the hedged cash flows affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in hedging reserve until the forecast transaction is ultimately recognised in the consolidated statements of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss is immediately reclassified to the consolidated statement of profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Hedge accounting *(continued)*

Hedge effectiveness testing

The Group has elected to adopt the general hedge accounting in IFRS 9 Financial Instruments. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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

Specific items

Cash equivalents

Cash equivalents comprise investments that are short term, highly liquid, readily convertible into known amounts of cash and subject to insignificant risk of changes in value, and unrestricted balances with the central banks, banks and other financial institutions, and amounts held under resale agreements, with original maturity of 3 months or less.

Balances and placements with banks and other financial institutions

Banks refer to those approved by the People's Bank of China ("PBOC") and other authorities. Other financial institutions represent finance companies, insurance companies, investment trust companies, leasing companies and insurance companies which are registered with and under the supervision of the China Banking and Insurance Regulatory Commission (the "CBIRC") and securities firms and investment fund companies which are registered with and under the supervision of other regulatory authorities. Balances and placements with banks and other financial institutions are measured at amortised cost.

Resale and repurchase agreements

Amounts for purchase of financial assets under resale agreements are accounted for under "amounts held under resale agreements". Amounts from sale of financial assets under repurchase agreements are accounted for under "amounts sold under repurchase agreements".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense (as appropriate).

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Financial investments

Equity investments are accounted for as financial assets at fair value through profit or loss or equity investments designated at fair value through other comprehensive income. Debt investments are classified as financial assets at fair value through profit or loss, debt investments at amortised cost, debt investments at fair value through other comprehensive income in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Loans and advances to customers

Loans and advances directly granted by the Group to customers and finance leases receivables are accounted for as loans and advances to customers.

Loans and advances to customers are classified as loans and advances to customers at fair value through profit or loss (loans and advances to customers at FVTPL), loans and advances to customers at amortised cost, loans and advances to customers at fair value through other comprehensive income (loans and advances to customers at FVTOCI) in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Derivative financial instruments

The Group's derivative financial instruments mainly include forward, foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own risk management purposes. The Group enters into derivative contracts with other banks that can conduct such business and financial institutions to hedge against risks arising from derivative transactions undertaken for customers.

Derivative financial instruments are stated at fair value. Except for the gains or losses arising from the effective hedging portion of those derivatives in cash flow hedge and the gains or losses on the hedging instrument that hedges an non-trading equity instrument designated as at FVTOCI are recognised in other comprehensive income, all other gains or losses are recognised in the consolidated statement of profit or loss.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 *Financial Instruments* are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 Financial Instruments are treated as separate derivatives with the same terms when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow hedging relationship.

Equity instruments

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Group for repurchasing self-issued equity instruments are deducted from shareholders' equity.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Equity instruments (continued)

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

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

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

At initial recognition, the Group classifies the perpetual bonds and perpetual debt capitals issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

For perpetual bonds and perpetual debt capitals issued that classified as equity instruments, any distribution of interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds and perpetual debt capitals are redeemed, the redeemed amount is charged to equity. Relevant transaction expenses are deducted from equity.

At initial recognition of preference shares, the Group classifies the preference shares issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

When the Group classifies preference shares issued as an equity instrument, fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

Derecognition of financial instruments

(a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset; or
- has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The Group writes off a financial asset (if any) when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Derecognition of financial instruments *(continued)*

(b) Securitisation

As part of its operational activities, the Group securitises credit assets, generally through the sale of these assets to structured entities which issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests).

When applying the accounting policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on the transferred financial assets and the degree of control exercised by the Group over the transferred financial assets:

- when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;
- when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and
- when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration collected from third parties are recorded as a financial liability.

When the securitisation results in derecognition or partial derecognition of financial assets, the Group allocates the carrying amount of the transferred financial assets between the financial assets derecognised and the retained interests based on their relative fair values at the date of transfer. Gains or losses on securitisation, which is the difference between the consideration received and the allocated carrying amount of the financial assets derecognised, are recorded in "other net income". The retained interests continue to be recognised on the same basis before the securitisation.

(c) Sales of assets on condition of repurchase

Derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(d) Financial liabilities

A financial liability (or part of it) is derecognised when the obligation under the liability (or part of it) is discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group currently has there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

4. Principal accounting policies *(continued)*

(6) Property, equipment, investment property and depreciation

Property, equipment and investment property, are stated at cost or deemed cost less accumulated depreciations and accumulated impairment losses. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of property, equipment and investment property over the following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Leasehold improvements (leased property)	the estimated useful lives
Leasehold improvements (self-owned property)	the estimated useful lives
Aircraft, vessels and professional equipment	no more than 25 years
Other	3 – 5 years

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property or other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

Subsequent expenditure relating to a property, equipment and investment property is capitalised only when it is probable that future economic benefits associated with the property and equipment will flow to the Group. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

Profits or losses on disposal of property, equipment and investment property are determined as the difference between the net disposal proceeds and the carrying amount of the property, equipment and investment property, and are accounted for in the consolidated statement of profit or loss as they arise.

(7) 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 other than equity instrument are reported in "other assets".

Repossessed assets of equity instruments are detailed in Note 4(5).

(8) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and accumulated impairment losses (see Note 4(11)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at the end of the reporting period.

The amortisation period of intangible assets is as follows:

Software and Other	Core deposit
2 – 20 years	28 years

Both the periods and method of amortisation are reviewed annually.

4. Principal accounting policies *(continued)*

(9) Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 *Leases* at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

(a) Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(b) Short-term leases and leases of low-value assets

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (lease term of 12 months or less and do not contain a purchase option) and leases of low value assets (the value of assets is equivalent to below RMB35,000).

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(c) Right-of-use assets

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The right-of-use asset is initially measured at cost. This cost includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

After the commencement date, the right-of-use assets are measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The Group recognises the depreciation of right-of-use assets as an operating expense on a straight-line basis. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers the ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Accounting policy for any identified right-of-use asset impairment loss are disclosed in Note 4(11).

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessee *(continued)*

(d) Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

(e) Lease liabilities

Lease liability is presented as a separate line in the consolidated statement of financial position.

Except for short-term leases and leases of low-value asset, lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date using lessee's incremental borrowing rate as the discount rate.

Lease payments refer to the payment made by the lessee to the lessor in connection with the right to use the leased assets during the lease term. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease; and
- the amount expected to be payable by the lessee under remaining value guarantees.

After the beginning date of the lease term, the Group calculates the interest expense of the lease liability in each period of the lease term at a fixed periodic interest rate, and recognised it in the current profit and loss or related asset costs.

After the commencement date, the Group remeasures the lease liability according to the present value calculated by the revised lease payment amount and the revised discount rate and makes a corresponding adjustment to the related right-of-use asset whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; or
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed remaining value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate. But if the change in lease payments results from a change in floating interest rates, the lessee shall use a revised discount rate that reflects changes in the interest rate.

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. When the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "loans and advances to customers". Unrecognised finance income under finance leases are amortised using the effective interest method over the lease term. Accounting policy for impairment losses are disclosed in Note 4(5).

When the Group is a lessor of an operating lease, income derived from operating lease is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Contingent lease income is charged to profit or loss in the accounting period in which it is incurred.

When a contract includes lease and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* to allocate the consideration under the contract to each component.

As a buyer-lessor in a sale and leaseback transactions

For a transfer of asset that does not meet the requirements of IFRS 15 *Revenue from Contracts with Customers* to account for a sale of asset, the Group acting as a buyer-lessor does not recognise the transferred asset and recognises loan and advance to customers at an amount that equals the transfer proceed within the scope of IFRS 9 *Financial Instruments*.

(10) Insurance contracts

Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Insurance income recognition

Premiums from long-term life insurance contracts are recognised as revenue when due from policy holders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in liabilities, and are amortised on a straight-line basis into the consolidated statement of profit or loss over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated statement of profit or loss in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period.

The Group has considered the impact of time value in the liability calculation for long-term life insurance. The Group performs liability adequacy tests based on information currently available as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

4. Principal accounting policies *(continued)*

(11) Impairment on tangible and intangible assets other than impairment under ECL model

The carrying amount of tangible and intangible assets including property and equipment, right-of-use assets, intangible assets, investment properties, interests in joint ventures, interests in associates, goodwill and other non-current assets are reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount of an asset is the greater of its fair value less disposal expense and present value of future expected cash flows. In assessing value in use, the estimated future cash flows are discounted to their present values.

Internal and external sources of information are reviewed at the end of the reporting period to identify any indications that other assets may be impaired.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value less disposal expense and the present value of future cash flows. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(12) Precious metals

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

4. Principal accounting policies *(continued)*

(13) Financial guarantee issued, provisions and contingent liabilities

Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The provision of financial guarantees issued is recognised in the consolidated statement of financial position in accordance with accounting policy set out in Note 4(5).

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is highly probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

(14) Income recognition

Revenue is the inflow of economic benefits that the Group has formed in its daily activities that will result in an increase in shareholders' equity and have nothing to do with the capital invested by shareholders.

Net interest income

Interest income and expense for all financial instruments except for those classified as at FVTPL are recognised in "Interest income" and "Interest expense" in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, which is recognised in "Other net income".

Dividend income

Dividend income from investments is recognised when the dividend is declared and approved by the investee.

Rental income

Income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term.

Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at the date of risk inception.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income

Under IFRS 15 *Revenue from Contracts with Customers*, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

For each performance obligation identified, the Group determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time.

If the revenue is recognised over time, the Group recognises revenue in accordance with the progress towards complete satisfaction of a performance obligation. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts the Group's performance in transferring control of goods or services.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income *(continued)*

If revenue is recognised at a point in time, the Group recognises the revenue when the customer obtains control of the distinct good or service. To determine the point in time at which a customer obtains control of a promised service, the following indicators of the transfer of control should also be considered. They include, but are not limited to:

- the Group has a present right to payment for the goods or services;
- the Group has transferred physical possession of the goods;
- the customer has the significant risks and rewards of ownership of the goods;
- the customer has accepted the goods or services.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it can control the goods or service before transferring it to customers. The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(15) Taxation

Current income tax and movements in deferred tax balances are recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates of expected returns of the assets or the repayment of the liabilities. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

The Group shall recognise a deferred tax asset for all deductible temporary differences associated with investments in subsidiaries and interests in associates and joint ventures that both of the following conditions are satisfied: the temporary differences are likely to be reversed in the foreseeable future; and it is probably to obtain the taxable income used to offset the deductible temporary difference in the future. The Group shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, except where both of the following conditions are satisfied: the investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

4. Principal accounting policies *(continued)*

(15) Taxation *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. 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 set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(16) Foreign currencies translations

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into as part of the effective portion of a hedge on certain foreign currency risks; or
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange reserve (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in exchange reserve in respect of that operation attributable to the owners of the Bank are reclassified to the consolidated statement of profit or loss.

4. Principal accounting policies *(continued)*

(17) Employee benefits

Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

Post-employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of profit or loss as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in the consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Share-based payment

The Group offers H share appreciation rights to its employee, namely H Share Appreciation Rights Scheme for the Senior Management ("the Scheme"), which is settled in cash. Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share. The Group recognises the services for the period as related costs or expenses, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting at the end of each reporting period within the vesting period. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting period end and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of the H share appreciation rights is using Black-Scholes model, taking into account the terms and condition upon which the H share appreciation rights were granted.

4. Principal accounting policies *(continued)*

(18) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly, indirectly or jointly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to control, common control or common significant influence (except that the Group and the party are subject to common significant influence of the other party). Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(19) Segmental reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they meet most of these criteria.

(20) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated statement of financial position as the risks and rewards of the assets reside with the customers. The Group only charges a relevant commission.

(21) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

(22) General reserve

The general reserve is an integral part of equity. According to the relevant regulations, in addition to the impairment allowances, the Bank maintains a general reserve to make up for unidentified potential losses. In principle, the balance of general reserve shall not be less than 1.5% of the ending balance of risk assets. In addition, the general reserve includes 2.5% of the income of mutual fund custody businesses. The general reserve of the Group also includes the general reserve maintained by the subsidiaries of the Group according to the applicable laws and regulations of their industry or region.

5. Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on the assets and liabilities at the end of the reporting period. These estimates involve assumptions about cash flows and the discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to the assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(1) Control over structured entity

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among others, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from interests that it holds in the structured entities.

(2) Classification of financial assets

Business model assessment: Classification and measurement of financial assets of the Group involves significant judgement on business model. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Specific considerations include how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

(3) Derecognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitisation, financial assets sold under repurchase agreements. The Group applies significant judgement and estimate in assessing whether it has transferred these financial assets and qualified for a full derecognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyses whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities and the Group needs to consolidate them. This will determine whether the following derecognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether derecognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties;
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgement and estimate is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that affect the outcomes of the Group's assessment on the extent that risks and rewards are transferred.

5. Significant accounting estimates and judgements *(continued)*

(4) Impairment under ECL model

- Significant increase in credit risk: ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 60(a)(ii) for more details.

- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 60(a)(v) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

- Models and assumptions used: The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to Note 60(a)(iii)for more details.

- Forward-looking information: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 60(a)(iv) for more details.

- Probability of Default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to Note 60(a) (iii) for more details.

- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 60(a)(iii) for more details.

5. Significant accounting estimates and judgements *(continued)*

(5) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair value for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments, discounted cash flow analysis or option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the business unit that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and adjusted if necessary. If the fair value is measured using third party information such as broker quotes or pricing services, the valuation team will evaluate the evidence obtained from third party to support the conclusion that the relevant valuation meets the requirements of IFRS, including the category of the relevant valuation at the appropriate level in the fair value hierarchy.

(6) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed 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 profit 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 asset to be recovered.

(7) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or group of CGUs to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from CGU or group of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

6. Interest income

	2022	2021
Loans and advances to customers	**265,601**	250,662
– Corporate loans	**86,754**	80,575
– Retail loans	**168,174**	159,124
– Discounted bills	**10,673**	10,963
Balances with central banks	**8,482**	7,792
Balances with banks and other financial institutions	**1,242**	902
Placements with banks and other financial institutions	**7,760**	5,526
Amounts held under resale agreements	**4,487**	6,115
Financial investments	**65,808**	56,059
– Debt investments at FVTOCI	**19,654**	15,875
– Debt investments at amortised cost	**46,154**	40,184
Total	**353,380**	327,056

Note: For the year ended 31 December 2022, included in the above is the interest income of RMB12,668 million accrued on loans and advances to customers at fair value through other comprehensive income (2021: RMB12,337 million).

7. Interest expense

	2022	2021
Deposits from customers	**105,836**	84,332
Borrowing from central banks	**2,828**	7,635
Deposits from banks and other financial institutions	**9,782**	11,993
Placements from banks and other financial institutions	**4,567**	3,519
Amounts sold under repurchase agreements	**1,960**	2,571
Debt securities issued	**9,662**	12,532
Lease liabilities	**510**	555
Total	**135,145**	123,137

8. Fee and commission income

	2022	2021
Commissions from wealth management	**30,903**	36,053
Commissions from asset management	**12,457**	10,856
Bank cards fees	**21,399**	19,377
Clearing and settlement fees	**15,051**	13,902
Commissions from credit commitment and lending business	**5,753**	6,321
Commissions on custodian business	**5,791**	5,433
Other	**12,018**	10,376
Total	**103,372**	102,318

In 2022, the Group optimised the grouping criteria for the detailed items of "Commissions from wealth management" and "Other" in the note to fee and commission income, and the comparative figures were re-presented accordingly.

9. Other net income

	2022	2021
Net (loss)/gain from fair value change	(2,675)	92
– financial instruments at fair value through profit or loss	(2,204)	544
– derivatives instruments	(120)	12
– precious metals	(351)	(464)
Net investment income	18,013	17,822
– financial instruments at FVTPL	12,443	14,839
– gain/(loss) on disposal of financial assets at amortised cost	170	(657)
– gain on disposal of debt instruments at FVTOCI	5,161	3,516
– of which: gain on disposal of bills	3,291	2,434
– dividend income from equity investments designated at FVTOCI	153	74
– other	86	50
Foreign exchange gain	3,600	3,351
Other income	9,702	6,868
– rental income	9,181	6,415
– insurance income	521	453
Other	1,065	878
Total	29,705	29,011

10. Operating expenses

	2022	2021
Staff costs	70,657	66,028
– Salaries and bonuses	55,647	51,031
– Social insurance and corporate supplemental insurance	8,421	8,011
– Other	6,589	6,986
Tax and surcharges	3,005	2,772
Depreciation of property and equipment and investment properties	10,279	8,857
Amortisation of intangible assets	1,061	1,153
Depreciation of right-of-use assets	4,151	4,259
Short-term leases expense and leases of low-value assets expense	229	250
Charge for insurance claims	360	311
Other general and administrative expenses (note)	32,319	33,249
Total	122,061	116,879

Note: Auditors' remuneration amounting to RMB31 million for the year ended 31 December 2022 (2021: RMB29 million) is included in other general and administrative expenses.

11. Directors' and supervisors' emoluments

The emoluments of the Directors and Supervisors during the year were as follows:

	2022				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000 (i)	Total RMB'000
Executive director					
Wang Liang	–	3,625	–	–	3,625
Subtotal	–	3,625	–	–	3,625
The executive director's emoluments shown above were for his services in connection with the management of the affairs of the Bank and the Group.					
Non-executive directors					
Miao Jianmin	–	–	–	–	–
Hu Jianhua (ii)	–	–	–	–	–
Sun Yunfei (ii)	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Su Min	–	–	–	–	–
Chen Dong (ii)	–	–	–	–	–
Subtotal	–	–	–	–	–
The non-executive directors shown above did not receive remuneration from the Bank.					
Independent non-executive directors and supervisors					
Wong See Hong	500	–	–	–	500
Li Menggang	500	–	–	–	500
Liu Qiao	500	–	–	–	500
Tian Hongqi	500	–	–	–	500
Li Chaoxian	500	–	–	–	500
Shi Yongdong	500	–	–	–	500
Xiong Liangjun	–	3,317	–	–	3,317
Luo Sheng (v)	–	–	–	–	–
Peng Bihong	–	–	–	–	–
Wu Heng	–	–	–	–	–
Xu Zhengjun	400	–	–	–	400
Cai Hongping (v)	202	–	–	–	202
Zhang Xiang (v)	202	–	–	–	202
Wang Wanqing	–	2,650	–	–	2,650
Cai Jin	–	1,548	–	–	1,548
Subtotal	3,804	7,515	–	–	11,319

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2022				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000 (i)	Total RMB'000
Former executive, non-executive directors and supervisors					
Fu Gangfeng (iv)	–	–	–	–	–
Tian Huiyu (iii)	–	–	–	–	–
Wang Daxiong (iii)	–	–	–	–	–
Luo Sheng (iii)	–	–	–	–	–
Guo Xikun (vi)	–	–	–	–	–
Ding Huiping (vi)	167	–	–	–	167
Han Zirong (vi)	167	–	–	–	167
Subtotal	334	–	–	–	334
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	4,138	11,140	–	–	15,278

Notes:

(i) The total remuneration before tax for the full-time directors, supervisors and executive officers of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) In June 2022, according to the relevant resolutions passed at the 2021 Annual General Meeting of the Bank, Mr. Hu Jianhua, Mr. Sun Yunfei and Mr. Chen Dong were elected as Non-Executive Directors of the Bank, whose qualifications as the Directors were approved by the CBIRC in October 2022.

(iii) In June 2022, Mr. Wang Daxiong and Mr. Luo Sheng ceased to be Non-Executive Directors of the Bank after the end of the 2021 Annual General Meeting due to the expiry of their terms of office, and Mr. Tian Huiyu ceased to be an Executive Director of the Bank after the end of the 2021 Annual General Meeting.

(iv) In November 2022, Mr. Fu Gangfeng ceased to be the Vice Chairman and Non-Executive Director of the Bank due to change of work arrangement.

(v) In June 2022, according to the relevant resolutions passed at the 2021 Annual General Meeting of the Bank, Mr. Luo Sheng was elected as the Shareholder Supervisor of the Bank and Mr. Cai Hongping and Mr. Zhang Xiang were elected as External Supervisors of the Bank.

(vi) In June 2022, Mr. Guo Xikun ceased to be the Shareholder Supervisor of the Bank due to the expiry of his terms of office, and Mr. Ding Huiping and Mr. Han Zirong ceased to serve as External Supervisors of the Bank due to the expiry of their terms of office.

(vii) As of 31 December 2022, the Group had offered 10 phases of H share appreciation rights under the Scheme. Details of the Scheme are set out in Note 39 (a)(iii).

11. Directors' and supervisors' emoluments *(continued)*

	2021				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,158	–	40	4,198
Wang Liang	–	3,302	1,403	40	4,745
Subtotal	–	7,460	1,403	80	8,943
The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.					
Non-executive directors					
Miao Jianmin	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Su Min	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Luo Sheng	–	–	–	–	–
Subtotal	–	–	–	–	–
The non-executive directors shown above did not receive remuneration from the Bank.					
Independent non-executive directors and supervisors					
Wong See Hong	500	–	–	–	500
Li Menggang	500	–	–	–	500
Liu Qiao	500	–	–	–	500
Tian Hongqi	500	–	–	–	500
Li Chaoxian (ii)	183	–	–	–	183
Shi Yongdong (ii)	183	–	–	–	183
Xiong Liangjun (iii)	–	3,164	1,344	48	4,556
Peng Bihong	–	–	–	–	–
Wu Heng	–	–	–	–	–
Guo Xikun (iv)	–	–	–	–	–
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Xu Zhengjun	400	–	–	–	400
Wang Wanqing	–	2,747	–	48	2,795
Cai Jin (v)	–	123	–	48	171
Subtotal	3,566	6,034	1,344	144	11,088

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2021				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former executive, non-executive directors and supervisors					
Liu Jianjun (vi)	–	1,373	531	19	1,923
Leung Kam Chung, Antony (ii)	317	–	–	–	317
Zhao Jun (ii)	317	–	–	–	317
Liu Yuan (vii)	–	2,368	898	31	3,297
Wen Jianguo (viii)	–	–	–	–	–
Liu Xiaoming (ix)	–	1,979	–	48	2,027
Subtotal	634	5,720	1,429	98	7,881
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	4,200	19,214	4,176	322	27,912

Notes:

(i) On 29 September 2022, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2021.

(ii) In June 2021, according to the relevant resolutions passed at the 2020 Annual General Meeting of the Bank, Mr. Li Chaoxian and Mr. Shi Yongdong were elected as the Independent Non-Executive Directors of the Bank, whose qualifications as the Independent Non-Executive Directors were approved by the CBIRC in August 2021. At the same time, Mr. Leung Kam Chung, Antony and Mr. Zhao Jun ceased to be the Independent Non-Executive Directors of the Bank due to the expiry of their terms of office.

(iii) In August 2021, Mr. Xiong Liangjun was elected as the Employee Supervisor of the Bank at the employee representative meeting of the Bank. According to the resolutions passed at the 21st meeting of the Eleventh Session of the Board of Supervisors of the Bank, Mr. Xiong Liangjun was elected as the Chairman of the Board of Supervisors of the Bank.

(iv) In June 2021, according to the relevant resolutions passed at the 2020 Annual General Meeting of the Bank, Mr. Guo Xikun was elected as the Shareholder Supervisor of the Bank.

(v) In December 2021, Ms. Cai Jin was elected as the Employee Supervisor of the Bank at the employee representative meeting of the Bank.

(vi) In May 2021, Mr. Liu Jianjun ceased to be the Executive Director, Executive Vice President and Secretary of the Board of Directors of the Bank due to change of work arrangement.

(vii) In August 2021, Mr. Liu Yuan ceased to be the Chairman of Board of Supervisors and Employee Supervisor of the Bank due to change of work arrangement.

(viii) In April 2021, Mr. Wen Jianguo ceased to be the Shareholder Supervisor of the Bank due to change of work arrangement.

(ix) In December 2021, Mr. Liu Xiaoming ceased to be the Employee Supervisor of the Bank due to change of work arrangement.

(x) As of 31 December 2021, the Group had offered 10 phases of H share appreciation rights under the Scheme. Details of the Scheme are set out in Note 39 (a)(iii).

During the year of 2022 and 2021, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year of 2022 and 2021, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

12. Five highest paid individuals

During the year ended 31 December 2022, the five highest paid individuals included six persons in total, two of them were with the same emoluments and being the third highest paid individuals, and two of them were with the same emoluments and being the fourth highest paid individuals. During the year ended 31 December 2021, the five highest paid individuals included five persons in total, two of them were with the same emoluments and being the fourth highest paid individuals. Of these highest paid individuals, two (2021: three) were directors or supervisors of the Bank whose emoluments were included in Note 11 above. The aggregate emolument of the remaining four (2021: two) highest paid individuals who were neither directors nor supervisors of the Bank is as follows:

	2022 **RMB'000**	2021 RMB'000
Salaries and other emoluments	**11,764**	6,048
Discretionary bonuses	**–**	2,568
Contributions to defined contribution retirement schemes	**–**	85
Total	**11,764**	8,701

These highest paid individuals who were neither directors nor supervisors of the Bank whose emoluments fell within the following bands is set out below:

	2022	2021
HKD		
3,000,001 – 3,500,000	**4**	–
3,500,001 – 4,000,000	**–**	2
4,000,001 – 4,500,000	**–**	–
4,500,001 – 5,000,000	**–**	–
5,000,001 – 5,500,000	**–**	–

13. Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2022	2021
Aggregate amount of relevant loans made by the Group outstanding at year end	**34**	61
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	**47**	66

14. Expected credit losses

	2022	2021
Loans and advances to customers	**45,157**	37,020
– Loans and advances at amortised cost (Note 22(c)(i))	**40,175**	35,678
– Loans and advances at FVTOCI (Note 22(c)(ii))	**4,982**	1,342
Amounts due from banks and other financial institutions	**(3,284)**	6,110
Financial investments	**3,879**	15,848
– Debt investments at amortised cost (Note 23(b)(iii))	**4,234**	13,201
– Debt investments at FVTOCI (Note 23(c)(ii))	**(355)**	2,647
Financial guarantees and loan commitments	**7,112**	5,639
Other	**3,887**	1,345
Total	**56,751**	65,962

15. Income tax

(a) Income tax in the consolidated statement of profit or loss represents:

	2022	2021
Current income tax expense	**34,276**	38,141
– Chinese mainland	**33,133**	37,222
– Hong Kong	**973**	767
– Overseas	**170**	152
Deferred taxation	**(8,457)**	(10,802)
Total	**25,819**	27,339

(b) A reconciliation of income tax expense in the consolidated statement of profit or loss and that calculated at the applicable statutory tax rate is as follows:

	2022	2021
Profit before taxation	**165,113**	148,173
Tax at the PRC statutory income tax rate of 25% (2021: 25%)	**41,278**	37,043
Tax effects of the following items:		
– Effects of non-deductible expenses	**1,593**	1,392
– Effects of non-taxable income	**(17,114)**	(12,053)
– Effects of different applicable rates in other jurisdictions	**(215)**	(258)
– Transfer out of previously recognised deferred tax assets	**955**	1,716
– Tax effect of perpetual bond interest expense	**(942)**	(550)
– Other	**264**	49
Income tax expense	**25,819**	27,339

Note: Taxation for Hong Kong and overseas operations are charged at the applicable rates of tax prevailing in relevant regions.

16. Other comprehensive income

(a) Income tax effects relating to each component of other comprehensive income

	2022			2021		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Items that may be reclassified to profit or loss	732	553	1,285	8,382	(2,526)	5,856
– Net fair value (loss)/gain on debt instruments measured at FVTOCI	(7,353)	1,736	(5,617)	5,675	(1,519)	4,156
– Net changes in expected credit losses of debt instruments measured at FVTOCI	4,631	(1,160)	3,471	4,060	(1,024)	3,036
– Net movement in cash flow hedge reserve	135	(23)	112	88	17	105
– Share of other comprehensive (expense)/ income from equity-accounted investees	(1,155)	–	(1,155)	133	–	133
– Exchange difference on translation of financial statements of foreign operations	4,429	–	4,429	(1,574)	–	(1,574)
– Other	45	–	45	–	–	–
Items that will not be reclassified subsequently to profit or loss	40	(2)	38	1,176	157	1,333
– Net fair value gain on equity instruments designated at FVTOCI	52	(4)	48	1,158	160	1,318
– Remeasurement of defined benefit scheme	(12)	2	(10)	18	(3)	15
Other comprehensive income	772	551	1,323	9,558	(2,369)	7,189

(b) Movements relating to components of other comprehensive income are as follows:

	2022	2021
Net fair value (loss)/gain on debt instruments measured at FVTOCI		
Changes in fair value recognised during the year	(1,746)	6,793
Reclassification adjustments for amounts transferred to profit or loss upon disposal	(3,871)	(2,637)
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	(5,617)	4,156
Net changes in expected credit losses of debt instruments measured at FVTOCI		
Changes in expected credit losses recognised during the year	3,471	3,036
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	3,471	3,036
Net fair value gain on equity instruments designated at FVTOCI		
Changes in fair value recognised during the year	48	1,318
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	48	1,318
Net movement in cash flow hedge reserve		
Effective portion of changes in fair value of hedging instruments	112	74
Reclassification adjustment for realised gain to profit or loss	–	31
Net movement in hedging reserve during the year recognised in other comprehensive income	112	105

17. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of the Bank and the weighted average number of shares in issue for the year. As there were no diluted potential ordinary shares for the years of 2022 and 2021, there was no difference between basic and diluted earnings per share for both years.

	2022	2021
Net profit attributable to equity holders of the Bank	**138,012**	119,922
Less: Net profit attributable to preference shareholders of the Bank	**(1,675)**	(1,638)
Net profit attributable to holders of perpetual bonds	**(3,562)**	(1,975)
Net profit attributable to ordinary shareholders of the Bank	**132,775**	116,309
Weighted average number of shares in issue (in million shares)	**25,220**	25,220
Basic and diluted earnings per share (in RMB Yuan)	**5.26**	4.61

Note:

The Bank issued non-cumulative preference shares in 2017 and non-cumulative perpetual bonds in 2020 and 2021. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares and interests on non-cumulative perpetual bonds declared during the year should be deducted from the amounts attributable to equity holders 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 of 31 December 2022 and 2021. Therefore the conversion feature of preference shares has no effect on the diluted earnings per share calculation for both years.

18. Balances with central banks

	2022	2021
Statutory deposit reserve (note (i))	**534,232**	484,878
Surplus deposit reserve (note (ii))	**50,846**	65,819
Other deposits with central banks (note (iii))	**2,455**	2,958
Interest receivable	**285**	243
Total	**587,818**	553,898

Notes:

(i) 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 the Group's daily operations. The statutory deposit reserve funds of the Bank's institutions located in the Chinese mainland are calculated at 7.5% and 6% of eligible RMB deposits and foreign currency deposits respectively as at 31 December 2022 (31 December 2021: 8% and 9% of eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, retail deposits, corporate deposits, and net credit balances of entrusted business and RMB deposits placed by financial institutions outside the Chinese mainland. The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(ii) Surplus deposit reserve maintained with the PBOC and central banks outside the Chinese mainland are mainly for clearing and settlement purposes.

(iii) Other deposits with central banks primarily represent fiscal deposits and foreign exchange reserve placed with the PBOC.

19. Balances with banks and other financial institutions

	2022	2021
Principal (a)	**91,587**	80,664
Impairment allowances (a)(b)	**(509)**	(378)
Subtotal	**91,078**	80,286
Interest receivable	**268**	64
Total	**91,346**	80,350

(a) Analysed by nature of counterparties

	2022	2021
Balances in the Chinese mainland	**57,809**	37,453
– Banks	**54,808**	35,620
– Other financial institutions	**3,001**	1,833
Balances outside the Chinese mainland	**33,778**	43,211
– Banks	**33,390**	41,430
– Other financial institutions	**388**	1,781
Total	**91,587**	80,664
Less: Impairment allowances	**(509)**	(378)
– Banks	**(490)**	(329)
– Other financial institutions	**(19)**	(49)
Net carrying amount	**91,078**	80,286

(b) Movements of allowances for impairment losses are as follows:

	2022	2021
Balance as at the beginning of the year	**378**	277
Charge for the year (note 14)	**120**	109
Exchange difference	**11**	(8)
Balance as at the end of the year	**509**	378

20. Placements with banks and other financial institutions

	2022	2021
Principal (a)	**264,782**	196,351
Impairment allowances (a)(c)	**(2,658)**	(2,860)
Subtotal	**262,124**	193,491
Interest receivable	**1,452**	930
Total	**263,576**	194,421

(a) Analysed by nature of counterparties

	2022	2021
Placements in the Chinese mainland	**202,381**	127,959
– Banks	**65,018**	19,213
– Other financial institutions	**137,363**	108,746
Placements outside the Chinese mainland	**62,401**	68,392
– Banks	**61,880**	68,102
– Other financial institutions	**521**	290
Total	**264,782**	196,351
Less: Impairment allowances	**(2,658)**	(2,860)
– Banks	**(163)**	(136)
– Other financial institutions	**(2,495)**	(2,724)
Net carrying amount	**262,124**	193,491

(b) Analysed by remaining maturity

	2022	2021
Maturing		
– Within one month (inclusive)	**89,368**	66,842
– Between one month and one year (inclusive)	**158,086**	115,906
– Over one year	**14,670**	10,743
Total	**262,124**	193,491

(c) Movements of allowances for impairment losses are as follows:

	2022	2021
Balance as at the beginning of the year	**2,860**	376
(Release)/charge for the year (note 14)	**(235)**	2,481
Exchange difference	**33**	3
Balance as at the end of the year	**2,658**	2,860

21. Amounts held under resale agreements

	2022	2021
Principal (a)	**277,561**	528,564
Impairment allowances (a)(d)	**(1,094)**	(4,263)
Subtotal	**276,467**	524,301
Interest receivable	**209**	300
Total	**276,676**	524,601

(a) Analysed by nature of counterparties

	2022	2021
Amounts held under resale agreements in the Chinese mainland	**277,382**	528,447
– Banks	**42,077**	60,323
– Other financial institutions	**235,305**	468,124
Amounts held under resale agreements outside the Chinese mainland	**179**	117
– Other financial institutions	**179**	117
Total	**277,561**	528,564
Less: Impairment allowances	**(1,094)**	(4,263)
– Banks	**(216)**	(175)
– Other financial institutions	**(878)**	(4,088)
Net carrying amount	**276,467**	524,301

(b) Analysed by remaining maturity

	2022	2021
Maturing		
– Within one month (inclusive)	**268,890**	524,301
– Between one month and one year (inclusive)	**7,577**	–
Total	**276,467**	524,301

(c) Analysed by underlying assets

	2022	2021
Bonds	**256,129**	522,202
Bills	**20,338**	2,099
Total	**276,467**	524,301

(d) Movements of allowances for impairment losses are as follows:

	2022	2021
Balance as at the beginning of the year	**4,263**	743
(Release)/charge for the year (note 14)	**(3,169)**	3,520
Balance as at the end of the year	**1,094**	4,263

22. Loans and advances to customers

(a) Loans and advances to customers

	2022	2021
Gross amount of loans and advances to customers at amortised cost (i)	**5,432,112**	5,075,052
Interest receivable	**11,326**	10,548
Subtotal	**5,443,438**	5,085,600
Less: Loss allowances of loans and advances to customers at amortised cost (i)	**(254,913)**	(244,523)
Loss allowances of interest receivable	**(846)**	(971)
Subtotal	**(255,759)**	(245,494)
Loans and advances to customers at amortised cost	**5,187,679**	4,840,106
Loans and advances to customers at FVTOCI (ii)	**614,481**	488,004
Loans and advances to customers at FVTPL (iii)	**4,994**	7,281
Total	**5,807,154**	5,335,391

(i) Loans and advances to customers at amortised cost

	2022	2021
Corporate loans and advances	**2,270,323**	2,087,247
Retail loans and advances	**3,161,789**	2,987,791
Discounted bills	**–**	14
Gross amount of loans and advances to customers at amortised cost	**5,432,112**	5,075,052
Less: Loss allowances	**(254,913)**	(244,523)
– Stage 1 (12-month ECL)	**(159,932)**	(169,347)
– Stage 2 (Lifetime ECL – not credit-impaired)	**(44,898)**	(32,007)
– Stage 3 (Lifetime ECL – credit-impaired)	**(50,083)**	(43,169)
Net amount of loans and advances to customers at amortised cost	**5,177,199**	4,830,529

(ii) Loans and advances to customers at FVTOCI

	2022	2021
Corporate loans and advances	**100,430**	56,713
Discounted bills	**514,051**	431,291
Loans and advances to customers at FVTOCI	**614,481**	488,004
Loss allowances	**(6,563)**	(1,581)
– Stage 1 (12-month ECL)	**(6,311)**	(1,289)
– Stage 2 (Lifetime ECL – not credit-impaired)	**(252)**	(292)
– Stage 3 (Lifetime ECL – credit-impaired)	**–**	–

No loss allowance is recognised in the consolidated statement of financial position for loans and advances to customers at FVTOCI as the carrying amount is at fair value.

(iii) Loans and advances to customers at FVTPL

	2022	2021
Corporate loans and advances	**4,863**	6,978
Discounted bills	**3**	–
Interest receivable	**128**	303
Total	**4,994**	7,281

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector and category:

Operations in the Chinese mainland

	2022	2021
Transportation, storage and postal services	**461,434**	412,417
Manufacturing	**445,218**	309,635
Property development	**349,682**	367,642
Production and supply of electric power, heating power, gas and water	**203,870**	187,611
Wholesale and retail	**171,786**	138,352
Leasing and commercial services	**158,320**	170,009
Construction	**103,998**	117,453
Telecommunications, software and IT services	**78,950**	58,267
Finance	**75,593**	57,988
Water, environment and public utilities management	**64,886**	64,427
Mining	**34,421**	28,854
Other	**67,677**	66,364
Subtotal of corporate loans and advances	**2,215,835**	1,979,019
Discounted bills	**514,054**	431,305
Residential mortgage	**1,379,825**	1,364,534
Credit cards	**884,395**	840,254
Micro-finance loans	**629,857**	560,657
Other	**213,599**	173,527
Subtotal of retail loans and advances	**3,107,676**	2,938,972
Gross amount of loans and advances to customers	**5,837,565**	5,349,296

Operations outside the Chinese mainland

	2022	2021
Finance	**36,521**	37,345
Transportation, storage and postal services	**30,814**	33,186
Property development	**26,298**	34,062
Manufacturing	**20,494**	23,763
Telecommunications, software and IT services	**10,908**	7,727
Production and supply of electric power, heating power, gas and water	**9,023**	7,077
Wholesale and retail	**8,923**	8,920
Mining	**6,074**	5,651
Leasing and commercial services	**3,430**	4,749
Construction	**1,772**	3,481
Water, environment and public utilities management	**110**	821
Other	**5,414**	5,137
Subtotal of corporate loans and advances	**159,781**	171,919
Discounted bills	**–**	–
Residential mortgage	**9,383**	9,872
Credit cards	**124**	117
Micro-finance loans	**1,181**	1,214
Other	**43,425**	37,616
Subtotal of retail loans and advances	**54,113**	48,819
Gross amount of loans and advances to customers	**213,894**	220,738

As at 31 December 2022, over 90% of the Group's loans and advances to customers were conducted in the Chinese mainland (31 December 2021: over 90%).

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by type of guarantees:

	2022	2021
Credit loans	**2,219,635**	1,977,014
Guaranteed loans	**836,550**	752,744
Collateralised loans	**2,132,337**	2,075,639
Pledged loans	**348,883**	333,332
Subtotal	**5,537,405**	5,138,729
Discounted bills	**514,054**	431,305
Gross amount of loans and advances to customers	**6,051,459**	5,570,034

(iii) Analysed by overdue term:

	2022				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	**22,260**	**12,382**	**2,365**	**880**	**37,887**
Guaranteed loans	**6,533**	**7,537**	**3,581**	**762**	**18,413**
Collateralised loans	**5,180**	**6,177**	**2,913**	**1,696**	**15,966**
Pledged loans	**3,234**	**573**	**951**	**1,261**	**6,019**
Gross amount of loans and advances to customers	**37,207**	**26,669**	**9,810**	**4,599**	**78,285**

	2021				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	18,097	10,269	2,972	944	32,282
Guaranteed loans	1,141	2,650	3,476	1,403	8,670
Collateralised loans	2,616	2,733	3,610	2,142	11,101
Pledged loans	473	687	791	3,422	5,373
Gross amount of loans and advances to customers	22,327	16,339	10,849	7,911	57,426

Note: Loans are classified as overdue when the principal or interest is overdue more than one day.

Among the above-mentioned overdue loans and advances to customers, collateralised loans and pledged loans that are overdue but not impaired at the reporting date are as follows:

	2022	2021
Collateralised loans that are overdue but not impaired	**4,198**	1,517
Pledged loans that are overdue but not impaired	**1,819**	473
Total	**6,017**	1,990

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(iv) Analysed by ECL

	2022			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Loans and advances measured at amortised cost	**5,217,868**	**156,240**	**58,004**	**5,432,112**
Less: Loss allowances of loans and advances to customers at amortised cost	**(159,932)**	**(44,898)**	**(50,083)**	**(254,913)**
Net amount of loans and advances to customers at amortised cost	**5,057,936**	**111,342**	**7,921**	**5,177,199**
Loans and advances to customers at FVTOCI	**612,660**	**1,821**	**–**	**614,481**
Loss allowances of loans and advances to customers at FVTOCI	**(6,311)**	**(252)**	**–**	**(6,563)**

	2021			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Loans and advances measured at amortised cost	4,912,836	111,354	50,862	5,075,052
Less: Loss allowances of loans and advances to customers at amortised cost	(169,347)	(32,007)	(43,169)	(244,523)
Net amount of loans and advances to customers at amortised cost	4,743,489	79,347	7,693	4,830,529
Loans and advances to customers at FVTOCI	485,735	2,269	–	488,004
Loss allowances of loans and advances to customers at FVTOCI	(1,289)	(292)	–	(1,581)

22. Loans and advances to customers *(continued)*

(c) Movements of allowance for expected credit loss

(i) Reconciliation of allowance for expected credit loss for loans and advances to customers measured at amortised cost:

	2022			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	169,347	32,007	43,169	244,523
Transfer to				
– Stage 1	3,039	(2,965)	(74)	–
– Stage 2	(7,699)	7,879	(180)	–
– Stage 3	(3,693)	(4,681)	8,374	–
(Release)/charge for the year (note 14)	(1,694)	12,653	29,216	40,175
Write-offs/disposals	–	(71)	(39,016)	(39,087)
Unwinding of discount on allowance	–	–	(386)	(386)
Recovery of loans and advances written off	–	–	8,972	8,972
Exchange difference	632	76	8	716
Balance as at the end of the year	159,932	44,898	50,083	254,913

	2021			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	159,918	27,401	47,107	234,426
Transfer to				
– Stage 1	5,848	(5,743)	(105)	–
– Stage 2	(1,137)	1,592	(455)	–
– Stage 3	(1,001)	(4,972)	5,973	–
Charge for the year (note 14)	5,766	13,763	16,149	35,678
Write-offs/disposals	–	–	(35,105)	(35,105)
Unwinding of discount on allowance	–	–	(247)	(247)
Recovery of loans and advances written off	–	–	9,893	9,893
Exchange difference	(47)	(34)	(41)	(122)
Balance as at the end of the year	169,347	32,007	43,169	244,523

(ii) Reconciliation of allowance for expected credit loss for loans and advances to customers measured at FVTOCI:

	2022	2021
Balance as at the beginning of the year	1,581	238
Charge for the year (note 14)	4,982	1,342
Exchange difference	–	1
Balance as at the end of the year	6,563	1,581

22. Loans and advances to customers *(continued)*

(d) Finance leases receivable

The table below provides an analysis of finance leases receivable included in loans and advances to customers for leases of assets in which the Group is a lessor:

	2022	2021
Total minimum leases receivable		
Within 1 year (inclusive)	**13,323**	15,035
Over 1 year but within 2 years (inclusive)	**11,035**	11,225
Over 2 years but within 3 years (inclusive)	**6,074**	8,519
Over 3 years but within 4 years (inclusive)	**6,089**	5,323
Over 4 years but within 5 years (inclusive)	**3,860**	5,580
Over 5 years	**17,448**	13,980
Subtotal	**57,829**	59,662
Unearned finance income	**(9,665)**	(8,378)
Present value of minimum leases receivable	**48,164**	51,284
Less: Impairment allowances	**(3,671)**	(3,237)
– Stage 1 (12-month ECL)	**(1,308)**	(1,872)
– Stage 2 (Lifetime ECL – not credit-impaired)	**(1,646)**	(632)
– Stage 3 (Lifetime ECL – credit-impaired)	**(717)**	(733)
Net carrying amount of finance leases receivable	**44,493**	48,047

23. Financial investments

	Notes	2022	2021
Financial investments at fair value through profit or loss	23(a)	**423,467**	348,123
Debt investments at amortised cost	23(b)	**1,555,457**	1,185,841
Debt investments at FVTOCI	23(c)	**780,349**	636,038
Equity investments designated at FVTOCI	23(d)	**13,416**	6,995
Total		**2,772,689**	2,176,997

(a) Financial investments at fair value through profit or loss

	Notes	2022	2021
Financial investments measured at FVTPL	(i)	**411,591**	318,245
Financial assets designated at fair value through profit or loss	(ii)	**11,876**	29,878
Total		**423,467**	348,123

23. Financial investments *(continued)*

(a) Financial investments at fair value through profit or loss *(continued)*

(i) Financial investments measured at FVTPL

Financial investments held for trading

	2022	2021
Bonds:		
Classified by issuer	**182,416**	129,792
– Government bonds	**81,781**	46,721
– Bonds issued by policy banks	**21,871**	9,861
– Bonds issued by commercial banks and other financial institutions	**35,999**	21,245
– Other debt securities	**42,765**	51,965
Classified by listing	**182,416**	129,792
– Listed in the Chinese mainland	**167,998**	113,762
– Listed outside the Chinese mainland	**12,215**	15,796
– Unlisted	**2,203**	234
Other investments:		
Classified by underlying assets	**1,971**	1,949
– Equity investments	**17**	–
– Fund investments	**814**	811
– Wealth management products	**1,032**	1,036
– Long position in precious metal contracts	**108**	102
Classified by listing	**1,971**	1,949
– Listed outside the Chinese mainland	**134**	111
– Unlisted	**1,837**	1,838
Total financial investments held for trading	**184,387**	131,741

23. Financial investments *(continued)*

(a) Financial investments at fair value through profit or loss *(continued)*

(i) Financial investments measured at FVTPL *(continued)*

Other financial investments measured at FVTPL

	2022	2021
Bonds:		
Classified by issuer	**20,789**	17,094
– Bonds issued by commercial banks and other financial institutions	**14,039**	9,784
– Other debt securities	**6,750**	7,310
Classified by listing	**20,789**	17,094
– Listed in the Chinese mainland	**18,216**	15,388
– Listed outside the Chinese mainland	**1,872**	1,333
– Unlisted	**701**	373
Other investments:		
Classified by underlying assets	**206,415**	169,410
– Equity investments	**4,362**	4,909
– Fund investments	**199,725**	161,959
– Wealth management products	**1,511**	1,360
– Other	**817**	1,182
Classified by listing	**206,415**	169,410
– Listed in the Chinese mainland	**330**	62
– Listed outside the Chinese mainland	**653**	1,118
– Unlisted	**205,432**	168,230
Total other financial investments measured at FVTPL	**227,204**	186,504
Total financial investments measured at FVTPL	**411,591**	318,245

(ii) Financial investments designated at fair value through profit or loss

	2022	2021
Bonds:		
Classified by issuer	**11,876**	29,878
– Government Bonds	**218**	41
– Bonds issued by policy banks	**4,559**	17,970
– Bonds issued by commercial banks and other financial institutions	**6,370**	11,251
– Other debt securities	**729**	616
Classified by listing	**11,876**	29,878
– Listed in the Chinese mainland	**11,656**	28,793
– Listed outside the Chinese mainland	**220**	1,060
– Unlisted	**–**	25

23. Financial investments *(continued)*

(b) Debt investments at amortised cost

	2022	2021
Debt investments at amortised cost (i)(ii)	**1,579,845**	1,209,359
Interest receivable	**19,294**	16,368
Subtotal	**1,599,139**	1,225,727
Impairment losses of principal (i)(ii)(iii)	**(43,448)**	(39,707)
Impairment losses of interest receivable	**(234)**	(179)
Subtotal	**(43,682)**	(39,886)
Total	**1,555,457**	1,185,841

(i) Debt investments at amortised cost:

	2022	2021
Bonds:		
Classified by issuer	**1,452,499**	1,078,888
– Government bonds	**993,624**	768,537
– Bonds issued by policy banks	**394,126**	280,129
– Bonds issued by commercial banks and other financial institutions	**56,913**	20,064
– Other debt securities	**7,836**	10,158
Classified by listing	**1,452,499**	1,078,888
– Listed in the Chinese mainland	**1,395,184**	1,068,300
– Listed outside the Chinese mainland	**33,319**	4,740
– Unlisted	**23,996**	5,848
Fair value for the listed bonds	**1,457,373**	1,099,251
Other investments:		
Classified by underlying assets	**127,346**	130,471
– Non-standard assets – Loans and advances to customers	**108,616**	115,022
– Non-standard assets – Creditor's beneficiary rights to other commercial banks	**5,500**	100
– Non-standard assets – Other	**12,582**	14,729
– Other	**648**	620
Classified by listing	**127,346**	130,471
– Unlisted	**127,346**	130,471
Total	**1,579,845**	1,209,359
Less: Loss allowances	**(43,448)**	(39,707)
Stage 1 (12-month ECL)	**(10,120)**	(14,974)
Stage 2 (Lifetime ECL – not credit-impaired)	**(960)**	(712)
Stage 3 (Lifetime ECL – credit-impaired)	**(32,368)**	(24,021)
Net debt investments at amortised cost	**1,536,397**	1,169,652

23. Financial investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(ii) Analysed by stage of ECL:

	2022			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Debt investments at amortised cost	1,543,652	2,073	34,120	1,579,845
Less: Loss allowances of debt investments at amortised cost	(10,120)	(960)	(32,368)	(43,448)
Net debt investments at amortised cost	1,533,532	1,113	1,752	1,536,397

	2021			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Debt investments at amortised cost	1,183,320	1,962	24,077	1,209,359
Less: Loss allowances of debt investments at amortised cost	(14,974)	(712)	(24,021)	(39,707)
Net debt investments at amortised cost	1,168,346	1,250	56	1,169,652

(iii) Movements of allowances for expected credit loss

	2022			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	14,974	712	24,021	39,707
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	(27)	27	–	–
– Stage 3	(153)	(298)	451	–
(Release)/charge for the year (note 14)	(4,674)	518	8,390	4,234
Write-offs/disposals	–	–	(531)	(531)
Recovery of debt previously written off	–	–	28	28
Exchange difference	–	1	9	10
Balance as at the end of the year	10,120	960	32,368	43,448

23. Financial investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(iii) Movements of allowances for expected credit loss *(continued)*

	2021			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	11,832	326	13,960	26,118
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	(5)	5	–	–
– Stage 3	–	–	–	–
Charge for the year (note 14)	3,156	381	9,664	13,201
Write-offs/disposals	–	–	(10)	(10)
Recovery of debt previously written off	–	–	419	419
Exchange difference	(9)	–	(12)	(21)
Balance as at the end of the year	14,974	712	24,021	39,707

(c) Debt investments at FVTOCI

	2022	2021
Debt investments at FVTOCI (i)	**771,271**	628,355
Interest receivable	**9,078**	7,683
Total	**780,349**	636,038
Impairment losses of debt investments at FVTOCI (ii)	**(6,540)**	(6,622)
Impairment losses of interest receivable	**(80)**	(84)
Total	**(6,620)**	(6,706)

No impairment allowances are recognised in the consolidated statement of financial position for debt investments at FVTOCI as the carrying amount is at fair value.

(i) Debt investments at FVTOCI:

	2022	2021
Bonds:		
Classified by issuer	**771,271**	628,355
– Government bonds	**524,651**	390,419
– Bonds issued by policy banks	**74,072**	82,427
– Bonds issued by commercial banks and other financial institutions	**119,602**	106,139
– Other debt securities	**52,946**	49,370
Classified by listing	**771,271**	628,355
– Listed in the Chinese mainland	**611,110**	522,889
– Listed outside the Chinese mainland	**90,148**	65,439
– Unlisted	**70,013**	40,027

23. Financial investments *(continued)*

(c) Debt investments at FVTOCI *(continued)*

(ii) Movements of allowances for expected credit loss

	2022	2021
Balance as at the beginning of the year	**6,622**	4,014
(Release)/charge for the year (note 14)	**(355)**	2,647
Exchange difference	**273**	(39)
Balance as at the end of the year	**6,540**	6,622

(d) Equity investments designated at FVTOCI

	2022	2021
Repossessed equity instruments	**3,266**	901
Other	**10,150**	6,094
Total	**13,416**	6,995
Classified by listing		
– Listed in the Chinese mainland	**1,412**	65
– Listed outside the Chinese mainland	**2,744**	2,204
– Unlisted	**9,260**	4,726
Total	**13,416**	6,995

During the year ended 31 December 2022, the Group disposed part of the equity investments designated at FVTOCI. The fair value of the equity investments disposed at the date of derecognition was RMB2,879 million (2021: RMB2,186 million). The cumulative net of tax gain of RMB20 million (2021: cumulative net of tax gain of RMB1,804 million) was transferred from investment revaluation reserve to retained earnings on disposal.

24. Particulars of principal subsidiaries of the bank

The following list contains particulars of subsidiaries which principally affected the financial results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 4(1) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities	Economic nature	Legal representative
CMB International Capital Holdings Corporation Limited (note (i))	Hong Kong	HKD4,129	100%	Investment bank and investment management	Limited liability	Wang Liang
CMB Financial Leasing Company Limited (note (ii))	Shanghai	RMB12,000	100%	Finance leasing	Limited liability	Shi Shunhua
CMB Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited liability	Liu Yuan
China Merchants Fund Management Co., Ltd. (note (iv))	Shenzhen	RMB1,310	55%	Fund management	Limited liability	Wang Xiaoqing
CMB Wealth Management Co., Ltd (note (v))	Shenzhen	RMB5,556	90%	Asset management	Limited liability	Chen Yisong
China Merchants Europe S.A. (note (vi))	Luxembourg	EUR50	100%	Banking	Limited liability	Li Biao
Cigna & CMB Asset Management Company Limited (note (vii))	Beijing	RMB500	(note (vii))	Asset management	Limited liability	Wang Xiaoqing

24. Particulars of principal subsidiaries of the bank *(continued)*

Notes:

(i) CMB International Capital Holdings Corporation Limited ("CMBIC"), formerly known as Jiangnan Finance Company Limited and CMB International Capital Corporation Limited, is the Bank's wholly-owned subsidiary approved for setting up by the PBOC through its Yin Fu 〔1998〕 No. 405. In 2014, the Bank made an additional capital contribution of HKD750 million in CMBIC. The capital of CMBICH increased to HKD1,000 million, and the Bank's shareholding percentage remained unchanged. The Board of Directors passed "The Resolution regarding the Capital Increase and Restructuring of CMBIC" which agreed that the Bank made capital contribution of USD400 million (or its equivalent) to CMBIC on 28 July 2015. The capital contribution was completed on 20 January 2016.

(ii) CMB Financial Leasing Company Limited ("CMBFL") is a wholly-owned subsidiary of the Bank approved for setting up by the CBIRC through its Yin Jian Fu 〔2008〕 No. 110 and commenced its operation in April 2008. In 2014, the Bank made an additional capital contribution of RMB2,000 million in CMBFL. The capital of CMBFL increased to RMB6,000 million and the Bank's shareholding percentage remains unchanged. In August 2021, CMBFL converted RMB6,000 million of its retained earnings into share capital, and the capital of CMBFL increased to RMB12,000 million. The Bank's shareholding percentage remained unchanged.

(iii) CMB Wing Lung Bank Limited ("CMB WLB") was formerly known as Wing Lung Bank Limited. On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. CMB WLB became a wholly owned subsidiary of the Bank on 15 January 2009. CMB WLB had withdrawn from listing on the HKEx as of 16 January 2009. The Chairman of CMB WLB changed from Liu Yuan to Wang Liang on February 24, 2023.

(iv) In 2012, the Bank acquired 21.60% equity interests in China Merchants Fund Management Co., Ltd. ("CMFM"), its former associate, from ING Asset Management B.V. at a consideration of EUR63,567,567.57. Following the settlement of the above consideration in cash, the Bank's shareholding in CMFM increased from 33.40% to 55.00% in 2013. As a result, the Bank obtained the control over CMFM, which became the Bank's subsidiary on 28 November 2013. In December 2017, the Bank made an additional capital contribution of RMB605 million in CMFM, and other shareholders of CMFM also made capital contribution of RMB495 million proportionally. The capital of CMFM increased to RMB1,310 million, and the Bank's shareholding percentage remained unchanged.

(v) CMB Wealth Management Co., Ltd. ("CMBWM") is a wholly-owned subsidiary of the Bank, approved for setting up by the CBIRC with Yin Bao Jian Fu 〔2019〕 No. 981. It was formally established on November 1 2019. In accordance with the approval of CBIRC (Yin Bao Jian Fu 〔2021〕 No.920)", JPMorgan Asset Management (Asia Pacific) Limited ("JPMorgan Asset Management") has subscribed for a 10% stake in CMBWM in 2022 with an investment of RMB2,667 million. After the completion of capital injection, CMBWM's registered capital has been increased to approximately RMB5,556 million from RMB5,000 million and the Bank's and JPMorgan Asset Management's shareholdings are 90% and 10% respectively.

(vi) China Merchants Europe S.A. ("CMB Europe S.A.") is a wholly-owned subsidiary of the Bank approved by the CBIRC with Yin Jian Fu 〔2016〕 No. 460. The Bank received an approval from the European Central Bank (ECB) for the establishment of CMB Europe S.A. in Luxembourg in May 2021.

(vii) Cigna & CMB Asset Management Company Limited ("CIGNA & CMAM") was registered and established on 18 October 2020 with the approval for setting up by the CBIRC with Yin Bao Jian Fu 〔2020〕 No.708. CIGNA & CMAM is an indirectly controlled subsidiary of the Bank, with 87.3458% held by CIGNA & CMB Life Insurance Co., Ltd., a joint venture of the Bank, and 12.6542% held by CMBIC, a subsidiary of the Bank.

25. Interests in joint ventures

	2022	2021
Share of net assets	**14,247**	14,779
Share of profits for the year	**1,710**	2,877
Share of other comprehensive (expense)/income for the year	**(997)**	133

Details of the Group's interests in major joint ventures are as follows:

Name of joint ventures	Economic nature	Place of incorporation and operation	Particulars of issued and paid up capital (in millions)	Group's effective interest	Percentage of ownership held by the Bank	Principal activity
CIGNA & CMB Life Insurance Co., Ltd. (note(i))	Limited liability	Shenzhen	RMB2,800	50.00%	50.00%	Life insurance business
Merchants Union Consumer Finance Company Limited (note(ii))	Limited liability	Shenzhen	RMB10,000	50.00%	50.00%	Consumer finance

Notes:

(i) The Group holds 50.00% equity interests in CIGNA & CMB Life Insurance Co., Ltd.,("CIGNA & CMB Life") and Cigna Health and Life Insurance Company ("CHLIC") holds the other 50.00% equity interests. The Bank and CHLIC share the joint venture's risk, profits and losses based on their shareholding proportionally. The Bank's investment in CIGNA & CMB Life is accounted for as an investment in a joint venture.

(ii) CMB WLB, one of the Group's wholly-owned subsidiaries, and China United Network Communications Limited ("CUNC"), a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). CBIRC approved the operation of MUCFC on 3 March 2015. CMB WLB and CUNC each held 50% equity interests in MUCFC and share the risks, profits and losses proportionally based on their shareholdings. In December 2017, the Bank and CUNC made a capital contribution of RMB600 million in MUCFC respectively. After the capital injection, the capital of MUCFC increased to RMB2,859 million, with the Bank's shareholding percentage becoming 15%, CMB WLB's shareholding percentage becoming 35%, and the Group's total shareholding percentage remained at 50%. In December 2018, the Bank made another capital contribution of RMB1,000 million in MUCFC, and CUNC made the same amount of capital injection. After that, the share capital of MUCFC has reached 3,869 million. The Bank and CMB WLB then held 24.15% and 25.85% of equity interests in MUCFC, respectively, and the Group's total shareholding percentage remained at 50%.

In July 2021, CMB WLB transferred all its shares of MUCFC to the Bank. After the transfer, the Bank and CUNC each held 50% of equity interests in MUCFC, and the Group's total shareholding percentage remained unchanged. In October 2021, MUCFC converted RMB1,331 million of its capital reserve and RMB4,800 million of its retained earnings into share capital, and the share capital of MUCFC increased to RMB10,000 million after the conversion.

25. Interests in joint ventures *(continued)*

Summarised financial information with necessary adjustments in accordance with the Group's accounting policies of the joint ventures which are individually material to the Group is as follows:

(i) CIGNA & CMB Life

	Assets	Liabilities	Equity	Revenue	Net profit	Other comprehensive (expense)/ income	Total comprehensive (expense)/ income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2022										
CIGNA & CMB Life	**130,758**	**121,145**	**9,613**	**31,841**	**730**	**(1,996)**	**(1,266)**	**1,071**	**147**	**(475)**
Group's effective interest	**65,116**	**60,573**	**4,543**	**15,921**	**336**	**(997)**	**(661)**	**536**	**74**	**(238)**
2021										
CIGNA & CMB Life	108,815	97,686	11,129	26,635	1,174	268	1,442	1,290	151	(43)
Group's effective interest	54,172	48,843	5,329	13,318	565	133	698	645	76	(22)

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Net profit	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2022									
MUCFC	**164,346**	**147,279**	**17,067**	**17,501**	**3,329**	**3,329**	**5,425**	**47**	**500**
Group's effective interest	**82,174**	**73,640**	**8,534**	**8,751**	**1,665**	**1,665**	**2,713**	**24**	**250**
2021									
MUCFC	149,698	135,660	14,038	15,933	3,015	3,015	4,655	42	477
Group's effective interest	74,849	67,830	7,019	7,967	1,507	1,507	2,328	21	239

Summarised financial information of the joint ventures that are not individually material to the Group is as follows:

	Net (loss)/ profit	Other comprehensive expense	Total comprehensive (expense)/ income
2022			
Other joint ventures	**(2,874)**	**–**	**(2,874)**
Group's effective interest	**(291)**	**–**	**(291)**
2021			
Other joint ventures	4,675	(3)	4,672
Group's effective interest	805	–	805

26. Interests in associates

	2022	2021
Share of net assets	**9,597**	8,875
Share of profits for the year	**815**	1,153
Share of other comprehensive expense for the year	**(158)**	–

Details of the Group's interest in major associate are as follows:

	Economic nature	Place of incorporation and operation	Particulars of issued and paid up capital (in millions)	Group's effective interest	Percentage of ownership held by the Bank	Principal activity
Bank of Taizhou Co., Ltd. (Note)	Limited liability	Taizhou	RMB1,800	24.8559%	24.8559%	Commercial Bank

Note: The Bank, which originally held a 10% stake in Bank of Taizhou, acquired a total of 14.8559% stake from Ping An Trust Co., Ltd. and Ping An Life Insurance Company of China, Ltd. at a total consideration of RMB3,121 million on 31 May 2021. Upon the completion of the transaction, the Bank held 24.8559% stake of Bank of Taizhou. The Bank can exercise significant influence on Bank of Taizhou and therefore this investment is converted from equity investments designated at FVTOCI to interests in associates.

Summarised financial information of the associate which is individually material to the Group is as follows:

	Assets	Liabilities	Equity	Revenue	Net profit	Other comprehensive expense	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2022										
Bank of Taizhou Co., Ltd.	**372,578**	**343,254**	**29,324**	**11,034**	**4,445**	**(138)**	**4,307**	**20,368**	**522**	**1,196**
Group's effective interest	**91,509**	**85,319**	**6,190**	**2,743**	**1,004**	**(35)**	**969**	**5,063**	**130**	**297**

	Assets	Liabilities	Equity	Revenue	Net profit	Other comprehensive expense	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2021(note)										
Bank of Taizhou Co., Ltd.	316,172	289,731	26,441	6,775	2,215	30	2,245	11,665	287	604
Group's effective interest	77,536	72,015	5,521	1,684	490	9	499	2,899	71	150

Note: The period of 2021 for profit or loss and other comprehensive income is from 1 June 2021 to 31 December 2021.

Summarised financial information of the associates that are not individually material to the Group is as follows:

	Net (loss)/ profit	Other comprehensive expense	Total comprehensive (expense)/ income
2022			
Other associates	**(11,527)**	**(737)**	**(12,264)**
Group's effective interest	**(189)**	**(123)**	**(312)**
2021			
Other associates	37,958	(65)	37,893
Group's effective interest	663	(9)	654

27. Investment properties

	2022	2021
Cost:		
At 1 January	**3,135**	3,276
Transfers in/(out)	**13**	(86)
Exchange difference	**153**	(55)
At 31 December	**3,301**	3,135
Accumulated depreciation:		
At 1 January	**1,763**	1,653
Depreciation	**132**	155
Transfers in/(out)	**33**	(7)
Exchange difference	**105**	(38)
At 31 December	**2,033**	1,763
Net carrying amount:		
At 31 December	**1,268**	1,372
At 1 January	**1,372**	1,623

As at 31 December 2022, no impairment allowance was considered necessary for investment properties by the Group (2021: Nil).

Investment properties of the Group mainly represent the leased properties of CMB WLB and the Bank that have been leased out under operating leases. The fair value of the Group's investment properties is determined by the market approach and the method of capitalisation of net rental income. As at 31 December 2022, the fair value of these properties was RMB5,534 million (31 December 2021: RMB5,279 million).

The Group's total future minimum leases receivable under non-cancellable operating leases are as follows:

	2022	2021
Within 1 year (inclusive)	**289**	313
1 year to 2 years (inclusive)	**240**	170
2 year to 3 years (inclusive)	**184**	127
3 year to 4 years (inclusive)	**153**	106
4 year to 5 years (inclusive)	**102**	105
Over 5 years	**275**	359
Total	**1,243**	1,180

The fair value hierarchy of the investment properties of the Group are listed as follows:

	Level 1	**Level 2**	**Level 3**	**Fair Value as at 31 December 2022**
Located in the Chinese mainland	**–**	**3,140**	**–**	**3,140**
Located overseas	**–**	**–**	**2,394**	**2,394**
Total	**–**	**3,140**	**2,394**	**5,534**

	Level 1	Level 2	Level 3	Fair Value as at 31 December 2021
Located in the Chinese mainland	–	3,076	–	3,076
Located overseas	–	–	2,203	2,203
Total	–	3,076	2,203	5,279

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

28. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircraft, vessels and professional equipment	Other	Total
Cost:							
At 1 January 2022	28,876	3,502	16,860	10,925	61,327	5,909	127,399
Additions	24	1,910	1,898	649	26,872	357	31,710
Reclassification and transfers	1,490	(1,625)	162	122	–	(162)	(13)
Disposals	(150)	–	(517)	(100)	(7,912)	(643)	(9,322)
Exchange difference	261	–	113	82	5,454	17	5,927
At 31 December 2022	30,501	3,787	18,516	11,678	85,741	5,478	155,701
Accumulated depreciation:							
At 1 January 2022	12,998	–	12,924	7,028	9,051	4,465	46,466
Depreciation	1,286	–	2,174	1,103	5,027	557	10,147
Reclassification and transfers	(33)	–	113	–	–	(113)	(33)
Disposals	(87)	–	(497)	(70)	(1,653)	(578)	(2,885)
Exchange difference	175	–	77	(16)	686	13	935
At 31 December 2022	14,339	–	14,791	8,045	13,111	4,344	54,630
Impairment loss:							
At 1 January 2022	20	–	–	–	498	–	518
Charge	–	–	–	–	778	–	778
Disposals	–	–	–	–	(194)	–	(194)
Exchange difference	–	–	–	–	50	–	50
At 31 December 2022	20	–	–	–	1,132	–	1,152
Net carrying amount:							
At 31 December 2022	16,142	3,787	3,725	3,633	71,498	1,134	99,919
At 1 January 2022	15,858	3,502	3,936	3,897	51,778	1,444	80,415

28. Property and equipment *(continued)*

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircraft, vessels and professional equipment	Other	Total
Cost:							
At 1 January 2021	28,279	3,107	15,149	9,661	48,124	6,299	110,619
Additions	539	743	2,420	1,106	17,879	563	23,250
Reclassification and transfers	169	(348)	20	223	–	22	86
Disposals	(19)	–	(698)	(18)	(3,415)	(971)	(5,121)
Exchange difference	(92)	–	(31)	(47)	(1,261)	(4)	(1,435)
At 31 December 2021	28,876	3,502	16,860	10,925	61,327	5,909	127,399
Accumulated depreciation:							
At 1 January 2021	11,750	–	11,489	6,132	6,729	4,813	40,913
Depreciation	1,314	–	2,097	950	3,822	519	8,702
Reclassification and transfers	6	–	17	–	–	(16)	7
Disposals	(14)	–	(661)	(15)	(1,290)	(848)	(2,828)
Exchange difference	(58)	–	(18)	(39)	(210)	(3)	(328)
At 31 December 2021	12,998	–	12,924	7,028	9,051	4,465	46,466
Impairment loss:							
At 1 January 2021	–	–	–	–	236	–	236
Charge	20	–	–	–	267	–	287
Exchange difference	–	–	–	–	(5)	–	(5)
At 31 December 2021	20	–	–	–	498	–	518
Net carrying amount:							
At 31 December 2021	15,858	3,502	3,936	3,897	51,778	1,444	80,415
At 1 January 2021	16,529	3,107	3,660	3,529	41,159	1,486	69,470

(a) As at 31 December 2022, the process of obtaining the registration certificate for the Group's properties with an aggregate net carrying value of RMB1,108 million (31 December 2021: RMB1,026 million) was still in progress. Management is of the view that the aforesaid matter would neither affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(b) As at 31 December 2022, the Group had no significant unused property and equipment (31 December 2021: None).

(c) As at 31 December 2022, the carrying value of mortgaged aircraft and vessels for placements from banks and other financial institutions of the CMBFL was RMB24,512 million (31 December 2021: RMB15,075 million).

(d) The Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	2022	2021
Within 1 year (inclusive)	**11,306**	7,765
1 year to 2 years (inclusive)	**9,601**	7,148
2 year to 3 years (inclusive)	**8,134**	5,796
3 year to 4 years (inclusive)	**7,087**	4,862
4 year to 5 years (inclusive)	**6,151**	4,253
Over 5 years	**19,876**	13,357
Total	**62,155**	43,181

29. Lease contracts

(a) Right-of-use assets

	Land use rights	Buildings	Computer equipment	Motor vehicles and other	Total
Cost:					
At 1 January 2022	5,985	23,070	7	16	29,078
Additions	–	3,656	4	7	3,667
Decrease	–	(2,848)	(1)	(12)	(2,861)
Exchange difference	15	48	–	–	63
At 31 December 2022	6,000	23,926	10	11	29,947
Accumulated depreciation:					
At 1 January 2022	1,190	9,414	3	9	10,616
Depreciation (note 10)	181	3,965	3	2	4,151
Decrease	–	(2,458)	(1)	(9)	(2,468)
Exchange difference	4	32	–	–	36
At 31 December 2022	1,375	10,953	5	2	12,335
Impairment loss:					
At 1 January 2022	59	–	–	–	59
At 31 December 2022	59	–	–	–	59
Net carrying amount:					
At 31 December 2022	4,566	12,973	5	9	17,553
At 1 January 2022	4,736	13,656	4	7	18,403

	Land use rights	Buildings	Computer equipment	Motor vehicles and other	Total
Cost:					
At 1 January 2021	5,957	21,122	4	16	27,099
Additions	33	4,071	5	1	4,110
Decrease	–	(2,107)	(2)	(1)	(2,110)
Exchange difference	(5)	(16)	–	–	(21)
At 31 December 2021	5,985	23,070	7	16	29,078
Accumulated depreciation:					
At 1 January 2021	1,009	6,978	2	6	7,995
Depreciation (note 10)	182	4,070	3	4	4,259
Decrease	–	(1,629)	(2)	(1)	(1,632)
Exchange difference	(1)	(5)	–	–	(6)
At 31 December 2021	1,190	9,414	3	9	10,616
Impairment loss:					
At 1 January 2021	–	–	–	–	–
Charge	59	–	–	–	59
At 31 December 2021	59	–	–	–	59
Net carrying amount:					
At 31 December 2021	4,736	13,656	4	7	18,403
At 1 January 2021	4,948	14,144	2	10	19,104

The Group mainly leases land use rights and buildings for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee.

29. Lease contracts *(continued)*

(b) Lease liabilities

Analysis of the Group's lease liabilities by remaining maturity is as follows:

	2022	2021
Within 1 month (inclusive)	**503**	506
1 month to 3 months (inclusive)	**591**	536
3 months to 1 year (inclusive)	**3,091**	2,989
1 year to 2 years (inclusive)	**3,038**	3,228
2 year to 5 years (inclusive)	**4,612**	4,925
Over 5 years	**1,178**	1,628
Total	**13,013**	13,812

Interest expense on lease liabilities are set out in note 7.

(c) Short-term leases and leases of low-value assets

Short-term lease expense and leases of low-value assets expense are disclosed in note 10. The Group entered into short-term leases for buildings, computer equipment, motor vehicles and other.

(d) During the year of 2022, total cash outflow of the Group's leases amounted to RMB4,932 million (2021: RMB4,835 million).

(e) As at 31 December 2022 and 2021, the leases committed but not yet commenced were not significant.

30. Intangible assets

	Software and other	Core deposits	Total
Cost/appraisal value:			
At 1 January 2022	10,045	1,083	11,128
Additions	347	–	347
Disposals	(13)	–	(13)
Exchange difference	14	98	112
At 31 December 2022	10,393	1,181	11,574
Accumulated amortisation:			
At 1 January 2022	6,550	512	7,062
Charge for the year (note 10)	1,021	40	1,061
Disposals	(10)	–	(10)
Exchange difference	11	48	59
At 31 December 2022	7,572	600	8,172
Net carrying amount:			
At 31 December 2022	2,821	581	3,402
At 1 January 2022	3,495	571	4,066

	Software and other	Core deposits	Total
Cost/appraisal value:			
At 1 January 2021	9,576	1,118	10,694
Additions	479	–	479
Exchange difference	(10)	(35)	(45)
At 31 December 2021	10,045	1,083	11,128
Accumulated amortisation:			
At 1 January 2021	5,442	489	5,931
Charge for the year (note 10)	1,114	39	1,153
Exchange difference	(6)	(16)	(22)
At 31 December 2021	6,550	512	7,062
Net carrying amount:			
At 31 December 2021	3,495	571	4,066
At 1 January 2021	4,134	629	4,763

31. Goodwill

	As at 31 December 2021	Addition during the year	Decrease during the year	As at 31 December 2022
CMB WLB (note (i))	10,177	–	–	10,177
CMFM (note (ii))	355	–	–	355
CMI (note (iii))	–	45	–	45
Zhaoyin Internet (note (iv))	1	–	–	1
Total	10,533	45	–	10,578
Less: Impairment allowances – CMB WLB	(579)	–	–	(579)
Net carrying amount	9,954	45	–	9,999

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. On the acquisition date, the fair value of CMB WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million, being the excess of acquisition cost over the fair value of the identifiable net assets, was recognised as goodwill. The details about CMB WLB are set out in Note 24.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million, of which the Bank accounted for RMB414 million. A sum of RMB355 million, being the excess of acquisition cost of RMB769 million over the fair value of the identifiable net assets, was recognised as goodwill. The details about CMFM are set out in Note 24.

(iii) On 30 December, 2022, CMB Wing Lung Insurance Company Limited, a subsidiary of CMB WLB, issued shares to purchase the business of China Merchants Insurance Company Limited ("CMI"). On the acquisition date, the fair value of CMI 's identifiable net assets was RMB357 million. A sum of RMB45 million, being the excess of acquisition cost of RMB402 million over the fair value of the identifiable net assets, was recognised as goodwill.

(iv) On 1 April 2015, CMBIC acquired the 100% equity interests in Zhaoyin Internet Technology (Shenzhen) Corporation Limited ("Zhaoyin Internet"). On the acquisition date, the fair value of Zhaoyin Internet's identifiable net assets was RMB3 million. A sum of RMB1 million, being the excess of acquisition cost over the fair value of the identifiable net assets, was recognised as goodwill. Zhaoyin Internet's scope of business comprises development and sales of computer software and hardware; sales of communication and office automation equipment; and IT consulting.

Impairment test for goodwill

The recoverable amounts of the CGUs are determined based on value in use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing the impairment of goodwill, the Group assumed that the terminal growth rate is comparable to the forecast long-term economic growth rate issued by authoritative institutions. A pre-tax discount rates of CMB WLB and CMFM adopted by the Group are 11% and 10% (2021: 7% and 10%). The Group believes any reasonably possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amounts of the CGUs to exceed their recoverable amounts.

32. Deferred tax assets and deferred tax liabilities

	2022	2021
Deferred tax assets	**90,848**	81,639
Deferred tax liabilities	**(1,510)**	(1,353)
Net amount	**89,338**	80,286

(a) Analysed by nature of deferred tax assets and liabilities

The components of deferred tax assets/liabilities are as follows:

	2022		2021	
	Deductible/ (taxable) temporary difference	**Deferred tax**	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers and other assets at amortised cost	**301,706**	**75,228**	284,360	71,191
Financial assets at FVTOCI	**(3,332)**	**(1,016)**	(11,092)	(2,763)
Financial instruments at FVTPL	**730**	**183**	92	23
Salaries and welfare payable and other	**65,626**	**16,453**	53,510	13,188
Total	**364,730**	**90,848**	326,870	81,639
Deferred tax liabilities				
Impairment allowances on loans and advances to customers and other assets at amortised cost	**356**	**50**	–	–
Financial assets at FVTOCI	**15**	**4**	(5)	(1)
Financial instruments at FVTPL	**215**	**54**	(144)	(27)
Salaries and welfare payable and other	**(10,235)**	**(1,618)**	(7,755)	(1,325)
Total	**(9,649)**	**(1,510)**	(7,904)	(1,353)

32. Deferred tax assets and deferred tax liabilities *(continued)*

(b) Movements of deferred tax

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	Salaries and welfare payable and other	Total
At 1 January 2022	71,191	(2,764)	(4)	11,863	80,286
Recognised in profit or loss	4,061	1,160	243	2,993	8,457
Recognised in other comprehensive income	–	578	–	(21)	557
Exchange difference	26	14	(2)	–	38
At 31 December 2022	75,278	(1,012)	237	14,835	89,338

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	Salaries and welfare payable and other	Total
At 1 January 2021	61,340	(1,404)	1,579	10,305	71,820
Recognised in profit or loss	9,850	1,020	(1,584)	1,516	10,802
Recognised in other comprehensive income	–	(2,383)	–	14	(2,369)
Exchange difference	1	3	1	28	33
At 31 December 2021	71,191	(2,764)	(4)	11,863	80,286

Note: No deferred tax liability has been recognised in respect of temporary differences associated with investments in subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

33. Other assets

	2022	2021
Amounts pending for settlement	**15,387**	78,719
Continuing involvement assets	**5,274**	5,274
Interest receivable	**4,154**	3,913
Prepaid lease payments	**209**	257
Repossessed assets (a)	**456**	513
Guarantee deposits	**465**	519
Receivable from reinsurers	**329**	186
Prepayment for leasehold improvement and other miscellaneous items	**7,569**	4,987
Premium receivables	**196**	135
Post-employment benefits: defined benefit plan (note 39(b))	**50**	65
Other	**21,889**	27,953
Total	**55,978**	122,521

(a) Repossessed assets

	2022	2021
Land and buildings	**606**	623
Other repossessed assets	**6**	31
Total	**612**	654
Less: Impairment allowances	**(156)**	(141)
Net repossessed assets	**456**	513

Note: In 2022, the Group disposed of repossessed assets with a total carrying value of RMB44 million (2021: RMB66 million).

34. Deposits from banks and other financial institutions

	2022	2021
Principal (a)	**644,618**	751,254
Interest payable	**1,056**	1,764
Total	**645,674**	753,018

(a) Analysed by nature of counterparties

	2022	2021
In the Chinese mainland	**633,178**	701,085
– Banks	**103,250**	77,788
– Other financial institutions	**529,928**	623,297
Outside the Chinese mainland	**11,440**	50,169
– Banks	**10,779**	48,301
– Other financial institutions	**661**	1,868
Total	**644,618**	751,254

35. Placements from banks and other financial institutions

	2022	2021
Principal (a)	**191,872**	170,257
Interest payable	**985**	393
Total	**192,857**	170,650

(a) Analysed by nature of counterparties

	2022	2021
In the Chinese mainland	**124,533**	114,496
– Banks	**123,934**	107,214
– Other financial institutions	**599**	7,282
Outside the Chinese mainland	**67,339**	55,761
– Banks	**67,130**	55,570
– Other financial institutions	**209**	191
Total	**191,872**	170,257

36. Financial liabilities at fair value through profit or loss

	2022	2021
Financial liabilities held for trading (a)	**18,247**	17,017
Financial liabilities designated at fair value through profit or loss (b)	**45,067**	46,744
Total	**63,314**	63,761

(a) Financial liabilities held for trading

	2022	2021
Financial liabilities related to precious metal	**17,634**	16,406
Short position on bonds	**613**	611
Total	**18,247**	17,017

(b) Financial liabilities designated at fair value through profit or loss

	2022	2021
In the Chinese mainland	**36,217**	34,677
– Precious metal contracts with other banks	**14,170**	11,596
– Other	**22,047**	23,081
Outside the Chinese mainland	**8,850**	12,067
– Certificates of deposit issued	**383**	377
– Debt securities issued	**7,709**	7,600
– Other	**758**	4,090
Total	**45,067**	46,744

As at 31 December 2022 and 2021, the difference between the fair values of the Group's financial liabilities designated at fair value through profit or loss and the contractual payable amount at maturity is not significant. The amounts of changes in the fair value of these liabilities that are attributable to changes in credit risk of the Group are not significant during the years ended 31 December 2022 and 2021 and as at 31 December 2022 and 2021.

37. Amounts sold under repurchase agreements

	2022	2021
Principal (a)(b)	**107,024**	157,572
Interest payable	**69**	88
Total	**107,093**	157,660

(a) Analysed by nature of counterparties

	2022	2021
In the Chinese mainland	**103,452**	155,322
– Banks	**103,446**	147,410
– Other financial institutions	**6**	7,912
Outside the Chinese mainland	**3,572**	2,250
– Banks	**2,801**	1,854
– Other financial institutions	**771**	396
Total	**107,024**	157,572

(b) Analysed by underlying assets

	2022	2021
Debt securities	**95,999**	152,071
– Government bonds	**73,335**	90,956
– Bonds issued by policy banks	**15,330**	48,833
– Bonds issued by commercial banks and other financial institutions	**3,476**	2,774
– Other debt securities	**3,858**	9,508
Discounted bills	**11,025**	5,501
Total	**107,024**	157,572

38. Deposits from customers

	2022	2021
Principal (a)	**7,535,742**	6,347,078
Interest payable	**54,837**	38,076
Total	**7,590,579**	6,385,154

(a) Analysed by nature of counterparties

	2022	2021
Corporate customers	**4,431,553**	4,058,924
– Demand deposits	**2,762,671**	2,652,817
– Time deposits	**1,668,882**	1,406,107
Retail customers	**3,104,189**	2,288,154
– Demand deposits	**1,983,364**	1,557,861
– Time deposits	**1,120,825**	730,293
Total	**7,535,742**	6,347,078

(b) The deposits taken from customers as collateral or for the purpose of guarantees are as follows:

	2022	2021
Guarantee for acceptance bills	**199,384**	134,858
Guarantee for loans	**6,888**	18,878
Guarantee for issuing letters of credit	**29,366**	21,574
Deposit for letters of guarantee	**44,732**	32,412
Other	**42,490**	31,208
Total	**322,860**	238,930

39. Staff welfare scheme

(a) Salaries and welfare payable

	2022				
	Beginning balance	Charge for the year arising from combination	Charge for the year	Payment/ transfers in the year	Ending balance
Short-term employee benefits (i)	18,065	151	58,583	(53,724)	23,075
Post-employment benefits – defined contribution plans (ii)	1,629	–	5,110	(5,974)	765
Other long-term employee benefits(iii)	67	–	(41)	–	26
Total	19,761	151	63,652	(59,698)	23,866

	2021			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Short-term employee benefits (i)	14,155	53,827	(49,917)	18,065
Post-employment benefits – defined contribution plans (ii)	1,240	4,884	(4,495)	1,629
Other long-term employee benefits(iii)	67	17	(17)	67
Total	15,462	58,728	(54,429)	19,761

(i) Short-term employee benefits

	2022				
	Beginning balance	Charge for the year arising from combination	Charge for the year	Payment/ transfers in the year	Ending balance
Salaries and bonus	14,318	151	48,682	(44,263)	18,888
Welfare expense	19	–	2,310	(2,312)	17
Social insurance	530	–	3,311	(3,470)	371
– Medical insurance	515	–	3,192	(3,354)	353
– Injury insurance	6	–	34	(34)	6
– Maternity insurance	9	–	85	(82)	12
Housing reserve	166	–	2,309	(2,318)	157
Labour union and employee education expenses	3,032	–	1,971	(1,361)	3,642
Total	18,065	151	58,583	(53,724)	23,075

	2021			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salaries and bonus	11,121	43,716	(40,519)	14,318
Welfare expense	24	2,908	(2,913)	19
Social insurance	408	3,158	(3,036)	530
– Medical insurance	391	3,046	(2,922)	515
– Injury insurance	6	27	(27)	6
– Maternity insurance	11	85	(87)	9
Housing reserve	191	2,119	(2,144)	166
Labour union and employee education expenses	2,411	1,926	(1,305)	3,032
Total	14,155	53,827	(49,917)	18,065

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plans

	2022			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Basic retirement insurance	157	2,821	(2,827)	151
Supplementary pension	1,450	2,221	(3,080)	591
Unemployment insurance	22	68	(67)	23
Total	1,629	5,110	(5,974)	765

	2021			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Basic retirement insurance	130	2,566	(2,539)	157
Supplementary pension	1,088	2,257	(1,895)	1,450
Unemployment insurance	22	61	(61)	22
Total	1,240	4,884	(4,495)	1,629

In accordance with the regulations in the PRC, the Group participates in statutory pension schemes organised by the municipal and provincial governments for its employees (endowment insurance). During the year ended 31 December 2022, the Group's contributions to these pension schemes are determined by local governments and vary at a range of 14% to 16% (2021: 14% to 16%) of the staff salaries.

In addition to the above statutory pension schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance) in accordance with relevant annuity policies for corporate entities in the PRC. During the year ended 31 December 2022, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2021: 0% to 8.33%).

For its employees outside the Chinese mainland, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations.

(iii) Other long-term employee benefits

	2022			
	Beginning balance	Charge for the year	Payment in the year	Ending balance
Cash settled share-based transactions	67	(41)	–	26

	2021			
	Beginning balance	Charge for the year	Payment in the year	Ending balance
Cash settled share-based transactions	67	17	(17)	67

The Group has offered 10 phases of H share appreciation rights under the Scheme, the remaining eighth to tenth phases have not been exercised as of 31 December 2022. The share appreciation rights of the Scheme vest after 3 years from the grant date and are then exercisable within a period of 7 years. Each of the share appreciation right is linked to one H share.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the Scheme are listed below:

	Number of unexercised share appreciation rights at the end of 2022 (in millions)	Exercise conditions	Contract period of share appreciation rights
Share appreciation rights granted on 22 Jul 2015 (Phase VIII)	0.157	3 years after the grant date	10 years
Share appreciation rights granted on 24 Aug 2016 (Phase IX)	0.210	3 years after the grant date	10 years
Share appreciation rights granted on 25 Aug 2017 (Phase X)	0.240	3 years after the grant date	10 years

(2) The number and weighted average exercise prices of share appreciation rights are as follows:

	2022		2021	
	Weighted average exercise price (HKD)	**Number of share appreciation rights (in million)**	Weighted average exercise price (HKD)	Number of share appreciation rights (in million)
Outstanding as at the beginning of the year	**16.21**	**1.76**	18.34	2.87
Exercised during the year	**–**	**–**	17.23	(0.42)
Forfeited during the year	**13.65**	**(1.15)**	19.11	(0.69)
Outstanding at the end of the year	**15.91**	**0.61**	16.21	1.76
Exercisable at the end of the year	**15.25**	**0.55**	14.92	1.35

The share appreciation rights outstanding at 31 December 2022 had a weighted average exercise price of HKD15.91 (2021: HKD16.21) and a weighted average remaining contractual life of 3.70 years (2021: 4.36 years).

Pursuant to the requirements set out in the Scheme, if there are any dividends distributed, capital reserve converted into shares, share split or dilution, adjustments to the exercise price will be applied.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(3) Fair value of share appreciation rights and assumptions

The fair value of services received in return for share appreciation rights granted are measured by reference to the fair value of share appreciation rights granted. The estimate of the fair value of the share appreciation rights granted is measured based on the Black-Scholes model. The contractual life of the rights are used as an input to the model.

	2022		
	Phase VIII	Phase IX	Phase X
Fair value at measurement date (in RMB Yuan)	**24.94**	**25.27**	**17.75**
Share price (in HKD)	**43.30**	**43.30**	**43.30**
Exercise price (in HKD)	**12.81**	**11.38**	**21.92**
Expected volatility	**48.34%**	**48.34%**	**48.34%**
Share appreciation rights remaining life (year)	**2.50**	**3.58**	**4.58**
Expected dividends yield	**2.93%**	**2.93%**	**2.93%**
Risk-free interest rate	**1.43%**	**1.43%**	**1.43%**

	2021			
	Phase VII	Phase VIII	Phase IX	Phase X
Fair value at measurement date (in RMB Yuan)	40.54	33.66	33.40	25.98
Share price (in HKD)	61.75	61.75	61.75	61.75
Exercise price (in HKD)	7.44	14.59	13.16	23.70
Expected volatility	37.41%	37.41%	37.41%	37.41%
Share appreciation rights remaining life (year)	2.50	3.50	4.58	5.58
Expected dividends yield	3.36%	3.36%	3.36%	3.36%
Risk-free interest rate	1.43%	1.43%	1.43%	1.43%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share appreciation rights) and adjusted for any expected changes to future volatility based on publicly available information. Expected dividend yield is based on historical dividend yields. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share appreciation rights were granted under service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share appreciation rights granted.

(4) The number of share appreciation rights granted:

	2022				
	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised/ Forfeited (in thousands)
Tian Huiyu	**–**	**–**	**–**	**–**	**1,230**
Wang Liang	**157**	**210**	**240**	**607**	**203**
Total	**157**	**210**	**240**	**607**	**1,433**

	2021					
	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised/ Forfeited (in thousands)
Tian Huiyu	225	300	300	330	1,155	75
Liu Jianjun	–	–	–	–	–	870
Wang Liang	–	157	210	240	607	203
Xiong Liangjun	–	–	–	–	–	660
Total	225	457	510	570	1,762	1,808

Note: In 2022, senior management did not exercise any appreciation rights (2021: 0.42 million at a weighted average exercise price of HKD17.23).

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan

The Group's subsidiary CMB WLB operates a defined benefit plan (the "plan") for the staff, which includes a defined benefit scheme and a defined benefit pension scheme. Contributions to the plan are determined based on periodic valuations by qualified actuaries on the assets and liabilities of the plan. The plan provides benefits based on members' final salary. The costs are solely funded by CMB WLB.

The latest actuarial valuation of the plan as at 31 December 2022 was performed by Towers Watson Hong Kong Limited, a professional actuarial firm in accordance with IAS 19 Employee Benefits. The present values of the defined benefit obligation and current service cost of the plan are calculated based on the projected unit credit method. At the valuation date, the plan had a funding level of 121%(2021: 123%).

The amounts recognised in the consolidated statement of financial position as at 31 December 2022 and 2021 are analysed as follows:

	2022	2021
Fair value of the plan assets	285	349
Present value of the funded defined benefit obligation	(235)	(284)
Net asset recognised in the consolidated statement of financial position	50	65

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the plan is expected to be paid in 2022.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2022 and 2021.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2022	2021
Current service cost	(9)	(10)
Net interest income	1	–
Net expense for the year included in retirement benefit costs	(8)	(10)

The actual loss on the plan assets for the year ended 31 December 2022 was RMB42 million (2021: gain of RMB2 million).

The movements in the defined benefit obligation during the year are as follows:

	2022	2021
Present value of obligation at 1 January	284	341
Current service cost	9	10
Interest cost	4	1
Actual benefits paid	(49)	(42)
Actuarial gains or losses due to liability experience	(4)	(6)
Actuarial gains or losses due to financial assumption changes	(31)	(22)
Actuarial gains or losses due to demographic assumption changes	–	10
Exchange difference	22	(8)
Actual obligation at 31 December	235	284

The movements in the fair value of the plan assets during the year are as follows:

	2022	2021
Fair value of the plan assets at 1 January	349	401
Interest income	5	1
Expected return on plan assets	(47)	1
Actual benefits paid	(49)	(42)
Exchange difference	27	(12)
Fair value of the plan assets at 31 December	285	349

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The major categories of the plan assets are as follows:

	2022		2021	
	Amount	%	Amount	%
Equities	**153**	**53.7**	202	57.9
Bonds	**50**	**17.5**	71	20.3
Cash	**82**	**28.8**	76	21.8
Total	**285**	**100.0**	349	100.0

As at 31 December 2022, deposit with the Bank included in the amount of the plan assets was RMB58 million (2021: RMB53 million).

The principal actuarial assumptions adopted in the valuation are as follows:

	2022 %	2021 %
Discount rate		
– Defined benefit scheme	**3.3**	1.4
– Defined benefit pension scheme	**4.6**	0.4
Long-term average rate of salary increase for the plan	**5.0**	5.0
Pension increase rate for the defined benefit pension plan	**–**	–

In 2022 and 2021, there were no significant change in the amount of retirement benefit plan liabilities due to changes in the above-mentioned actuarial assumptions.

40. Tax payable

	2022	2021
Corporate income tax	**13,392**	16,539
Value added tax	**4,141**	4,399
Other	**1,925**	1,553
Total	**19,458**	22,491

41. Contract liabilities

	2022	2021
Credit card points	**5,319**	6,065
Other deferred fee and commission income	**1,360**	1,471
Total	**6,679**	7,536

42. Provisions

	2022	2021
Expected credit loss on provisions	**20,217**	12,790
Other	**2,274**	1,870
Total	**22,491**	14,660

The expected credit loss for loan commitments and financial guarantee contracts by stages are as follows:

	2022	2021
Expected credit loss provisions	**20,217**	12,790
– Stage 1 (12-month ECL)	**12,082**	8,210
– Stage 2 (Lifetime ECL – not credit-impaired)	**7,569**	3,724
– Stage 3 (Lifetime ECL – credit-impaired)	**566**	856

43. Debt securities issued

	Notes	2022	2021
Subordinated bonds issued	(a)	**19,994**	34,236
Long-term debt securities issued	(b)	**120,971**	159,306
Negotiable interbank certificates of deposit issued		**65,719**	240,284
Certificates of deposit and other debt securities issued (note)		**15,604**	10,715
Interest payable		**1,533**	2,104
Total		**223,821**	446,645

Note: Other debt securities issued are notes issued by overseas subsidiaries of the Bank.

(a) Subordinated bonds issued

As at the end of the reporting period, subordinated bonds issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	180 months	27 Dec 2012	5.20	RMB11,700	11,696	–	4	(11,700)	–
Fixed rate bond	120 months	15 Nov 2018	4.65	RMB20,000	19,994	–	–	–	19,994
Total					31,690	–	4	(11,700)	19,994

As at the end of the reporting period, subordinated bond issued by CMB WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed to floating rate bond	120 months	22 Nov 2017	3.75 (for the first 5 years); T*+1.75% (from 6th year onwards, if the notes are not called by the Bank)	USD400	2,546	3	116	(2,665)	–
Total					2,546	3	116	(2,665)	–

* T represents the 5 years US Treasury rate.

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued

As at the end of the reporting period, debt securities issued by the Bank was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Medium term note	36 months	19 Jun 2019	0.25	EUR300	2,164	–	(1)	30	(2,193)	–
Medium term note	36 months	19 Jun 2019	3M Libor*+0.74	USD600	3,823	–	–	97	(3,920)	–
Fixed rate bond	36 months	5 Jul 2019	3.45	RMB30,000	29,990	–	10	–	(30,000)	–
Fixed rate bond	36 months	24 Sep 2019	3.33	RMB20,000	19,997	–	3	–	(20,000)	–
Medium term note	33 months	27 Sep 2019	3M Libor*+0.74	USD60	382	–	–	10	(392)	–
Medium term note	36 months	25 Sep 2020	1.10	USD400	2,546	–	(2)	236	–	2,780
Medium term note	36 months	25 Sep 2020	0.95	USD300	1,908	–	(4)	183	–	2,087
Fixed rate bond	36 months	6 Nov 2020	3.48	RMB10,000	9,998	–	1	–	–	9,999
Fixed rate bond	36 months	11 Mar 2021	3.40	RMB10,000	9,998	–	–	–	–	9,998
Fixed rate bond	36 months	3 Jun 2021	3.18	RMB20,000	19,995	–	–	–	–	19,995
Fixed rate bond	36 months	24 Aug 2021	2.90	RMB10,000	9,998	–	–	–	–	9,998
Medium term note	24 months	1 Sep 2021	SOFR*+0.50	USD300	1,912	–	(1)	176	–	2,087
Medium term note	60 months	1 Sep 2021	1.25	USD300	1,912	–	(1)	178	–	2,089
Medium term note	36 months	2 Mar 2022	2.00	USD400	–	2,534	9	255	–	2,798
Fixed rate bond	36 months	11 May 2022	2.65	RMB5,000	–	4,998	1	–	–	4,999
Fixed rate bond	36 months	1 Sep 2022	2.40	RMB10,000	–	10,000	(3)	–	–	9,997
Total					114,623	17,532	12	1,165	(56,505)	76,827

* Libor represents London InterBank Offered Rate. SOFR represents Secured Overnight Financing Rate.

Note: Financial bonds issued by the Bank that were held by CMB WLB amounted to a total of 555 million RMB equivalent as of 31 December 2022 (31 December 2021: 1,142 million RMB equivalent).

43. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

As at the end of the reporting period, debt securities issued by CMBFL were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	13 Mar 2019	3.50	RMB1,500	1,500	–	–	–	(1,500)	–
Fixed rate bond	60 months	13 Mar 2019	4.00	RMB500	499	–	1	–	–	500
Fixed rate bond	36 months	27 May 2019	3.68	RMB3,000	2,999	–	1	–	(3,000)	–
Fixed rate bond	60 months	3 Jul 2019	3.00	USD900	5,705	–	10	550	–	6,265
Fixed rate bond	120 months	3 Jul 2019	3.63	USD100	633	–	1	60	–	694
Fixed rate bond	36 months	17 Jul 2019	3.60	RMB3,000	2,998	–	2	–	(3,000)	–
Fixed rate bond	120 months	14 Jul 2020	4.25	RMB2,000	1,993	–	1	–	–	1,994
Fixed rate bond	60 months	12 Aug 2020	1.88	USD800	5,078	–	5	488	–	5,571
Fixed rate bond	120 months	12 Aug 2020	2.75	USD400	2,526	–	3	242	–	2,771
Fixed rate bond	36 months	17 Nov 2020	3.85	RMB4,000	3,993	–	4	–	–	3,997
Fixed rate bond	36 months	28 Jan 2021	3.60	RMB4,000	3,992	–	4	–	–	3,996
Fixed rate bond	60 months	4 Feb 2021	2.00	USD400	2,539	–	2	244	–	2,785
Fixed rate bond	120 months	5 Feb 2021	2.88	USD400	2,520	–	3	242	–	2,765
Fixed rate bond	18 months	19 Mar 2021	1.16	USD50	318	–	–	30	(348)	–
Fixed rate bond	36 months	24 Mar 2021	3.58	RMB2,000	1,996	–	2	–	–	1,998
Fixed rate bond	60 months	24 Mar 2021	2.00	USD20	126	–	–	12	–	138
Fixed rate bond	36 months	16 Sep 2021	1.25	USD600	3,805	–	5	369	–	4,179
Fixed rate bond	60 months	16 Sep 2021	1.75	USD300	1,893	–	3	185	–	2,081
Fixed rate bond	36 months	16 Sep 2021	0.50	EUR100	721	–	1	19	–	741
Floating rate bond	12 months	13 Dec 2021	3M Libor+0.55	USD60	382	–	–	35	(417)	–
Fixed rate bond	24 months	22 Dec 2021	0.50	EUR30	216	–	–	6	–	222
Floating rate bond	12 months	2 Mar 2022	SOFR+0.80	USD115	–	728	1	73	–	802
Floating rate bond	12 months	6 May 2022	SOFR+0.85	USD45	–	298	–	16	–	314
Floating rate bond	12 months	6 May 2022	SOFR+1.00	USD75	–	497	–	26	–	523
Floating rate bond	12 months	13 Jun 2022	SOFR+0.95	USD120	–	805	–	32	–	837
Fixed rate bond	12 months	9 Sep 2022	1.95	EUR80	–	554	–	38	–	592
Floating rate bond	6 months	13 Oct 2022	SOFR+0.75	USD50	–	346	–	3	–	349
Fixed rate bond	12 months	17 Nov 2022	3.21	RMB300	–	300	–	–	–	300
Floating rate bond	12 months	7 Dec 2022	SOFR+0.83	USD45	–	315	–	(1)	–	314
Floating rate bond	60 months	12 Dec 2022	SOFR+1.40	USD100	–	695	–	3	–	698
Fixed rate bond	12 months	14 Dec 2022	2.90	EUR57	–	420	–	1	–	421
Total					46,432	4,958	49	2,673	(8,265)	45,847

Note: Financial bonds issued by CMBFL that were held by the Bank amounted to a total of 1,370 million RMB equivalent as of 31 December 2022 (31 December 2021: 1,370 million RMB equivalent). Financial bonds issued by CMB International Leasing Management Limited (CMBILM), a wholly-owned subsidiary of CMBFL, that were held by the Bank amounted to a total of 2,268 million RMB equivalent as of 31 December 2022 (31 December 2021: 2,085 million RMB equivalent). Financial bonds issued by CMBILM that were held by CMB WLB amounted to a total of 1,602 million RMB equivalent as of 31 December 2022 (31 December 2021: 900 million RMB equivalent).

As at the end of the reporting period, long-term debt securities issued by CMBIC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	2 June 2021	1.38	USD600	3,816	–	(21)	371	–	4,166
Total					3,816	–	(21)	371	–	4,166

Note: Financial bond issued by CMBIC that was held by CMB WLB amounted to a total of 74 million RMB equivalent as of 31 December 2022 (31 December 2021: 68 million RMB equivalent).

44. Other liabilities

	2022	2021
Clearing and settlement accounts	**31,534**	50,565
Salary risk allowances (note)	**45,500**	38,500
Continuing involvement liability	**5,274**	5,274
Insurance liabilities	**2,902**	2,063
Collecting on behalf of customers	**827**	951
Cheques and remittances returned	**39**	47
Other payable	**39,862**	42,170
Total	**125,938**	139,570

Note: Salary risk allowances are specific funds withheld from the employees' annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence of legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances.

45. Share capital

By type of shares:

	2022 and 2021 No.of shares (in million)
Listed shares	
– A Shares	20,629
– H Shares	4,591
Total	25,220

All H Shares are ordinary shares and rank pari passu with the A Shares. There is no restriction on these shares.

	Capital	
	No. of shares (in million)	Amount
At 1 January 2022 and at 31 December 2022	25,220	25,220

46. Other equity instruments

(a) Preference Shares

	Issuance date	Accounting classification	Dividend rate	Issue price	No. (millions of shares)	Amount (RMB in million)	Due date	Conversion conditions	Conversion
Offshore Preference Shares in 2017 (note (i))	25 Oct 2017	Equity instruments	4.40%	USD20/Share	50	6,597	Perpetual existence	Note (iii)	None
Domestic Preference Shares in 2017 (note (ii))	22 Dec 2017	Equity instruments	4.81%	RMB100/Share	275	27,468	Perpetual existence	Note (iii)	None
Total					325	34,065			

The changes of Preference Shares issued were as follows:

	Issuance date	1 January 2022		Increase/decrease		31 December 2022	
		No. (millions of shares)	Amount (RMB in million)	No. (millions of shares)	Amount (RMB in million)	**No. (millions of shares)**	**Amount (RMB in million)**
Offshore Preference Shares (note (i))	25 Oct 2017	50	6,597	(50)	(6,597)	**–**	**–**
Domestic Preference Shares (note (ii))	22 Dec 2017	275	27,468	–	–	**275**	**27,468**
Total		325	34,065	(50)	(6,597)	**275**	**27,468**

Notes:

(i) Pursuant to the approvals by the relevant regulatory authorities in China, the Bank issued US Dollar traded and settled non-cumulative Offshore Preference Shares in the aggregate nominal value of USD1,000 million on 25 October 2017. Each Offshore Preference Share has a nominal value of USD20 and 50 million Offshore Preference Shares were issued in total. The dividend rate is initially at 4.40% and subject to reset per agreement subsequently, but not exceeds 16.68%. With the approval of the CBIRC, the Bank redeemed all of the above Offshore Preference Shares during the year.

(ii) Pursuant to the approvals by the relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares in the aggregate nominal value of RMB27,500 million on 22 December 2017. Each Domestic Preference Share has a nominal value of RMB100 and 275 million Domestic Preference Shares were issued in total. The dividend rate is initially at 4.81% and subject to reset per agreement subsequently, but not exceeds 16.68%.

(iii) Both Domestic and Offshore Preference Shares have clauses that state certain events would trigger mandatory conversion, those clauses are as follows:

(1) Upon the occurrence of any additional Tier-1 Capital Instrument Trigger Event, that is, the Core Tier-1 Capital Adequacy Ratio drops to 5.125% or below, the Bank shall have the right to convert, without the consent of the holders of Preference Shares, all or part of the Preference Shares then issued and outstanding into Ordinary A Shares (Domestic Preference Shares) or Ordinary H Shares (Offshore Preference Shares) based on the total nominal value of the Preference Shares in order to restore the Core Tier-1 Capital Adequacy Ratio of the Bank to above 5.125%. In the case of partial conversion, the Preference Shares shall be converted on a pro rata basis and on identical conditions.

(2) Upon the occurrence of a Tier-2 Capital Trigger Event, the Bank shall have the right to convert, without the consent of the holders of Preference Shares, all or part of the Preference Shares then issued and outstanding into Ordinary A Shares (Domestic Preference Shares) or Ordinary H Shares (Offshore Preference Shares) based on the total nominal value of the Preference Shares. A Tier-2 Capital Trigger Event refers to the earlier of the following events: 1) CBIRC having concluded that without a conversion or write-off, the Bank would become non-viable, and 2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

Upon the occurrence of the above mandatory conversion events, the Bank shall report to the CBIRC for review and determination. The Bank shall fulfil the relevant information disclosure requirements of the Securities Law, the CSRC's and Hong Kong's relevant laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

46. Other equity instruments *(continued)*

(a) Preference Shares *(continued)*

Dividends on the Offshore and Domestic Preference Shares shall be paid in cash. Save for such dividend at the agreed dividend rate, the holders of the above Preference Shares are not entitled to share the remaining profits of the Bank with the ordinary shareholders. Dividend is non-cumulative. The Bank has the right to cancel any dividend on Preference Shares, and such cancellation shall not be deemed as a default. After the cancellation of all or part of the dividend to preference shareholders, the Bank shall not make any ordinary shares distribution, until the Preference Shares dividend is resumed in full. As the dividends on the Offshore and Domestic Preference Shares are non-cumulative, the Bank will not distribute the dividends that were cancelled in prior years to Preference Shares holders.

The Offshore and Domestic Preference Shares have no maturity date. However, after the fifth anniversary of the issuance date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Offshore and Domestic Preference Shares may be redeemed in whole or in part at the discretion of the Bank, but the Bank does not have the obligation to redeem preference shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that Preference Shares will be redeemed.

After deducting the issuance expenses from the Preference Shares above, the total net proceeds have been included in additional Tier 1 capital of the Bank.

(b) Perpetual Bonds

	Issuance date	Accounting classification	Interest rate	Issue price	No. (millions of units)	Amount (RMB in million)	Due date	Conversion conditions	Conversion
Domestic Perpetual Bonds (note (i))	9 Jul 2020	Equity instruments	3.95%	RMB100/Unit	500	49,989	Perpetual existence	None	None
Domestic Perpetual Bonds (note (ii))	7 Dec 2021	Equity instruments	3.69%	RMB100/Unit	430	42,989	Perpetual existence	None	None
Total					930	92,978			

The changes of Perpetual Bonds issued were as follows:

	Issuance date	1 January 2022 No. (millions of units)	1 January 2022 Amount (RMB in million)	Increase No. (millions of units)	Increase Amount (RMB in million)	31 December 2022 No. (millions of units)	31 December 2022 Amount (RMB in million)
Domestic Perpetual Bonds (note (i))	9 Jul 2020	500	49,989	–	–	**500**	**49,989**
Domestic Perpetual Bonds (note (ii))	7 Dec 2021	430	42,989	–	–	**430**	**42,989**
Total		930	92,978	–	–	**930**	**92,978**

Notes:

(i) With the approval of the relevant regulatory authorities in China, the Bank issued RMB50,000 million of 2020 China Merchants Bank Co., Ltd. Undated Additional Tier-1 Capital Bonds (Series 1) (the "Perpetual Bonds 2020") in the national inter-bank bond market on 9 July 2020. The unit face value is RMB100. The coupon rate adjusted period is every 5 years from the issuance of the Perpetual Bonds 2020. In any coupon rate adjusted period, the coupon rate of the Perpetual Bonds will remain at a prescribed fixed rate. The Perpetual Bonds 2020 will continue to be outstanding so long as the Bank continues to operate.

(ii) With the approval of the relevant regulatory authorities in China, the Bank issued RMB43,000 million of 2021 China Merchants Bank Co., Ltd. Undated Additional Tier-1 Capital Bonds (the "Perpetual Bonds 2021, together with Perpetual Bonds 2020, Perpetual Bonds") in the national inter-bank bond market on 7 December 2021. The unit face value is RMB100. The coupon rate adjusted period is every 5 years from the issuance of the Perpetual Bonds 2021. In any coupon rate adjusted period, the coupon rate of the Perpetual Bonds will remain at a prescribed fixed rate. The Perpetual Bonds 2021 will continue to be outstanding so long as the Bank continues to operate.

46. Other equity instruments *(continued)*

(b) Perpetual Bonds *(continued)*

From the fifth anniversary since the issuance of the Perpetual Bonds, the Bank has the right to redeem in whole or in part the Perpetual Bonds on the annual interest payment date (including the interest payment date on the fifth year since the issuance date) subject to the approval of the CBIRC and the satisfaction of the redemption preconditions. If, after the issuance, the Perpetual Bonds no longer qualify as additional Tier 1 capital as a result of an unforeseeable change to relevant provisions of supervisory regulation, the Bank has the right to redeem the whole but not part of the Perpetual Bonds. The investors do not have the right to sell back the Perpetual Bonds to the Bank.

The claims in respect of the Perpetual Bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the Perpetual Bonds, and will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional Tier-1 capital instruments of the Bank that rank pari passu with the Perpetual Bonds.

The coupon rate will be reset on each benchmark rate reset date (i.e. the date of every five years from the issuance date). The adjusted coupon rate will be determined based on the benchmark interest rate at adjustment date plus the fixed spread as determined at the time of issuance. The Perpetual Bonds do not contain interest rate step-up mechanism or any other redemption incentives. The Bank has the right to cancel, in whole or in part, distributions on the Perpetual Bonds and any such cancellation will not constitute an event of default. The bond interests are non-cumulative, and any cancelled distribution is not carried to the following year. The Bank will fully consider the interests of bondholders when exercising this right. The Bank can use the cancelled bond interest for the current period at its discretion to repay other due debts. Cancellation of any distributions to the Perpetual Bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Upon the occurrence of a Non-Viability Trigger Event, the Bank has the right to write off in whole or in part, without the need for the consent of the bond holders, the principal amount of the Perpetual Bonds. A Non-Viability Trigger Event refers to the earlier of the following events: (i) the CBIRC having concluded that without a write-off, the Bank would become non-viable; (ii) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable. The write-off will not be restored.

After deducting the issuance expenses, the funds raised by the bonds have been used to supplement additional Tier 1 capital of the Bank in accordance with applicable laws and the approval of the relevant authorities.

(c) Relative Information Attributed to Equity Instrument Holders

	2022	2021
Equity attributed to shareholders of the Bank	**945,503**	858,745
– Equity attributed to ordinary shareholders of the Bank	**825,057**	731,702
– Equity attributed to other equity instrument holders of the Bank	**120,446**	127,043
Including: Net profit	**5,237**	3,613
Total comprehensive income	**5,237**	3,613
Distributions in current year	**(5,237)**	(3,613)
Cumulative undistributed dividends	**–**	–
Equity attributed to non-controlling interests	**8,735**	6,936
– Equity attributed to non-controlling holders of ordinary shares	**5,948**	3,300
– Equity attributed to non-controlling holders of perpetual debt capital (note 62(a))	**2,787**	3,636

47. Capital reserve

Capital reserve primarily represents share premium of the Bank and can be converted into share capital with the shareholders' approval.

	2022	2021
At 1 January	**67,523**	67,523
Decrease	**(2,088)**	–
At 31 December	**65,435**	67,523

48. Investment revaluation reserve

	2022	2021
Debt instruments measured at FVTOCI: investment revaluation reserve	**9,319**	11,459
Fair value gain on equity instruments designated at FVTOCI	**2,606**	2,578
Remeasurement of defined benefit scheme	**78**	88
Share of other comprehensive (expense)/income of equity-accounted investees	**(233)**	922
Other	**45**	–
Total	**11,815**	15,047

49. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges. Subsequent recognition of the hedged cash flow is accounted for in accordance with the accounting policy adopted for cash flow hedge in Note 4(5).

50. Surplus reserve

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") and is provided at 10% of the audited profit after tax of the Bank. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

	2022	2021
At 1 January	**82,137**	71,158
Provided for the year	**12,848**	10,979
At 31 December	**94,985**	82,137

51. General reserve

The general reserve is an integral part of equity. According to the relevant regulations, in addition to the impairment allowances, the Bank maintains a general reserve to make up for unidentified potential losses. In principle, the balance of general reserve shall not be less than 1.5% of the ending balance of risk assets. In addition, the general reserve includes 2.5% of the income of mutual fund custody businesses. The general reserve of the Group also includes the general reserve maintained by the subsidiaries of the Group according to the applicable laws and regulations of their industry or region.

	2022	2021
At 1 January	**115,288**	98,082
Provided for the year	**17,183**	17,206
At 31 December	**132,471**	115,288

52. Profit appropriations

(a) Dividends approved/declared by shareholders

	2022	2021
Ordinary share dividends in 2021, approved and declared: RMB1.522 per share	**38,385**	–
Ordinary share dividends in 2020, approved and declared: RMB1.253 per share	–	31,601

(b) Proposed profit appropriations

	2022	2021
Statutory surplus reserve	**12,848**	10,979
General reserve	**17,183**	17,206
Dividends		
– cash dividend: RMB1.738 per share (2021: RMB1.522 per share)	**43,832**	38,385
Total	**73,863**	66,570

2022 final dividends is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 24 March 2023 and will be submitted to the 2022 Annual General Meeting for approval.

53. Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the Chinese mainland.

54. The bank's statement of financial position and changes in the bank's equity

	2022	2021
Assets		
Cash	**14,787**	12,794
Precious metals	**2,884**	4,554
Balances with central banks	**585,338**	543,652
Balances with banks and other financial institutions	**47,791**	41,632
Placements with banks and other financial institutions	**247,340**	188,376
Amounts held under resale agreements	**276,292**	523,516
Loans and advances to customers	**5,482,692**	5,023,050
Financial assets at fair value through profit or loss	**369,391**	290,941
Derivative financial assets	**17,859**	23,179
Debt investments at amortised cost	**1,533,546**	1,183,662
Debt investments at fair value through other comprehensive income	**675,484**	552,498
Equity investments designated at fair value through other comprehensive income	**10,724**	6,392
Investments in subsidiaries	**50,767**	49,495
Interests in joint ventures	**13,341**	12,582
Interests in associates	**6,190**	5,521
Investment properties	**907**	945
Property and equipment	**26,541**	26,833
Right-of-use assets	**16,764**	17,701
Intangible assets	**2,422**	3,228
Deferred tax assets	**88,056**	79,712
Other assets	**41,440**	109,871
Total assets	**9,510,556**	8,700,134
Liabilities		
Borrowing from central banks	**129,745**	159,987
Deposits from banks and other financial institutions	**621,621**	732,631
Placements from banks and other financial institutions	**43,319**	55,710
Financial liabilities at fair value through profit or loss	**40,035**	36,105
Derivative financial liabilities	**18,207**	26,866
Amounts sold under repurchase agreements	**95,970**	137,857
Deposits from customers	**7,327,974**	6,150,241
Salaries and welfare payable	**19,136**	15,853
Tax payable	**17,221**	20,926
Contract liabilities	**6,653**	7,536
Lease liabilities	**12,285**	13,164
Provisions	**22,410**	14,503
Debt securities issued	**172,402**	398,672
Other liabilities	**96,680**	119,395
Total liabilities	**8,623,658**	7,889,446
Equity		
Share capital	**25,220**	25,220
Other equity instruments	**120,446**	127,043
Capital reserve	**76,082**	76,681
Investment revaluation reserve	**13,144**	14,866
Surplus reserve	**94,985**	82,137
General reserve	**121,230**	105,941
Retained earnings	**391,579**	340,271
Proposed profit appropriation	**43,832**	38,385
Exchange reserve	**380**	144
Total equity	**886,898**	810,688
Total equity and liabilities	**9,510,556**	8,700,134

54. The bank's statement of financial position and changes in the bank's equity *(continued)*

Details of the changes in the Bank's equity are as follows:

	Share capital	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Total
At 1 January 2022	25,220	34,065	92,978	76,681	14,866	82,137	105,941	340,271	38,385	144	810,688
Changes in equity for the year	–	(6,597)	–	(599)	(1,722)	12,848	15,289	51,308	5,447	236	76,210
Net profit for the year	–	–	–	–	–	–	–	128,484	–	–	128,484
Other comprehensive income for the year	–	–	–	–	(1,692)	–	–	–	–	236	(1,456)
Total comprehensive income for the year	–	–	–	–	(1,692)	–	–	128,484	–	236	127,028
Redemption of preference shares	–	(6,597)	–	(599)	–	–	–	–	–	–	(7,196)
Profit appropriations	–	–	–	–	–	12,848	15,289	(77,206)	5,447	–	(43,622)
Appropriation to statutory surplus reserve	–	–	–	–	–	12,848	–	(12,848)	–	–	–
Appropriation to general reserve	–	–	–	–	–	–	15,289	(15,289)	–	–	–
Dividends paid for the year 2021	–	–	–	–	–	–	–	–	(38,385)	–	(38,385)
Proposed dividends for the year 2022	–	–	–	–	–	–	–	(43,832)	43,832	–	–
Dividends to preference shares	–	–	–	–	–	–	–	(1,675)	–	–	(1,675)
Distribution to perpetual bonds	–	–	–	–	–	–	–	(3,562)	–	–	(3,562)
Transfers within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	(30)	–	–	30	–	–	–
At 31 December 2022	25,220	27,468	92,978	76,082	13,144	94,985	121,230	391,579	43,832	380	886,898

	Share capital	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	General reserve	Retained earnings	Proposed profit appropriation	Exchange reserve	Total
At 1 January 2021	25,220	34,065	49,989	76,681	7,951	(26)	71,158	94,067	293,523	31,601	228	684,457
Changes in equity for the year	–	–	42,989	–	6,915	26	10,979	11,874	46,748	6,784	(84)	126,231
Net profit for the year	–	–	–	–	–	–	–	–	109,794	–	–	109,794
Other comprehensive income for the year	–	–	–	–	8,720	26	–	–	–	–	(84)	8,662
Total comprehensive income for the year	–	–	–	–	8,720	26	–	–	109,794	–	(84)	118,456
Issue of perpetual bonds	–	–	42,989	–	–	–	–	–	–	–	–	42,989
Profit appropriations	–	–	–	–	–	–	10,979	11,874	(64,851)	6,784	–	(35,214)
Appropriation to statutory surplus reserve	–	–	–	–	–	–	10,979	–	(10,979)	–	–	–
Appropriation to general reserve	–	–	–	–	–	–	–	11,874	(11,874)	–	–	–
Dividends paid for the year 2020	–	–	–	–	–	–	–	–	–	(31,601)	–	(31,601)
Proposed dividends for the year 2021	–	–	–	–	–	–	–	–	(38,385)	38,385	–	–
Dividends to preference shares	–	–	–	–	–	–	–	–	(1,638)	–	–	(1,638)
Distribution to perpetual bonds	–	–	–	–	–	–	–	–	(1,975)	–	–	(1,975)
Transfers within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	(1,805)	–	–	–	1,805	–	–	–
At 31 December 2021	25,220	34,065	92,978	76,681	14,866	–	82,137	105,941	340,271	38,385	144	810,688

55. Notes to consolidated cash flow statement

(a) Analysis of the balances of cash and cash equivalents (including assets with original maturity within 3 months):

	2022	2021
Cash and Balances with central banks	**66,055**	79,129
Balance with banks and other financial institutions	**81,928**	75,919
Placements with banks and other financial institutions	**93,704**	65,897
Amounts held under resale agreements	**275,051**	527,341
Debt securities investments	**50,460**	53,468
Total	**567,198**	801,754

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were classified in the Group's consolidated cash flows statement as cash flows from financing activities.

	Negotiable interbank certificates of deposit	Certificates of deposit issued (Note)	Debt securities issued (Note)	Interest payable on bonds	Dividend payable	Other financial liabilities	Lease liabilities	Total
At 1 January 2022	**240,284**	**11,092**	**201,142**	**2,104**	**26**	**26,650**	**13,812**	**495,110**
Cash changes:								
Proceeds from the issue	**78,666**	**20,287**	**21,481**	**–**	**–**	**10,796**	**–**	**131,230**
Repayment	**(250,996)**	**(16,504)**	**(78,735)**	**–**	**–**	**(14,959)**	**(4,932)**	**(366,126)**
Interest/dividend paid	**(5,714)**	**–**	**–**	**(6,686)**	**(44,103)**	**–**	**–**	**(56,503)**
Non-cash changes:								
Additions of lease liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**3,623**	**3,623**
Accrued interest	**–**	**–**	**–**	**6,115**	**–**	**–**	**510**	**6,625**
Dividend declared	**–**	**–**	**–**	**–**	**44,103**	**–**	**–**	**44,103**
Discount or premium amortisation	**3,479**	**31**	**37**	**–**	**–**	**–**	**–**	**3,547**
Fair value adjustments	**–**	**(26)**	**(544)**	**–**	**–**	**(9)**	**–**	**(579)**
Exchange difference	**–**	**1,107**	**5,293**	**–**	**–**	**241**	**–**	**6,641**
At 31 December 2022	**65,719**	**15,987**	**148,674**	**1,533**	**26**	**22,719**	**13,013**	**267,671**

	Negotiable interbank certificates of deposit	Certificates of deposit issued (Note)	Debt securities issued (Note)	Interest payable on bonds	Dividend payable	Other financial liabilities	Lease liabilities	Total
At 1 January 2021	144,816	19,084	194,775	1,985	26	23,047	14,242	397,975
Cash changes:								
Proceeds from the issue	319,707	14,692	63,872	–	–	6,860	–	405,131
Repayment	(226,012)	(21,363)	(55,771)	–	–	(3,697)	(4,835)	(311,678)
Interest/dividend paid	(3,768)	–	–	(7,630)	(35,685)	–	–	(47,083)
Non-cash changes:								
Additions of lease liabilities	–	–	–	–	–	–	3,850	3,850
Accrued interest	–	–	–	7,749	–	–	555	8,304
Dividend declared	–	–	–	–	35,685	–	–	35,685
Discount or premium amortisation	5,541	(811)	53	–	–	–	–	4,783
Fair value adjustments	–	(15)	(257)	–	–	656	–	384
Exchange difference	–	(495)	(1,530)	–	–	(216)	–	(2,241)
At 31 December 2021	240,284	11,092	201,142	2,104	26	26,650	13,812	495,110

Note: Including financial liabilities designated at fair value through profit or loss.

(c) Significant non-cash transactions

There were no significant non-cash transactions during the years ended 31 December 2022 and 2021.

56. Operating segments

The Group's principal activities are providing corporate and personal banking services, conducting treasury business, providing asset management and other financial services.

The Group manages its businesses by divisions, which are organised by both business lines and geography.

(1) Wholesale finance business

The financial services for corporate clients, government agencies, and financial institutions include: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business such as placement and repurchase, asset custody business, financial market business, and other services.

(2) Retail finance business

The financial services provided to retail customers include: loan and deposit service, bank card service, wealth management services, private banking and other services.

(3) Other Business

Other business covers investment properties, subsidiaries except for CMB WLB and CMBFL, associates and joint ventures. None of these segments meet any of the quantitative thresholds so far for segment division.

During the year of 2022, the Group reallocated CMBFL from the other business segment to the wholesale financial business segment. The comparative figures were re-presented accordingly.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking services provided to external parties. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and apportion according to the relevant factors.

The accounting policies of the operating segments are the same as the Group's accounting policies as stated in Note 4. Operating segment income represents income generated from external customers, inter-segment transactions are offset. No customer contributed 10% or more to the Group's revenue for 2022 and 2021. Internal transactions are conducted at fair value.

56. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale finance business		Retail finance business		Other business		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
External net interest income	**28,165**	21,026	**140,443**	135,412	**49,627**	47,481	**218,235**	203,919
Internal net interest income/(expense)	**62,294**	69,222	**(9,054)**	(18,571)	**(53,240)**	(50,651)	**–**	–
Net interest income	**90,459**	90,248	**131,389**	116,841	**(3,613)**	(3,170)	**218,235**	203,919
Net fee and commission income	**25,540**	25,290	**57,279**	60,155	**11,456**	9,002	**94,275**	94,447
Other net income	**26,095**	27,080	**2,747**	2,018	**863**	(87)	**29,705**	29,011
Operating income	**142,094**	142,618	**191,415**	179,014	**8,706**	5,745	**342,215**	327,377
Operating expenses								
– Property and equipment and investment properties depreciation	**(7,103)**	(5,740)	**(2,942)**	(2,860)	**(234)**	(257)	**(10,279)**	(8,857)
– Right-of-use assets depreciation	**(1,676)**	(1,672)	**(2,250)**	(2,367)	**(225)**	(220)	**(4,151)**	(4,259)
– Other	**(43,495)**	(41,317)	**(58,079)**	(56,451)	**(6,057)**	(5,995)	**(107,631)**	(103,763)
Reportable segment profit before impairment losses	**89,820**	93,889	**128,144**	117,336	**2,190**	(727)	**220,154**	210,498
Expected credit losses and impairment losses on other assets	**(22,671)**	(26,503)	**(33,966)**	(39,627)	**(929)**	(225)	**(57,566)**	(66,355)
Share of profits of associates and joint ventures	**–**	–	**–**	–	**2,525**	4,030	**2,525**	4,030
Reportable segment profit before taxation	**67,149**	67,386	**94,178**	77,709	**3,786**	3,078	**165,113**	148,173
Capital expenditure (note)	**28,884**	20,158	**2,660**	3,278	**513**	326	**32,057**	23,762

	Wholesale finance business		Retail finance business		Other business		Total	
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021	**31 December 2022**	31 December 2021	**31 December 2022**	31 December 2021
Reportable segment assets	**5,633,640**	5,203,529	**3,081,290**	2,908,405	**1,314,820**	1,037,190	**10,029,750**	9,149,124
Of which: Interest in associates and joint ventures	**–**	–	**–**	–	**23,844**	23,654	**23,844**	23,654
Reportable segment liabilities	**5,495,463**	5,142,042	**3,157,321**	2,329,192	**446,949**	811,434	**9,099,733**	8,282,668

Note: Capital expenditure represents the amount incurred for acquiring segment assets which are expected to be used for more than one year.

56. Operating segments *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets, liabilities and other material items

	2022	2021
Operating income for reportable segments	**342,215**	327,377
Total profit before income tax for reportable segments	**165,113**	148,173

	31 December 2022	31 December 2021
Assets		
Total assets for reportable segments	**10,029,750**	9,149,124
Goodwill	**9,999**	9,954
Intangible assets	**581**	571
Deferred tax assets	**90,848**	81,639
Other unallocated assets	**7,734**	7,733
Consolidated total assets	**10,138,912**	9,249,021
Liabilities		
Total liabilities for reportable segments	**9,099,733**	8,282,668
Tax payable	**19,458**	22,491
Deferred tax liabilities	**1,510**	1,353
Other unallocated liabilities	**63,973**	76,828
Consolidated total liabilities	**9,184,674**	8,383,340

56. Operating segments *(continued)*

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government in the Chinese mainland. The Group also has branches operating in Hong Kong, New York, Singapore, Luxembourg, London and Sydney, subsidiaries operating in Hong Kong, Shenzhen, Shanghai, Beijing and Luxembourg and representative offices in New York and Taipei.

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 revenue. Segment assets and non-current assets are allocated based on the location of the underlying assets.

To support the Bank's operations and management's assessments, the geographical segments are defined as follows:

– "Headquarter" refers to the Group headquarter, credit card centres and fund operation centres;

– "Yangtze River Delta region" refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;

– "Bohai Rim region" refers to branches in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;

– "Pearl River Delta and West Coast region" refers to branches in Guangdong province and Fujian province;

– "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;

– "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;

– "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;

– "Overseas" refers to overseas branches in Hong Kong, New York, Singapore, Luxembourg, London, Sydney and representative offices in New York and Taipei; and

– "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including CMB WLB, CMBIC, CMBFL, CMFM, CMBWM, CMB Europe S.A. and CIGNA & CMAM.

	Total assets		Total liabilities		Non-current assets		Profit before tax		Operating income	
Geographical information	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021	2022	2021	2022	2021
Headquarter	**4,580,315**	4,155,509	**3,841,548**	3,492,876	**52,166**	51,220	**51,396**	42,939	**140,083**	145,403
Yangtze River Delta region	**1,304,806**	1,199,329	**1,283,400**	1,177,342	**5,774**	6,198	**22,939**	24,092	**45,768**	41,451
Bohai Rim region	**827,394**	725,595	**811,449**	711,389	**4,354**	4,319	**19,759**	17,971	**34,105**	31,286
Pearl River Delta and West Coast region	**1,083,521**	997,986	**1,063,334**	979,018	**4,232**	4,432	**26,479**	22,252	**37,583**	35,379
Northeast region	**170,632**	169,282	**166,486**	166,933	**1,505**	1,617	**4,075**	2,919	**6,485**	6,108
Central region	**636,801**	567,191	**628,361**	559,499	**3,602**	3,958	**10,740**	9,744	**20,989**	19,448
Western region	**632,766**	590,272	**623,631**	580,623	**3,497**	3,877	**11,755**	12,191	**20,931**	20,192
Overseas	**194,412**	210,633	**193,651**	208,569	**707**	861	**2,046**	1,575	**3,557**	2,632
Subsidiaries	**708,265**	633,224	**572,814**	507,091	**80,148**	61,382	**15,924**	14,490	**32,714**	25,478
Total	**10,138,912**	9,249,021	**9,184,674**	8,383,340	**155,985**	137,864	**165,113**	148,173	**342,215**	327,377

Note: Non-current assets include interests in joint ventures, interests in associates, property and equipment, investment properties, right-of-use assets, intangible assets and goodwill.

57. Assets pledged as security

The following assets have been pledged as collateral for borrowing from central banks and liabilities under repurchase or placement arrangements:

	2022	2021
Borrowing from central banks	**129,438**	159,357
Placements from banks and other financial institutions	**8,620**	7,517
Amounts sold under repurchase agreements	**107,024**	157,572
Total	**245,082**	324,446
Assets pledged		
– Financial assets at fair value through profit or loss	**24,093**	29,241
– Debt investments at amortised cost	**99,199**	195,166
– Debt investments at fair value through other comprehensive income	**25,267**	34,441
– Loans and advances to customers	**105,531**	81,357
Total	**254,090**	340,205

The transactions under repurchase or placement agreements are conducted under terms that are usual and customary to standard borrowing and placing activities.

58. Contingent liabilities and commitments

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum potential loss that would be recognised at the end of the reporting period if counterparties default.

	2022			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Irrevocable guarantees	245,003	9,818	272	255,093
Of which: Financial guarantees	44,805	7,341	3	52,149
Non-financing letters of guarantees	200,198	2,477	269	202,944
Irrevocable letters of credit	231,849	1,344	–	233,193
Bills of acceptances	427,150	3,733	500	431,383
Irrevocable loan commitments	155,775	1,607	–	157,382
– with an original maturity within 1 year (inclusive)	22,638	4	–	22,642
– with an original maturity over 1 year	133,137	1,603	–	134,740
Credit card unused commitments	1,406,911	9,613	85	1,416,609
Other	81,225	245	–	81,470
Total	2,547,913	26,360	857	2,575,130

58. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

	2021			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Irrevocable guarantees	197,208	7,353	254	204,815
Of which: Financial guarantees	52,198	6,337	3	58,538
Non-financing letters of guarantees	145,010	1,016	251	146,277
Irrevocable letters of credit	162,320	1,711	188	164,219
Bills of acceptances	339,155	5,684	790	345,629
Irrevocable loan commitments	141,727	4,896	2	146,625
– with an original maturity within 1 year (inclusive)	26,611	–	2	26,613
– with an original maturity over 1 year	115,116	4,896	–	120,012
Credit card unused commitments	1,231,831	7,903	122	1,239,856
Other	126,995	1,555	–	128,550
Total	2,199,236	29,102	1,356	2,229,694

As at 31 December 2022, the Group's irrevocable letters of credit included sight letters of credit of RMB22,525 million (31 December 2021: RMB16,974 million), usance letters of credit of RMB6,965 million (31 December 2021: RMB9,552 million), and other commitments of RMB203,703 million (31 December 2021: RMB137,693 million).

Irrevocable loan commitments include credit limits granted to offshore customers by overseas branches, subsidiaries and onshore and offshore syndicated loans etc.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB5,159,127 million at 31 December 2022 (31 December 2021: RMB4,441,835 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective lending agreements. The Group will not assume any risks on the unused credit limits for these loan customers. As a result, such balances are not included in the above contingent liabilities and commitments.

	2022	2021
Credit risk weighted amounts of contingent liabilities and commitments	**595,977**	593,062

The Group calculated the credit risk weighted amount of its contingent liabilities and commitments in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Provisional) issued by the CBIRC. The amount within the scope approved by the CBIRC in April 2014 is calculated using the Internal Ratings-Based Approach, and the Weighted Approach is used to calculate those that are not eligible for the Internal Ratings-Based Approach.

58. Contingent liabilities and commitments *(continued)*

(b) Capital commitments

The authorised capital commitments of the Group were as follows:

	2022	2021
– Contracted for	**370**	480
– Authorised but not contracted for	**189**	234
Total	**559**	714

The lease commitments of the Group as a lessor are detailed in note 58 (e).

(c) Outstanding litigations

At 31 December 2022, the Bank or other group entities was a defendant in certain outstanding litigations with total gross claims of RMB1,910 million (2021: RMB1,678 million). The Group considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made in the consolidated financial statements.

(d) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to make advances to bond holders if 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 nominal 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 requirements set by the MOF or the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	2022	2021
Redemption obligations	**27,401**	30,020

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

(e) Lease commitments

Operating lease commitments and financial lease commitments where the Group is a lessor at the end of the reporting period are as follows:

	2022	2021
Operating lease commitments	**30,519**	13,750
Financial lease commitments	**8,025**	7,421
Total	**38,544**	21,171

59. Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances through the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Entrusted lending are not assets of the Group and are not recognised in the consolidated statement of financial position. Income received and receivable for providing these services are recognised in the consolidated statement of profit or loss as fee and commission income.

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	2022	2021
Entrusted loans	**231,266**	263,589
Entrusted funds	**(231,266)**	(263,589)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers by the Bank and CMBWM. The funds obtained from wealth management services are invested in investment products, including government bonds, policy bank bonds, short term corporate debt instruments and trust loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of custody, sales and management services.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. The funds received from customer for wealth management business that yet to be invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were RMB2,552,408 million as at 31 December 2022 (31 December 2021: RMB2,683,636 million).

(c) Entrusted management of insurance funds

The entrusted management of insurance funds mainly refers to the business that the Group carries out investment activities on funds entrusted by insurance companies according to the regulatory policies and the investment guidelines from insurance companies, and charges fees for providing such services.

At the end of the reporting period, the balance of entrusted funds were as follows:

	2022	2021
Entrusted management of insurance funds	**108,868**	86,098

60. Risk management

(a) Credit risk

Credit risk represents the potential losses that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic factors, which may eventually affect their repayment abilities.

The Group designs its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the board of directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. According to Implementation Rules on Expected Credit Loss Approach of Commercial Banks (CBIRC〔2022〕No.10), the Group has further optimised the workflow related to the implementation and management of ECL measures during the year.

With respect to the credit risk management of wholesale financial business, the Group formulates credit policy guidelines, enhances the standards on credit acceptance and management requirements for corporate, interbank and institutional clients, and implements limits in key risk areas to improve the quality of credit exposure.

With respect to credit risk management of retail financial business, the Group mainly relies on the credit assessment of applicants as the basis for loan approval, which takes into consideration the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or risks mitigating measures. Collateral portfolio and legal covenants are reviewed regularly to ensure that they remain sufficient for the given risks and be consistent with market practices.

In respect of asset quality classification, the Group adopts a risk based asset quality classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss).

The risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers carry out the same business activities, locate in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic factors. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated a limit management policy to monitor and analyse its loan portfolio.

Analysis of loans and advances by industry and loan portfolio are presented in Note 22.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Internal credit risk rating

The Group classifies credit risk based on probability of default. The internal credit risk rating is based on the forecasted default risk, taking into consideration qualitative and quantitative factors. For customers of wholesale business, such factors include net profit growth rate, sales growth rate, industry, etc. For customers of retail business, such factors include maturity, ageing, collateral ratio, etc.

(ii) Significant increase in credit risk

As describe in Note 4(5), the Group recognises lifetime ECL if there are significant increases in credit risk.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument and other items at the reporting date with that at the date of initial recognition. In making this assessment, the Group considers an actual or expected significant deterioration in the financial instrument's internal credit risk rating (Note 60(a)(i)), as well as internal early warning signal, the result of 5-tier classification and overdue information. The Group regularly reviews whether the evaluation criteria are applicable to the current situation.

For wholesale business, credit risk is considered as significantly increased if any of the following conditions is met: the 5-tier classification is special mention; more than 30 days (inclusive) overdue; the internal credit risk rating of the customer has been downgraded to certain level; the early warning signal of the customer has reached a certain level; or the customer has other significant risk signals identified by the Group.

For retail and credit card business, credit risk is considered as significantly increased if any of the following conditions is met: the 5-tier classification is special mention; more than 30 days (inclusive) overdue; the customer or the debt has credit risk early warning signal; or the customer has other significant risk signals identified by the Group.

A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capability to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For loan commitment and financial guarantee, the date when the commitment becomes irrevocable is considered as the initial recognition date.

The Group considers that a debt instrument is impaired when the debt instrument is more than 90 days (inclusive) overdue or the 5-tier classification of this debt instrument is substandard, doubtful or loss (these three categories include debt instruments with more than 90 days (inclusive) overdue).

(iii) Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD): is an estimate of the likelihood of default over 12 months or lifetime horizon;
- loss given default (LGD): is the proportion of the loss arising on default to the exposure at default;
- exposure at default (EAD): is the risk exposure on a debt.

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect forward-looking information.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(iv) Incorporation of forward-looking information

The Group divides financial assets into different asset groups based on their different risk characteristics. According to the risk characteristics of the asset group, the Group collects external data released by authoritative institutions and internal risk data without undue cost or effort for modelling. Apart from the common economic indicators such as Gross Domestic Product ("GDP"), Consumer Price Index ("CPI"), Producer Price Index ("PPI") and Broad Money Supply ("M2"), various other categories of indicators such as industry index, interest and exchange rate, and survey index are also included. Based on statistical analysis and expert judgements, the Group sets up multiple forward-looking scenarios to predict macroeconomic indicators and risk parameters. The Group will firstly refer to the forecasts issued by external authoritative institutions as the forecasts of economic indicators under the baseline scenario. If there is no external forecasts, the Group will refer to the forecasts issued by the professionals of the Bank and the outputs of the models. For the forecasts of economic indicators under the remaining scenarios, the Group will refer to the actual historical data for analysis and forecast. Taking GDP (year-on-year growth rate) and CPI (month-on-month increase) as an example, the forecasts adopted by the Group for 2023 under the baseline scenario are 4.80% (2022: 5.34%) and 2.80% (2022: 2.43%) respectively.

Combined with quantitative measurement and expert judgement, the Group sets the weighting of multiple scenarios based on the principle of taking the baseline scenario as the main and the other scenarios as supplement. The weight of the baseline scenario of the Group as at 31 December 2022 is the highest. According to the sensitivity test results of the Group, when the weighting of the optimistic scenario increases by 10% and the weighting of the baseline scenario decreases by 10%, the ECL amount at 31 December 2022 will decrease by approximately 3.1% compared to the current result (at 31 December 2021: will decrease by approximately 3.4%). When the weighting of the pessimistic scenario increases by 10% and the weighting of the baseline scenario decreases by 10%, the ECL amount at 31 December 2022 will increase by approximately 5.2% compared to the current result (at 31 December 2021: will increase by approximately 1.5%).

The Group periodically forecasts macroeconomic indicators, and calculates the ECL based on a weighted 12-month expected credit loss (stage 1) or a weighted lifetime expected credit loss (stage 2 and stage 3).

(v) Groupings based on shared risk characteristics

The Group divides the primary business into wholesale business, retail business and credit card business. The models are divided based on shared risk characteristics, and the reference indicators include the 5-tier classification, business type and collateral type.

(vi) Maximum exposure

The Group's maximum exposure to credit risk without taking into account of any collateral held or other credit enhancements is the carrying amount of the relevant financial assets (including derivatives) as disclosed in the consolidated statement of financial position and the contract amount of the off balance sheet items disclosed in Note 58(a). At 31 December 2022, the amount of the Group's maximum credit risk exposure was RMB12,440,314 million (31 December 2021: RMB11,235,033 million).

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(vii) Renegotiated loans and advances to customers

The carrying amount of loans and advances that were credit-impaired and the terms had been renegotiated was RMB12,076 million as at 31 December 2022 (31 December 2021: RMB16,517 million).

(viii) Non-performing loans

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. As at 31 December 2022, the Group had balance of non-performing loans of RMB58,004 million (31 December 2021: RMB50,862 million).

(ix) Credit quality of bond investments rating results

At the end of the reporting period, the analysis of the credit quality of bond investments by designated external credit assessment institution, Standard & Poor's, is as follows:

	2022	2021
Impaired gross amount of debt investments	**398**	340
Impairment allowances	**(243)**	(228)
Subtotal	**155**	112
Neither overdue nor impaired		
AAA	**1,750,057**	1,345,363
AA+ to AA-	**53,526**	29,468
A+ to A-	**562,475**	422,427
Lower than A-	**33,429**	28,415
Unrated	**38,966**	57,994
Impairment allowances	**(5,958)**	(10,935)
Subtotal	**2,432,495**	1,872,732
Total	**2,432,650**	1,872,844

Notes:

(i) Bonds issued by the governments and policy banks held by the Group amounted to RMB2,094,902 million as at 31 December 2022 (31 December 2021: RMB1,596,105 million).

(ii) The impairment allowances above is for debt investments at amortised cost only.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(x) Collateral

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	2022	2021
Estimate of the fair value of collateral and other credit enhancements held against following financial assets		
– Loans and advances to customers	**25,148**	4,124

(xi) Movements of loans and advances and debt investments measured at amortised cost

Loans and advances measured at amortised cost:

	2022			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	**4,912,836**	**111,354**	**50,862**	**5,075,052**
Net changes for the year	**425,054**	**(27,002)**	**(1,831)**	**396,221**
Transfer to				
– Stage 1	**18,758**	**(18,644)**	**(114)**	**–**
– Stage 2	**(103,532)**	**103,794**	**(262)**	**–**
– Stage 3	**(35,248)**	**(13,117)**	**48,365**	**–**
Write-offs	**–**	**(145)**	**(39,016)**	**(39,161)**
Balance as at the end of the year	**5,217,868**	**156,240**	**58,004**	**5,432,112**

	2021			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	4,517,239	76,286	53,615	4,647,140
Net changes for the year	468,264	(4,154)	(1,093)	463,017
Transfer to				
– Stage 1	20,436	(20,293)	(143)	–
– Stage 2	(69,411)	69,966	(555)	–
– Stage 3	(23,692)	(10,451)	34,143	–
Write-offs	–	–	(35,105)	(35,105)
Balance as at the end of the year	4,912,836	111,354	50,862	5,075,052

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(xi) Movements of loans and advances and debt investments measured at amortised cost *(continued)*

Debt investments at amortised cost:

	2022			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	**1,183,320**	**1,962**	**24,077**	**1,209,359**
Net changes for the year	**361,916**	**(275)**	**9,395**	**371,036**
Transfer to				
– Stage 1	**3**	**(3)**	**–**	**–**
– Stage 2	**(1,276)**	**1,276**	**–**	**–**
– Stage 3	**(311)**	**(887)**	**1,198**	**–**
Write-offs	**–**	**–**	**(550)**	**(550)**
Balance as at the end of the year	**1,543,652**	**2,073**	**34,120**	**1,579,845**

	2021			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Balance as at the beginning of the year	1,044,826	971	14,590	1,060,387
Net changes for the year	140,141	(656)	9,487	148,972
Transfer to				
– Stage 1	–	–	–	–
– Stage 2	(1,647)	1,647	–	–
– Stage 3	–	–	–	–
Write-offs	–	–	–	–
Balance as at the end of the year	1,183,320	1,962	24,077	1,209,359

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(xii) Credit quality of financial instruments

The staging analysis for loans and advances to customers and debt investments at amortised cost are disclosed in note 22, note 23(b) and 60(a)(xi) respectively. The staging analysis for credit commitments and the expected credit loss allowances of financial guarantees and loan commitments are disclosed in notes 58(a) and 42 respectively. The staging analysis for other financial instruments is as follows:

	2022							
	Principal				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL – credit-impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL – credit-impaired)	Total
Balances with central banks	587,533	–	–	587,533	–	–	–	–
Balances with banks and other financial institutions	91,574	2	11	91,587	(497)	(1)	(11)	(509)
Placements with banks and other financial institutions	264,782	–	–	264,782	(2,658)	–	–	(2,658)
Amounts held under resale agreements	277,421	–	140	277,561	(954)	–	(140)	(1,094)
Debt investments at FVTOCI	767,905	3,211	155	771,271	(4,472)	(479)	(1,589)	(6,540)

	2021							
	Principal				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL – credit-impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL – credit-impaired)	Total
Balances with central banks	553,655	–	–	553,655	–	–	–	–
Balances with banks and other financial institutions	80,653	–	11	80,664	(367)	–	(11)	(378)
Placements with banks and other financial institutions	196,245	106	–	196,351	(2,859)	(1)	–	(2,860)
Amounts held under resale agreements	528,424	–	140	528,564	(4,123)	–	(140)	(4,263)
Debt investments at FVTOCI	626,007	2,236	112	628,355	(4,700)	(875)	(1,047)	(6,622)

Note: The balances disclosed above do not include interest receivable.

60. Risk management *(continued)*

(b) Market risk

Market risk refers to the risk of loss due to changes in observable market factors such as interest rates, exchange rates, commodity prices and stock prices, resulting in changes in the fair value or future cash flows of the Group's financial instruments. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments and positions under the trading book are held for trading purposes or for the purposes of hedging the risks arising from the trading book position, and these financial instruments can be traded without any restriction. The financial instruments under the banking book are assets and liabilities held by the Group for determinable return with relative stable market value or for the purposes of hedging the risks, which include both the Group's on-balance sheet and off-balance sheet exposure.

(i) Foreign exchange risk

Foreign exchange risk arises from the holding of foreign currency assets, liabilities and equity items, and the foreign currency and foreign currency derivative positions, which expose the Group to potential losses in the event of unfavourable foreign exchange rate movement. The financial assets and liabilities of the Group are denominated in RMB, and the other currencies are mainly in USD and HKD. The Group segregates the policy setting, execution and supervision of foreign exchange risk management, and establishes a foreign currency risk management governance structure. This structure specifies the roles, responsibilities and reporting lines of the board of directors, the board of supervisors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group is prudent in its foreign exchange risk appetite, and would not voluntarily take foreign exchange risk, which suits the current development stage of the Group. The current foreign exchange risk management policies and procedures of the Group meet the regulatory requirements and the requirements of the Group.

(1) Trading book

The Group has established a market risk structure and system of the trading book, which covers exchange rate risk, to quantify the exchange rate risk of the trading book to facilitate centralised management. The structure, process and method of exchange rate risk management of trading book are consistent with that of the interest rate risk of trading book.

The Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, covers interest rate, foreign exchange rate, and commodity risk factors), exchange rate scenario stress test loss index, exchange rate sensitivity index, and cumulative loss index in its management of foreign exchange risk. The management methods include delegation, setting limits, daily monitoring and continuous reporting, etc.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book

The Group's foreign exchange risk under the banking book is centrally managed by the Head Office. The Asset and Liability Management Department, as the treasurer of the Bank is in charge of the banking book foreign exchange risk management. The Internal Audit Department is responsible for auditing this. The treasurer is responsible for managing the foreign exchange risk under the banking book with a prudent approach and compliance with the regulatory requirements, and through approaches such as transaction limits and adjustment of plans.

The banking book foreign exchange risk of the Group arises from the mismatch of the non-RMB financial assets and liabilities. The Group stringently monitors its foreign exchange risk exposures to control it within an acceptable range.

The Group has adopted foreign exchange exposure analysis, scenario simulation analysis and stress testing for the measurement and analysis of foreign exchange risk. The Group regularly measures and analyses the foreign exchange risk exposure fluctuations, monitors and reports foreign exchange risk on a monthly basis under the limit control framework, and adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to mitigate the foreign exchange risk on its banking book.

The Group continues to strengthen banking book exchange rate risk monitoring and authorisation management of limits to ensure that risks are controlled within a reasonable range.

(3) Assets and liabilities by original currency are shown as follows:

	2022						
	In RMB Equivalent					Main original currency	
	RMB	USD	HKD	Other	Total	USD	HKD
Assets							
Cash and balances with central banks	555,828	41,978	2,766	2,170	602,742	6,039	3,103
Amounts due from banks and other financial institutions	491,188	100,237	22,244	16,000	629,669	14,420	24,951
Loans and advances to customers	5,466,679	148,993	157,628	23,246	5,796,546	21,433	176,812
Financial investments (including derivative financial assets)	2,534,659	188,200	31,130	9,233	2,763,222	27,073	34,920
Other assets (note (i))	244,335	95,541	3,313	3,544	346,733	13,744	3,716
Total	9,292,689	574,949	217,081	54,193	10,138,912	82,709	243,502
Liabilities							
Borrowing from central banks and amounts due to banks and other financial institutions	970,667	92,817	3,961	5,507	1,072,952	13,353	4,443
Deposits from customers	6,964,197	361,242	160,496	49,807	7,535,742	51,967	180,029
Financial liabilities at FVTPL (including derivative financial liabilities)	63,769	17,725	421	35	81,950	2,549	473
Debt securities issued	162,146	58,447	790	905	222,288	8,408	886
Other liabilities (note (i))	247,646	11,235	11,944	917	271,742	1,618	13,397
Total	8,408,425	541,466	177,612	57,171	9,184,674	77,895	199,228
Net position	884,264	33,483	39,469	(2,978)	954,238	4,814	44,274
Net off-balance sheet position:							
Credit commitments (note (ii))	2,456,047	82,618	21,961	14,504	2,575,130	11,885	24,634
Derivatives:							
– forward purchased	280,979	288,388	26,409	20,844	616,620	41,486	29,623
– forward sold	(253,696)	(294,290)	(19,462)	(14,878)	(582,326)	(42,335)	(21,831)
– net currency option position	29,143	(32,690)	(10)	41	(3,516)	(4,703)	(11)
Total	56,426	(38,592)	6,937	6,007	30,778	(5,552)	7,781

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(3) Assets and liabilities by original currency are shown as follows: (continued)

	2021						
	In RMB Equivalent					Main original currency	
	RMB	USD	HKD	Other	Total	USD	HKD
Assets							
Cash and balances with central banks	487,777	57,919	18,482	2,787	566,965	9,089	22,611
Amounts due from banks and other financial institutions	668,673	108,887	12,162	8,356	798,078	17,085	14,879
Loans and advances to customers	4,992,946	156,000	141,605	34,960	5,325,511	24,478	173,238
Financial investments (including derivative financial assets)	2,037,147	108,939	20,348	10,081	2,176,515	17,095	24,893
Other assets (note (i))	254,488	111,972	10,513	4,979	381,952	17,569	12,862
Total	8,441,031	543,717	203,110	61,163	9,249,021	85,316	248,483
Liabilities							
Borrowing from central banks and amounts due to banks and other financial institutions	1,115,553	108,820	4,894	9,327	1,238,594	17,075	5,988
Deposits from customers	5,830,585	346,349	129,300	40,844	6,347,078	54,346	158,184
Financial liabilities at FVTPL (including derivative financial liabilities)	71,041	18,554	1,438	10	91,043	2,911	1,759
Debt securities issued	390,550	50,425	221	3,345	444,541	7,912	270
Other liabilities (note (i))	235,507	16,336	9,317	924	262,084	2,565	11,399
Total	7,643,236	540,484	145,170	54,450	8,383,340	84,809	177,600
Net position	797,795	3,233	57,940	6,713	865,681	507	70,883
Net off-balance sheet position:							
Credit commitments (note (ii))	2,117,722	71,179	24,448	16,345	2,229,694	11,169	29,909
Derivatives:							
– forward purchased	459,207	451,419	8,554	16,144	935,324	70,833	10,465
– forward sold	(388,786)	(395,153)	(10,651)	(9,748)	(804,338)	(62,004)	(13,030)
– net currency option position	(93,522)	38,175	8	3,059	(52,280)	5,990	10
Total	(23,101)	94,441	(2,089)	9,455	78,706	14,819	(2,555)

Notes:

(i) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

(ii) Credit commitments generally expire before they are drawn down, therefore the above net position does not represent the future cash outflows.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(4) Sensitivity analysis

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and equity. The following table sets forth the results of the Group's foreign exchange risk sensitivity analysis on the assets and liabilities of all foreign currencies involved at 31 December 2022 and 31 December 2021.

	2022		2021	
Change in foreign currency exchange rate	Down by 1%	Up by 1%	Down by 1%	Up by 1%
(Decrease)/increase in net profit	(64)	64	(79)	79
(Decrease)/increase in equity	(284)	284	(262)	262

Actual changes in the Group's net profit and equity resulting from increases or decreases in foreign exchange rates may be different from the results of this sensitivity analysis.

(ii) Interest rate risk

Interest rate risk arises from unfavourable changes in interest rates and maturity profiles which may result in loss to the income and decline in market value of financial instruments and positions held by the Group.

(1) Trading book

According to the basic principles of risk management, the Group has built and continuously improved the market risk management system, and established the management process of market risk identification, measurement, monitoring, control and reporting, covering interest rate risk, exchange rate risk, commodity and other risks involved in the trading book business. Under the market risk preference formulated by the board of directors, the Group manages the trading book by clearly identifying, accurately measuring and effectively managing the trading book market risk, to ensure that the trading book risk exposure is within an acceptable range and achieves a reasonable balance of risk and return. The Group constantly improves the risk-adjusted return level to maximise the shareholders' value.

The trading book market risk governance organisation structure defines the responsibilities, division of labour and reporting lines of the board of directors, Risk and Capital Management Committee under the board of directors, senior management and relevant departments of the Bank, and safeguards the achievement of management objectives. The Market Risk Management Department is responsible for the Group's trading book market risk, and undertakes the task of risk policy formulation and management.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(1) Trading book (continued)

According to the business practices and market risk governance organisation structure, the Group establishes the trading book market risk limits management system. A top level limit is set based on the risk appetite determined by the board of directors, and is transmitted from top to bottom level by level. Within the scope of their authorisation, management departments at all levels allocate and set limits according to risk characteristics, product types and trading strategies, etc. The business departments carry out the business according to the authorisation and limits requirements, and the supervisory and administrative departments at all levels continuously monitor and report according to the limits management regulations.

The trading book market risk management adopts the scale index, stop loss index, sensitivity index, value at risk index, stress test index and other risk measurement indices as the limits index, and sets the limit value by comprehensively considering the risk appetite, risk tolerance, business operation strategy, risk return, management conditions and other factors.

The Group uses valuation, sensitivity analysis, value-at-risk analysis, stress test and other measurement methods to identify and quantify risk factors in the interest rate market. The Group applies the market risk measurement model in its daily risk management and takes market risk measurement as the basis for business planning, resource allocation, financial market business operation and risk management.

(2) Banking book

According to the external regulatory requirements and the internal banking book interest rate risk management policy, the Group has built and continuously improved the banking book interest rate risk management system, established the management process of interest rate risk identification, measurement, monitoring, control and reporting, and covered all on- and off-balance sheet business of the Bank. The Group clearly identifies, accurately measures and effectively manages the interest rate risk of the banking book under the interest rate risk appetite of the banking book formulated by the Board of Directors to ensure that the net interest income (NII) and the economic value of shareholders' equity (EVE) increase steadily within the acceptable range of the banking book risk.

The Group's governance and management framework specifies the responsibilities, division of labor and reporting lines of the board of directors, senior management, designated committees and relevant departments to ensure the effectiveness of interest rate risk management. Interest rate risk of the banking book is managed by the Asset and Liability Management Department of the Head Office. Internal Audit Department of the Head Office is responsible for independent audit.

The preference of the Group in respect of the interest rate risk in the banking book is neutrally prudent. The Group establishes a banking book interest rate risk limit management system based on the actual business and the banking book interest rate risk governance structure. The quantitative index of risk appetite set by the Board of Directors is the highest level limit, which is transmitted through the limit level from top to bottom and level by level. Within the scope of their authorisation, all levels set limits and continuously monitor and report according to risk tolerance, business operation strategy and risk management objectives. The Group formulates interest rate risk management strategies and regularly tracks and reviews them based on risk measurement and monitoring results and in combination with macroeconomic and interest rate environment. The key measures for risk management of the Group include the adjustment in business volume, duration structure and interest rate structure of on-balance sheet asset and liability business and off-balance sheet derivative to offset risk exposure.

The Group has mainly adopted scenario simulation analysis, re-pricing exposure analysis and duration analysis for the regular measurement and analysis of interest rate risk under the banking book. Stress test is a form of scenario simulation used to assess the changes in net interest income at risk and economic value of equity indicators when there is an extreme fluctuation in interest rates. The Group measures and monitors the interest rate risk of banking book through the asset-liability management system, and the main models and parameter assumptions used in the measurement process are independently verified before being adopted, and are regularly reviewed and verified after being adopted. The various indicators of interest rate risk during the reporting period showed that the interest rate risk of banking book of the Bank was generally stable and stay within the set limits.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(3) The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period.

	2022					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central banks	602,742	575,932	–	–	–	26,810
Amounts due from banks and other financial institutions	629,669	516,309	99,288	14,059	13	–
Loans and advances to customers (note (i))	5,796,546	2,234,889	3,028,371	473,932	59,354	–
Financial investments (including derivative financial assets)	2,763,222	217,442	356,451	975,413	1,164,031	49,885
Other assets (note (ii))	346,733	–	–	–	–	346,733
Total assets	10,138,912	3,544,572	3,484,110	1,463,404	1,223,398	423,428
Liabilities						
Borrowing from central banks and amounts due to banks and other financial institutions	1,072,952	915,004	142,452	10,501	4,995	–
Deposits from customers	7,535,742	5,528,249	860,746	1,111,583	31,365	3,799
Financial liabilities at FVTPL (including derivative financial liabilities)	81,950	–	3,006	5,231	73	73,640
Lease liabilities	13,013	1,094	3,091	7,650	1,178	–
Debt securities issued	222,288	35,587	69,617	89,565	27,519	–
Other liabilities (note (ii))	258,729	203	–	2,752	–	255,774
Total liabilities	9,184,674	6,480,137	1,078,912	1,227,282	65,130	333,213
Asset-liability gap	954,238	(2,935,565)	2,405,198	236,122	1,158,268	90,215

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(3) The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period. *(continued)*

	2021					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central banks	566,965	537,981	–	–	–	28,984
Amounts due from banks and other financial institutions	798,078	723,941	63,581	10,507	49	–
Loans and advances to customers (note (i))	5,325,511	2,134,671	2,750,245	376,357	64,238	–
Financial investments (including derivative financial assets)	2,176,515	159,659	288,349	884,079	795,611	48,817
Other assets (note (ii))	381,952	–	–	–	–	381,952
Total assets	9,249,021	3,556,252	3,102,175	1,270,943	859,898	459,753
Liabilities						
Borrowing from central banks and amounts due to banks and other financial institutions	1,238,594	1,081,661	149,900	6,311	722	–
Deposits from customers	6,347,078	4,820,271	718,509	804,755	348	3,195
Financial liabilities at FVTPL (including derivative financial liabilities)	91,043	1,428	2,075	8,177	158	79,205
Lease liabilities	13,812	1,042	2,989	8,153	1,628	–
Debt securities issued	444,541	96,239	220,608	88,974	38,720	–
Other liabilities (note (ii))	248,272	84	–	–	–	248,188
Total liabilities	8,383,340	6,000,725	1,094,081	916,370	41,576	330,588
Asset-liability gap	865,681	(2,444,473)	2,008,094	354,573	818,322	129,165

Notes: (i) For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2022 and 31 December 2021 net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.

(ii) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

(4) Sensitivity analysis

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 31 December 2022 and 31 December 2021.

	2022		2021	
Change in interest rates (in basis points)	**Up by 25**	**Down by 25**	Up by 25	Down by 25
(Decrease)/increase in net interest income	**(4,412)**	**4,412**	(3,605)	3,605
(Decrease)/increase in equity	**(8,462)**	**8,586**	(6,830)	6,927

The above-mentioned interest rate sensitivity analysis shows the changes in net interest income and equity in the next 12 months under the assumption of changes in interest rates in the above table. As the actual situation and assumptions may be different, the actual changes in the Group's net interest income and equity caused by the increase or decrease in interest rates may be different from the results of this sensitivity analysis.

60. Risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group is not able to obtain sufficient funds at a reasonable cost and in a timely manner to deal with the appreciation of asset growth, to meet its maturity obligations, or to perform other payment obligations.

According to the liquidity risk management policy, the Group segregates the policy setting, execution and supervision of liquidity risk management, and puts in place a governance framework which defines the roles, responsibilities and reporting lines of the board of directors, the board of supervisors, senior management, designated committees and relevant departments to ensure the effectiveness of the liquidity risk management. The board of directors takes the ultimate responsibility for liquidity risk management, ensures the Group can effectively identify, measure, monitor and control liquidity risk and is responsible for determining liquidity risk level which the Group can tolerate. The Risk and Capital Management Committee under the board of directors shall perform its responsibilities in liquidity risk management according to the requirements of the Board of Directors. The board of supervisors is responsible for the supervision and evaluation of the performance of the board of directors and senior management in the liquidity risk management and reports to the general meeting of shareholders. The senior management is responsible for the liquidity risk management work and develops a timely understanding of changes in liquidity risks, and reports the same to the board of directors. The Asset and Liability Management Committee (ALCO) exercises specific liquidity risk management functions as required by the senior management. The Assets and Liabilities Management Department of the Head Office is a day-to-day working body of ALCO, and is responsible for various concrete management work including formulating policies and procedures relating to liquidity risk management and conducting qualitative and quantitative analysis of liquidity risk. The Internal Audit Department of the Head Office conducts comprehensive audit on the Group's liquidity risk management.

The Group is prudent in managing its liquidity risk, which suits its current development stage. The Group's existing liquidity risk management policies and systems meet regulatory requirements and its own management needs.

The Group's liquidity risk management is coordinated by Head Office with branches acting in concert. The Asset and Liability Management Department acting as the treasurer of the Group is in charge of daily liquidity risk management. According to a prudent basis under regulatory requirements, the treasurer is conducting centralised liquidity management through limits management, budget control, initiative debt management as well as internal fund transfer pricing.

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as medium- and long-term structures. It monitors the limit indicators closely at fixed intervals.

The Group regularly conducts stress testing to assess its liquidity risk resistance under extreme circumstances. Except for the annual stress testing required by the regulatory authorities, the Group conducts monthly stress testing on the liquidity risk of local and foreign currencies. The Group sets up liquidity contingency plans and conducts liquidity contingency drills to continuously improve its capability to handle any liquidity crisis.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by contractual remaining maturity is as follows:

	2022								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue	Total
Cash and balances with central banks (note (i))	66,055	–	–	1,201	–	–	535,486	–	602,742
Amounts due from banks and other financial institutions	62,456	368,268	84,572	99,288	15,072	13	–	–	629,669
Loans and advances to customers	26,008	499,842	399,192	1,514,348	1,626,514	1,706,378	–	24,264	5,796,546
Financial investments and derivative financial assets (note (ii))	4,213	99,154	105,394	372,002	995,867	1,166,665	19,139	788	2,763,222
– Financial investments at FVTPL (including derivative financial assets)	4,213	79,576	42,022	99,531	158,992	52,081	5,723	–	442,138
– Debt investments at amortised cost	–	13,554	35,043	133,748	449,002	904,281	–	769	1,536,397
– Debt investments at FVTOCI	–	6,024	28,329	138,723	387,873	210,303	–	19	771,271
– Equity investments designated at FVTOCI	–	–	–	–	–	–	13,416	–	13,416
Other assets (note (iii))	36,461	10,932	15,526	18,475	15,859	5,798	239,528	4,154	346,733
Total assets	195,193	978,196	604,684	2,005,314	2,653,312	2,878,854	794,153	29,206	10,138,912
Borrowing from central banks and amounts due to banks and other financial institutions	515,446	264,739	116,971	148,556	20,817	6,423	–	–	1,072,952
Deposits from customers	4,746,035	384,557	393,284	861,631	1,115,153	35,082	–	–	7,535,742
Financial liabilities at FVTPL (including derivative financial liabilities)	12,950	12,026	12,971	12,415	11,457	20,131	–	–	81,950
Lease liabilities	–	503	591	3,091	7,650	1,178	–	–	13,013
Debt securities issued	–	3,939	27,886	73,379	89,565	27,519	–	–	222,288
Other liabilities (note (iii))	159,820	26,774	19,358	23,667	28,868	242	–	–	258,729
Total liabilities	5,434,251	692,538	571,061	1,122,739	1,273,510	90,575	–	–	9,184,674
(Short)/long position	(5,239,058)	285,658	33,623	882,575	1,379,802	2,788,279	794,153	29,206	954,238

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2021								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue	Total
Cash and balances with central banks (note (i))	79,129	–	–	–	–	–	487,836	–	566,965
Amounts due from banks and other financial institutions	59,862	601,897	60,072	65,405	10,793	49	–	–	798,078
Loans and advances to customers	20,719	545,165	368,482	1,333,756	1,387,033	1,650,468	–	19,888	5,325,511
Financial investments and derivative financial assets (note (ii))	4,058	88,783	60,315	304,846	912,392	795,813	10,071	237	2,176,515
– Financial investments at FVTPL (including derivative financial assets)	4,058	67,589	31,524	95,228	134,821	35,217	3,076	–	371,513
– Debt investments at amortised cost	–	8,882	11,185	133,930	425,327	590,091	–	237	1,169,652
– Debt investments at FVTOCI	–	12,312	17,606	75,688	352,244	170,505	–	–	628,355
– Equity investments designated at FVTOCI	–	–	–	–	–	–	6,995	–	6,995
Other assets (note (iii))	103,999	10,432	13,946	14,551	14,891	6,107	214,113	3,913	381,952
Total assets	267,767	1,246,277	502,815	1,718,558	2,325,109	2,452,437	712,020	24,038	9,249,021
Borrowing from central banks and amounts due to banks and other financial institutions	627,957	313,745	122,210	153,551	18,350	2,781	–	–	1,238,594
Deposits from customers	4,185,788	315,077	316,452	719,506	809,176	1,079	–	–	6,347,078
Financial liabilities at FVTPL (including derivative financial liabilities)	12,942	13,301	11,720	13,740	20,629	18,711	–	–	91,043
Lease liabilities	–	506	536	2,989	8,153	1,628	–	–	13,812
Debt securities issued	–	21,181	70,472	222,647	88,974	41,267	–	–	444,541
Other liabilities (note (iii))	160,991	37,159	15,455	24,744	9,404	519	–	–	248,272
Total liabilities	4,987,678	700,969	536,845	1,137,177	954,686	65,985	–	–	8,383,340
(Short)/long position	(4,719,911)	545,308	(34,030)	581,381	1,370,423	2,386,452	712,020	24,038	865,681

Notes:

(i) For cash and balances with central banks, the amounts with indefinite maturities represent statutory deposit reserve and fiscal deposit balances.

(ii) For financial investments at FVTPL included in financial investments, their maturity dates do not represent the Group's intention to hold them to maturity.

(iii) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following table provides an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, financial liabilities and gross loan 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.

	2022									
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue
Non-derivative financial assets										
Cash and balances with central banks	602,742	602,742	66,055	–	–	1,201	–	–	535,486	–
Amounts due from banks and other financial institutions	629,669	631,123	62,467	368,531	85,088	99,900	15,124	13	–	–
Loans and advances to customers	5,796,546	7,132,934	26,024	516,746	433,106	1,694,961	2,071,922	2,365,750	–	24,425
Financial investments	2,744,551	3,251,681	4,102	101,509	112,634	415,839	1,184,020	1,413,650	19,139	788
– Financial investments at FVTPL	423,467	439,231	4,102	76,314	38,048	96,166	161,826	57,052	5,723	–
– Debt investments at amortised cost	1,536,397	1,919,576	–	17,387	42,650	166,559	588,262	1,103,949	–	769
– Debt investments at FVTOCI	771,271	879,458	–	7,808	31,936	153,114	433,932	252,649	–	19
– Equity investments designated at FVTOCI	13,416	13,416	–	–	–	–	–	–	13,416	–
Other assets	89,425	89,425	35,078	10,381	15,434	17,310	1,534	605	4,929	4,154
Total	9,862,933	11,707,905	193,726	997,167	646,262	2,229,211	3,272,600	3,780,018	559,554	29,367
Non-derivative financial liabilities and lease liabilities										
Borrowing from central banks and amounts due to banks and other financial institutions	1,072,952	1,084,577	515,448	265,758	118,566	151,289	26,391	7,125	–	–
Deposits from customers	7,535,742	7,794,971	4,847,726	389,687	403,223	894,832	1,223,242	36,261	–	–
Financial liabilities at FVTPL	63,314	63,506	12,085	9,000	8,927	5,486	7,988	20,020	–	–
Lease liabilities	13,013	14,292	–	505	599	3,328	8,386	1,474	–	–
Debt securities issued	222,288	235,656	–	4,480	28,783	76,447	96,703	29,243	–	–
Other liabilities	162,409	162,409	62,796	27,724	11,623	28,870	31,154	242	–	–
Total	9,069,718	9,355,411	5,438,055	697,154	571,721	1,160,252	1,393,864	94,365	–	–
Gross loan commitments	–	1,573,991	1,573,991	–	–	–	–	–	–	–

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2021									
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue
Non-derivative financial assets										
Cash and balances with central banks	566,965	566,965	79,129	–	–	–	–	–	487,836	–
Amounts due from banks and other financial institutions	798,078	800,869	59,862	602,201	62,062	65,229	11,466	49	–	–
Loans and advances to customers	5,325,511	6,680,629	20,719	560,371	398,738	1,503,759	1,831,318	2,345,796	–	19,928
Financial investments	2,153,125	2,540,798	3,715	90,330	67,149	339,704	1,050,476	979,116	10,071	237
– Financial investments at FVTPL	348,123	355,501	3,715	64,405	28,852	90,837	127,527	37,089	3,076	–
– Debt investments at amortised cost	1,169,652	1,453,059	–	12,008	17,405	159,993	529,031	734,385	–	237
– Debt investments at FVTOCI	628,355	725,243	–	13,917	20,892	88,874	393,918	207,642	–	–
– Equity investments designated at FVTOCI	6,995	6,995	–	–	–	–	–	–	6,995	–
Other assets	154,308	154,308	102,918	9,891	13,745	13,795	1,848	528	7,670	3,913
Total	8,997,987	10,743,569	266,343	1,262,793	541,694	1,922,487	2,895,108	3,325,489	505,577	24,078
Non-derivative financial liabilities and lease liabilities										
Borrowing from central banks and amounts due to banks and other financial institutions	1,238,594	1,245,870	628,157	315,523	123,610	156,000	19,668	2,912	–	–
Deposits from customers	6,347,078	6,500,805	4,215,760	318,932	323,909	754,023	887,030	1,151	–	–
Financial liabilities at FVTPL	63,761	64,232	12,926	10,408	7,387	4,748	10,068	18,695	–	–
Lease liabilities	13,812	15,087	–	511	545	3,080	8,974	1,977	–	–
Debt securities issued	444,541	459,323	–	22,002	70,839	226,189	94,221	46,072	–	–
Other liabilities	158,091	158,091	74,533	36,128	15,454	23,052	8,406	518	–	–
Total	8,265,877	8,443,408	4,931,376	703,504	541,744	1,167,092	1,028,367	71,325	–	–
Gross loan commitments	–	1,386,481	1,386,481	–	–	–	–	–	–	–

Note: Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(d) Operational risk

Operational risk arises from the loss due to deficiency in internal procedures, staffing or IT structure, as well as external events which have effect on operation, including legal risk but not strategy risk and reputation risk.

During the reporting period, through stepping up the identification, evaluation and monitoring of operational risk in key areas, and by focusing on process, policy, employee system, and existing problems of critical control segments, the Group further improves the risk management framework and method, appraisal and assessment mechanism, and strengthens economic capital allocation mechanism with the goal of enhancing the ability and effectiveness of operational risk's management of the Group. All major indexes meet the requirements of the Group's risk preference.

In view of the challenges from internal and external operations and management, the Group will, based on its risk appetite, continue to upgrade its risk management capabilities and strengthen operational risk monitoring and controls, in order to prevent and reduce operational risk losses.

(e) Capital management

The objectives of the Group's capital management are to:

– Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion, social responsibility and strategic planning implementation to achieve a comprehensive, coordinated and sustainable growth;

– Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;

– Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate customer pricing and decision-making, and increase capital deployment efficiency;

– Reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns for shareholders.

The Group manages its capital structure and adjusts it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, additional tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio under an approach stipulated by the CBIRC. The Group and the Bank submit required information to the CBIRC every quarter.

60. Risk management *(continued)*

(e) Capital management *(continued)*

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers all branches of the Bank. As at 31 December 2022, the Group's subsidiaries that were within the capital adequacy ratio calculation included: CMB WLB, CMBIC, CMBFL, CMFM, CMBWM, CIGNA & CMAM and CMB Europe S.A.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional) and other relevant regulations. On 18 April 2014, the CBIRC approved the Bank to adopt the Advanced Measurement Approach. Within the approved scope, the Bank could calculate corporation and financial institutions risk exposure using the Foundation Internal Ratings-Based Approach, retail risk exposure using the Advanced Internal Ratings-Based Approach, market risk using the Internal Model-Based Approach, and operational risk using the Standardised Measurement Approach. At the same time, the CBIRC implemented a transition period for commercial banks that were approved to adopt the Advanced Measurement Approach. During the transition period, commercial banks should use both the Advanced Measurement Approach and other approaches to calculate capital adequacy ratios, and comply with the capital floor requirements.

The Group's capital management focuses on the capital adequacy ratio management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resistance. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plan and manage its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(f) Use of derivatives

Derivatives include forwards, swaps and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into interest rate, foreign currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivatives can be divided into financial instruments that are held for fair value hedge and cash flow hedging purpose and that are at fair value through profit or loss.

The Group formulates appropriate hedging strategies and uses proper tools in light of the risk profile of interest rates or foreign exchange rates associated with its assets and liabilities, as well as its analysis and judgement regarding future movements of interest rates or foreign exchange rates.

The Group is exposed to foreign exchange risk when assets or liabilities are denominated in foreign currencies. Such risk can be offset through the use of foreign exchange forwards or foreign exchange options.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

In cash flow hedges, the Group uses interest rate swaps as hedging instruments to hedge the interest rate risks arising from RMB loans and interbank assets or liabilities.

The following tables provide an analysis of the notional amounts and the corresponding fair values of derivatives of the Group by remaining maturities at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume that has not been delivered at the end of the reporting period, and do not represent the amounts at risk.

	2022						
	Notional amounts with remaining life					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives	60,013	734,650	735,046	4,720	1,534,429	6,246	(6,062)
Interest rate swaps	60,013	734,241	735,046	4,720	1,534,020	6,246	(6,062)
Bond futures	–	409	–	–	409	–	–
Currency derivatives	513,568	329,319	27,320	1,198	871,405	11,348	(11,449)
Forwards	21,443	4,812	645	1,198	28,098	487	(328)
Foreign exchange swaps	347,432	226,332	17,724	–	591,488	9,263	(7,304)
Futures	1,043	81	–	–	1,124	–	–
Options	143,650	98,094	8,951	–	250,695	1,598	(3,817)
Other derivatives	91,064	520	640	34	92,258	867	(856)
Equity options purchased	42,889	57	–	34	42,980	554	–
Equity options written	42,909	57	–	–	42,966	–	(472)
Commodity trading swaps	5,266	406	–	–	5,672	313	(330)
Credit default swaps	–	–	640	–	640	–	(54)
Fair value hedge derivatives							
Currency derivatives	–	1,316	781	–	2,097	28	(153)
Foreign exchange swaps	–	1,316	781	–	2,097	28	(153)
Cash flow hedge derivatives							
Interest rate derivatives	2,393	100	1,804	709	5,006	182	–
Interest rate swaps	2,373	100	1,804	709	4,986	182	–
Interest rate options	20	–	–	–	20	–	–
Derivatives managed in conjunction with financial instruments designated at FVTPL							
Interest rate derivatives	–	3,085	717	–	3,802	–	(47)
Interest rate swaps	–	3,085	717	–	3,802	–	(47)
Currency derivatives	–	–	728	–	728	–	(69)
Foreign exchange swaps	–	–	728	–	728	–	(69)
Total	667,038	1,068,990	767,036	6,661	2,509,725	18,671	(18,636)

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2021						
	Notional amounts with remaining life					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives	567,612	823,679	1,237,360	4,966	2,633,617	11,720	(11,974)
Interest rate swaps	565,833	823,679	1,237,360	4,966	2,631,838	11,720	(11,974)
Bond futures	391	–	–	–	391	–	–
Bond options	1,388	–	–	–	1,388	–	–
Currency derivatives	647,081	506,850	29,615	1,052	1,184,598	10,041	(13,966)
Forwards	26,577	14,373	1,517	1,052	43,519	985	(164)
Foreign exchange swaps	485,140	357,685	20,086	–	862,911	7,530	(7,048)
Futures	587	1,157	–	–	1,744	–	–
Options	134,777	133,635	8,012	–	276,424	1,526	(6,754)
Other derivatives	134,230	5,424	277	–	139,931	1,472	(1,237)
Equity options purchased	62,094	907	–	–	63,001	344	–
Equity options written	62,094	907	–	–	63,001	–	(265)
Commodity trading swaps	10,001	3,475	60	–	13,536	1,128	(751)
Equity swaps	41	135	217	–	393	–	(221)
Fair value hedge derivatives							
Currency derivatives	–	–	830	–	830	–	(16)
Foreign exchange swaps	–	–	830	–	830	–	(16)
Cash flow hedge derivatives							
Interest rate derivatives	–	–	2,883	702	3,585	46	–
Interest rate swaps	–	–	2,883	702	3,585	46	–
Derivatives managed in conjunction with financial instruments designated at FVTPL							
Interest rate derivatives	191	967	3,486	–	4,644	111	(17)
Interest rate swaps	191	967	3,486	–	4,644	111	(17)
Currency derivatives	–	72	530	–	602	–	(72)
Foreign exchange swaps	–	72	530	–	602	–	(72)
Total	1,349,114	1,336,992	1,274,981	6,720	3,967,807	23,390	(27,282)

There was no ineffective portion of cash flow hedges during the years ended 31 December 2022 and 2021.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

The credit risk weighted amounts in respect of these derivatives are as follows:

	2022	2021
Default risk weighted assets of counterparties	**1,500**	3,627
Interest rate derivatives	**137**	139
Currency derivatives	**1,242**	3,048
Other derivatives	**121**	440
Credit valuation adjustment risk weighted assets	**2,187**	2,382
Total	**3,687**	6,009

The Group has calculated the exposure of derivatives according to the Notice of the Measures on Default Risk Weighted Assets of Counterparties in Respect of Derivatives and the related requirements issued by the CBIRC. These amounts have taken the effects of bilateral netting arrangements into account. The risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Provisional) issued by the CBIRC. The amounts within the scope approved by the CBIRC in April 2014 are calculated using the Internal Ratings-Based Approach, and the Weighted Approach is adopted to calculate those that are not eligible for the Internal Ratings-Based approach.

(g) Fair value information

(i) Methods of determining fair value of financial instruments

A number of the Group's accounting policies and disclosure requirements stipulate the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework to govern the measurement of fair values. This includes a valuation team that takes the responsibility for overseeing all significant fair value measurements including the three levels of fair values.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to determine fair value, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the classification of levels in the fair value hierarchy.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques.

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level of input that is significant to the entire fair value measurement. The levels are defined as follows:

– Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

– Level 2 inputs: other than quoted prices included in level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities inputs;

– Level 3 inputs: inputs that are unobservable for assets or liabilities.

The Group recognises transfers among levels of the fair value hierarchy when they occur.

The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis

The following tables present the fair value information and the fair value hierarchy, at the end of the reporting period, of the Group's assets and liabilities which are measured at fair value on a recurring basis at each reporting date:

	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Financial investments measured at FVTPL	16,175	390,702	4,714	411,591
– Debt securities	15,497	187,349	359	203,205
– Long position in precious metal contracts	108	–	–	108
– Equity investments	494	392	3,493	4,379
– Fund investments	76	199,665	798	200,539
– Wealth management products	–	2,543	–	2,543
– Other	–	753	64	817
Financial investments designated at FVTPL	948	10,928	–	11,876
– Debt securities	948	10,928	–	11,876
Derivative financial assets	–	18,671	–	18,671
Loans and advances to customers at FVTPL	–	3	4,991	4,994
Debt investments at FVTOCI	136,831	643,518	–	780,349
Loans and advances to customers at FVTOCI	–	514,051	100,430	614,481
Equity investments designated at FVTOCI	3,164	2,862	7,390	13,416
Total	157,118	1,580,735	117,525	1,855,378
Liabilities				
Financial liabilities held for trading	17,917	330	–	18,247
– Financial liabilities related to precious metal	17,634	–	–	17,634
– Short position on bonds	283	330	–	613
Financial liabilities designated at FVTPL	21,879	20,541	2,647	45,067
– Placement of precious metal from financial institutions	14,170	–	–	14,170
– Certificates of deposit issued	–	383	–	383
– Debt securities issued	7,709	–	–	7,709
– Other	–	20,158	2,647	22,805
Derivative financial liabilities	–	18,636	–	18,636
Total	39,796	39,507	2,647	81,950

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

	2021			
	Level 1	Level 2	Level 3	Total
Assets				
Financial investments measured at FVTPL	20,517	292,849	4,879	318,245
– Debt securities	19,102	127,411	373	146,886
– Long position in precious metal contracts	102	–	–	102
– Equity investments	1,180	2	3,727	4,909
– Fund investments	133	161,865	772	162,770
– Wealth management products	–	2,396	–	2,396
– Other	–	1,175	7	1,182
Financial investments designated at FVTPL	1,022	28,856	–	29,878
– Debt securities	1,022	28,856	–	29,878
Derivative financial assets	–	23,390	–	23,390
Loans and advances to customers at FVTPL	–	–	7,281	7,281
Debt investments at FVTOCI	127,847	508,191	–	636,038
Loans and advances to customers at FVTOCI	–	431,291	56,713	488,004
Equity investments designated at FVTOCI	2,269	–	4,726	6,995
Total	151,655	1,284,577	73,599	1,509,831
Liabilities				
Financial liabilities held for trading	16,832	185	–	17,017
– Financial liabilities related to precious metal	16,406	–	–	16,406
– Short position on bonds	426	185	–	611
Financial liabilities designated at FVTPL	19,569	19,028	8,147	46,744
– Placement of precious metal from financial institutions	11,596	–	–	11,596
– Certificates of deposit issued	–	377	–	377
– Debt securities issued	7,600	–	–	7,600
– Other	373	18,651	8,147	27,171
Derivative financial liabilities	–	27,282	–	27,282
Total	36,401	46,495	8,147	91,043

During the years ended 31 December 2022 and 2021, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(1) Basis of determining the market prices for recurring fair value measurements categorised as Level 1

Bloomberg etc. are used for financial instruments with quoted prices in an active market.

(2) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurement categorised as Level 2

Fair value of RMB denominated bonds whose value is available on China Bond website on the valuation date is measured using the latest available valuation results.

Fair value of foreign currency bonds without quoted prices in an active market is measured by using the comprehensive valuations issued by Bloomberg, etc.

Fair value of foreign exchange forwards contracts in derivative financial instruments is measured by discounting the differences between the contract prices and market future prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of the reporting period.

Fair value of option contracts such as foreign exchange options, commodity options and equity options is measured by using the Black-Scholes model, based on market data such as risk-free interest rate, underlying market prices and price volatility of foreign exchange, commodities, and equity contract. The above market data used are quoted price in an active market, provided by Bloomberg, Refinitiv, Wind and other market information providers.

Fair value of interest rate swaps, foreign exchange swaps, and non-option commodity contracts in derivative financial instruments is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of the reporting period. The discount rates used are the related currency denominated swap yield curve as at the end of reporting period.

Observable quoted price in market is used as the basis of determining the value of equity investments measured at FVTPL, investment funds and wealth management products.

The fair value of discounted bills at FVTOCI and at FVTPL in the Chinese mainland is measured based on the rate of rediscounted bills announced by the Shanghai Commercial Paper Exchange Corporation Ltd. The Group uses 10-day average discount rate as the basis for calculating the value of discounted bills; or is measured by discounted cash flow approach. The discount rates used are determined by factors such as credit rating of the loan customer provided by S&P, Moody's or Fitch, customer industry, term to maturity of the loan, loan currency and the issuer credit spread.

The fair value of equity investments designated at FVTOCI is measured based on the recent transaction price or by using the comprehensive valuations on Bloomberg.

The fair value of certificates of deposit issued is measured by using the comprehensive valuations on Bloomberg.

The fair value of "Other" under financial investments measured at FVTPL is measured based on the net asset values.

The fair value of other financial liabilities designated at FVTPL is measured based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3:

	Fair value as at 31 December 2022	Valuation techniques	Unobservable inputs
Equity investments designated at FVTOCI	2,725	Market approach	Liquidity discount
Equity investments designated at FVTOCI	101	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Equity investments designated at FVTOCI	4,564	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	4,991	Discounted cash flow approach	Risk-adjusted discount rate
Loans and advances to customers at FVTOCI	100,430	Discounted cash flow approach	Risk-adjusted discount rate
Financial investments measured at FVTPL			
– Equity investments	2,950	Market approach	Liquidity discount
– Equity investments	528	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	15	Net asset value approach	Net assets, liquidity discount
– Debt securities	359	Discounted cash flow approach	Risk-adjusted discount rate
– Fund investments	797	Net fund value approach	Net assets
– Fund investments	1	Market approach	Liquidity discount
– Other	64	Net fund value approach	Net assets
Financial liabilities designated at FVTPL	2,647	Net fund value approach	Net assets, liquidity discount

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3: *(continued)*

	Fair value as at 31 December 2021	Valuation techniques	Unobservable inputs
Equity investments designated at FVTOCI	873	Market approach	Liquidity discount
Equity investments designated at FVTOCI	3,853	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	7,281	Discounted cash flow approach	Risk-adjusted discount rate
Loans and advances to customers at FVTOCI	56,713	Discounted cash flow approach	Risk-adjusted discount rate
Financial investments measured at FVTPL			
– Equity investments	3,491	Market approach	Liquidity discount
– Equity investments	12	Market approach (Price-to-Book Ratio)	Liquidity discount
– Equity investments	209	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	15	Net asset value approach	Net assets, liquidity discount
– Debt securities	373	Discounted cash flow approach	Risk-adjusted discount rate
– Fund investments	767	Net fund value approach	Net assets
– Fund investments	5	Market approach	Liquidity discount
– Other	7	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	664	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	7,483	Net fund value approach	Net assets, liquidity discount

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3: (continued)

1) Valuation of financial instruments with significant unobservable inputs

The following tables show the movements from the beginning balances to the ending balances for Level 3 financial instruments:

Assets	Financial investments at FVTPL	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2022	4,879	7,281	56,713	4,726	73,599
Profit or loss					
– In profit or loss	(14)	(366)	744	–	364
– In other comprehensive income	–	–	(107)	51	(56)
Addition for the year	1,041	85	196,298	2,527	199,951
Disposals or settlement on maturity	(1,147)	(2,036)	(153,218)	(129)	(156,530)
Transfer out of level 3	(145)	–	–	–	(145)
Exchange difference	100	27	–	215	342
At 31 December 2022	4,714	4,991	100,430	7,390	117,525
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	(14)	(366)	–	–	(380)

Assets	Financial investments at FVTPL	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2021	2,727	6,856	44,289	5,064	58,936
Profit or loss					
– In profit or loss	339	287	1,365	–	1,991
– In other comprehensive income	–	–	48	1,050	1,098
Addition for the year	1,832	143	118,229	721	120,925
Disposals or settlement on maturity	(68)	–	(107,218)	(2,158)	(109,444)
Exchange difference	49	(5)	–	49	93
At 31 December 2021	4,879	7,281	56,713	4,726	73,599
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	339	287	–	–	626

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative information of key parameters for recurring fair value measurements categorised as Level 3: (continued)

1) Valuation of financial instruments with significant unobservable inputs (continued)

Financial liabilities at fair value through profit or loss	2022	2021
Balance as at 1 January	**8,147**	5,649
In profit or loss	**(142)**	470
Addition for the year	**96**	3,105
Disposals and settlement on maturity	**(5,695)**	(860)
Exchange difference	**241**	(217)
Balance as at 31 December	**2,647**	8,147
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	**148**	419

During the years ended 31 December 2022 and 2021, there were no significant transfers among different levels for financial instruments which are measured at fair value on a recurring basis.

During the years ended 31 December 2022 and 2021, the Group did not change the valuation techniques for the financial assets and liabilities disclosed above which are measured at fair value on a recurring basis.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) Financial assets and financial liabilities that are not measured at fair value

(1) Financial Assets

The Group's financial assets that are not measured at fair value mainly include balances with central banks, balances and placements with banks and other financial institutions, amounts held under resale agreements, loans and advances to customers at amortised cost and investments at amortised cost.

Except for loans and advances measured at amortised cost and debt instrument investments measured at amortised cost, most of the financial assets mature within 1 year, and their carrying values approximate their fair values. Loans and advances are stated at amortised costs less allowances for impairment loss (Note 22). Loans and advances at amortised cost are mostly priced at floating rates with reference to Loan Prime Rates (LPRs) and repriced at least annually, and impairment allowances are made to reduce the carrying amounts of impaired loans to estimated recoverable amounts. Accordingly, the carrying value of loans and advances is close to their fair value.

Debt investments measured at amortised cost are carried at amortised cost less allowances for impairment losses. The fair value of the listed investments is disclosed in Note 23(b).

The carrying value, fair value and fair value hierarchy of debt investments at amortised cost not measured at fair value are listed as below:

The Level 1 fair value measurement is based on unadjusted quoted prices in active markets using Bloomberg etc. For Level 2, the latest valuation results released by China Bond website are used to measure fair value of bonds denominated in RMB. The Level 2 category also includes foreign currency bonds without active quoted price, which are measured using the published comprehensive valuation by Bloomberg. The Level 3 fair value is measured using discounted cash flow valuation technique.

	2022					2021				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Debt investments at amortised cost	**1,536,397**	**1,569,775**	**41,700**	**1,434,070**	**94,005**	1,169,652	1,235,725	6,659	1,097,435	131,631

Note: The above financial assets do not include interest receivable.

(2) Financial Liabilities

Financial liabilities that are not measured at fair value mainly include deposits from customers, amounts due to banks and other financial institutions, amounts sold under repurchase agreements, and debts securities issued by the Group. The carrying value of financial liabilities approximate their fair value at the end of the reporting period, except for the financial liabilities set out below:

	2022					2021				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated bonds issued	**19,994**	**20,292**	**–**	**20,292**	**–**	34,236	35,173	–	35,173	–
Long-term debt securities issued	**120,971**	**118,416**	**–**	**118,416**	**–**	159,306	160,893	–	160,893	–
Total	**140,965**	**138,708**	**–**	**138,708**	**–**	193,542	196,066	–	196,066	–

Note: The above financial liabilities do not include interest payable.

61. Material related party transactions

(a) Material connected person information

Details of the Bank's major shareholders and their parent companies are as follows:

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB16,900 million	7,559,427,375	29.97% (note (i)(vii))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited liability	Miao Jianmin
– China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB17,000 million	3,289,470,337	13.04% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Limited liability	Miao Jianmin
– Shenzhen Yan Qing Investment and Development Co., Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Xu Xin
– Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Xu Xin
– China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB7,778 million	1,147,377,415	4.55%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Miao Jianmin
– Best Winner Investment Ltd.	British Virgin Islands	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–
– China Merchants Union (BVI) Limited	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited liability	–
– China Merchants Industry Development (Shenzhen) Ltd.	Shenzhen	USD10 million	55,196,540	0.22%	–	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited liability	Wang Xiaoding

61. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Details of the Bank's major shareholders and their parent companies are as follows: *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China COSCO Shipping Corporation Limited.	Beijing	RMB11,000 million	2,515,193,034	9.97% (note(iii))	–	International shipping business, supporting services to international shipping, imports and exports of goods and technology, international freight forwarding agent, etc.	Shareholder's parent company	Limited liability	Wan, Min
– China Ocean Shipping Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	–	Transportation business, leasing business, ship purchasing and marketing business, warehousing business, etc.	Shareholder	Limited liability	Wan, Min
– COSCO Shipping (Guangzhou) Co., Ltd.	Guangzhou	RMB3,191 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited liability	Shou Jian
– Guangzhou Haining Maritime Technology Consulting Co., Ltd.	Guangzhou	RMB52 million	103,552,616	0.41%	–	Business services	Shareholder	Limited liability	Chen, Jianyao
– COSCO Shipping (Shanghai) Co., Ltd.	Shanghai	RMB1,399 million	75,617,340	0.30%	–	Shipping business, leasing business, ship repairing and building etc.	Shareholder	Limited liability	Zhao Bangtao
– COSCO Shipping Investment Holdings Co., Ltd.	Hong Kong	HKD500 million	54,721,930	0.22%	–	Leasing business, financing business, insurance business etc.	Shareholder	Limited liability	Wang Daxiong
– Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	Guangzhou	RMB299 million	10,121,823	0.04%	–	Ship purchasing and marketing business, shipping agency, leasing business, shipping business etc.	Shareholder	Limited liability	Ren Zhaoping
China Insurance Security Fund Co., Ltd	Beijing	RMB100 million	804,907,835	3.19% (note(iv))	–	Investing and establishing insurance companies, supervising and managing various domestic and international businesses of holding investment enterprises, and investment business permitted by national laws and regulations, etc.	Shareholder's parent company	Limited liability	Ji, Yuhua
– Dajia Life Insurance Co., Ltd	Beijing	RMB30,790 million	804,907,835	3.19%	–	Life insurance, health insurance, accident insurance, and other personal insurance services, etc.	Shareholder	Joint stock limited company	He Xiaofeng

61. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Details of the Bank's major shareholders and their parent companies are as follows: *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China Communications Construction Group Limited.	Beijing	RMB7,274 million	422,770,418	1.68% (note(v))	–	General contraction for construction	Shareholder's parent company	Limited liability	Wang Tongzhou
– China Communications Construction Company Limited.	Beijing	RMB16,166 million	201,089,738	0.80%	–	General contraction for construction, leasing and repair, technical consulting service, imports and exports, investment and management business	Shareholder	Joint stock limited company	Wang Tongzhou
Shanghai Automotive Industry Corporation (Group)	Shanghai	RMB21,749 million	310,125,822	1.23% (note(vi))	–	Production and sale of vehicles, asset management business, domestic trade business, consulting service	Shareholder's parent company	Limited liability	Chen Hong
– SAIC Motor Corporation Limited	Shanghai	RMB11,683 million	310,125,822	1.23%	–	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong
CMB International Capital Holdings Corporation Limited (CMBIC)	Hong Kong	HKD4,129 million	–	–	100%	Investment bank and investment managements	Subsidiary	Limited liability	Wang, Liang
CMB Financial Leasing Company Limited (CMBFL)	Shanghai	RMB12,000 million	–	–	100%	Finance lease	Subsidiary	Limited liability	Shi Shunhua
CMB Wing Lung Bank Limited (CMB WLB)	Hong Kong	HKD1,161 million	–	–	100%	Banking	Subsidiary	Limited liability	Liu Yuan
China Merchants Fund Management Co., Ltd. (CMFM)	Shenzhen	RMB1,310 million	–	–	55%	Fund Management	Subsidiary	Limited liability	Wang Xiaoqing
CMB Wealth Management Co., Ltd	Shenzhen	RMB5,556 million	–	–	90%	Asset management	Subsidiary	Limited liability	Chen Yisong
China Merchants Europe S.A. (CMB Europe S.A.)	Luxembourg	EUR50 million	–	–	100%	Banking	Subsidiary	Limited liability	Li Biao
Cigna & CMB Asset Management Company Limited	Beijing	RMB500 million	–	–	Note 24 (vii)	Asset management	Subsidiary	Limited liability	Wang Xiaoqing

Notes:

(i) CMG together with its subsidiaries holds 29.97% of the Bank (2021: 29.97%).

(ii) As the largest direct shareholder, CMSNCL, a subsidiary of CMG, holds 13.04% of the Bank as at 31 December 2022 (2021: 13.04%).

(iii) China COSCO Shipping Corporation Ltd. holds 9.97 % of the Bank (2021: 9.97%) through its subsidiaries.

(iv) China Insurance Security Fund Co., Ltd ("China Insurance Security Fund") holds 3.19% of the Bank (2021: 3.23%) through its 98.23% holding in Dajia Insurance Group Co., Ltd.

(v) China Communications Construction Group Limited ("China Communications Construction Group") holds 1.68% of the Bank through its subsidiaries (2021:1.68%).

(vi) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.23% of the Bank through its subsidiaries (SAIC Motor Corporation Limited) (2021: 1.23%).

(vii) The sum of the direct holding percentage of CMG's shareholdings in the Bank and the sum of the above-mentioned relevant percentages may differ slightly due to rounding.

61. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

The registered capital of the Group's related parties as at 31 December 2022 and 2021 are as follows:

Name of related party	2022	2021
CMG	**RMB16,900,000,000**	RMB16,900,000,000
CMSNCL	**RMB17,000,000,000**	RMB7,000,000,000
Shenzhen Yan Qing Investment and Development Co., Ltd.	**RMB600,000,000**	RMB600,000,000
Shenzhen Chu Yuan Investment and Development Co., Ltd.	**RMB600,000,000**	RMB600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	**RMB7,778,000,000**	RMB7,778,000,000
Best Winner Investment Ltd.	**USD50,000**	USD50,000
China Merchants Union (BVI) Limited	**USD60,000**	USD60,000
China Merchants Industry Development (Shenzhen) Ltd.	**USD10,000,000**	USD10,000,000
China Insurance Security Fund Co., Ltd	**RMB100,000,000**	RMB100,000,000
Dajia Life Insurance Co., Ltd	**RMB30,790,000,000**	RMB30,790,000,000
China COSCO Shipping Corporation Limited.	**RMB11,000,000,000**	RMB11,000,000,000
China Ocean Shipping Co., Ltd.	**RMB16,191,351,300**	RMB16,191,351,300
COSCO Shipping (Guangzhou) Co., Ltd.	**RMB3,191,200,000**	RMB3,191,200,000
Guangzhou Haining Maritime Technology Consulting Co., Ltd.	**RMB52,000,000**	RMB52,000,000
COSCO Shipping (Shanghai) Co., Ltd.	**RMB1,398,941,000**	RMB1,398,941,000
COSCO Shipping Investment Holdings Co., Ltd.	**HKD500,000,000**	HKD500,000,000
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	**RMB299,020,000**	RMB299,020,000
China Communications Construction Group Limited.	**RMB7,274,023,830**	RMB7,274,023,830
China Communications Construction Company Limited	**RMB16,165,711,425**	RMB16,165,711,425
Shanghai Automotive Industry Corporation (Group)	**RMB21,749,175,737**	RMB21,749,175,737
SAIC Motor Corporation Limited	**RMB11,683,461,365**	RMB11,683,461,365
CMBIC	**HKD4,129,000,000**	HKD4,129,000,000
CMBFL	**RMB12,000,000,000**	RMB12,000,000,000
CMB WLB	**HKD1,160,950,575**	HKD1,160,950,575
CMFM	**RMB1,310,000,000**	RMB1,310,000,000
CMBWM	**RMB5,555,555,555**	RMB5,000,000,000
CMB Europe S.A.	**EUR50,000,000**	EUR50,000,000
Cigna & CMB Asset Management Company Limited	**RMB500,000,000**	RMB500,000,000

The proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the Bank														
	CMSNCL		CMBIC		CMBFL		CMB WLB		CMFM		CMBWM		CMB Europe S.A.		CIGNA & CMAM	
	No. of shares	%	HKD	%	RMB	%	HKD	%	RMB	%	RMB	%	EUR	%	RMB	%
At 1 January 2022	3,289,470,337	13.04	4,129,000,000	100.00	12,000,000,000	100.00	1,160,950,575	100.00	1,310,000,000	55.00	5,000,000,000	100.00	50,000,000	100.00	500,000,000	note
At 31 December 2022	3,289,470,337	13.04	4,129,000,000	100.00	12,000,000,000	100.00	1,160,950,575	100.00	1,310,000,000	55.00	5,555,555,555	90.00	50,000,000	100.00	500,000,000	note

	The Bank held by the largest shareholder		The subsidiaries held by the Bank														
	CMSNCL		CMBIC		CMBFL		CMB WLB		CMFM		CMBWM		CMB Europe S.A.		CIGNA & CMAM	
	No. of shares	%	HKD	%	RMB	%	HKD	%	RMB	%	RMB	%	EUR	%	RMB	%
At 1 January 2021	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	1,310,000,000	55.00	5,000,000,000	100.00	50,000,000	100.00	500,000,000	note
At 31 December 2021	3,289,470,337	13.04	4,129,000,000	100.00	12,000,000,000	100.00	1,160,950,575	100.00	1,310,000,000	55.00	5,000,000,000	100.00	50,000,000	100.00	500,000,000	note

Note: This information is detailed in note 24.

As of 31 December 2022, other than those disclosed above, there were 142 companies that shared common directors, supervisors and senior management including their close family members with the Bank and they can control or exercise significant influence over these companies (31 December 2021: 265).

61. Material related party transactions *(continued)*

(b) Terms and conditions for related-party transactions

The Group enters into transactions with related parties in the ordinary course of its banking business including lending, investing, deposit taking, securities trading, providing agency and trust services, and off-balance sheet transactions. In the opinion of the directors, the Group enters into such material related-party transactions under normal commercial terms. Interest rates on loans and deposits are set in accordance with such benchmark rates as PBOC rates and LPR:

	2022	2021
Short-term loans	**3.65% to 3.80%**	3.80% to 3.85%
Medium to long-term loans	**3.65% to 4.65%**	3.80% to 4.65%
Demand deposits	**0.35%**	0.35%
Time deposits	**1.10% to 2.75%**	1.10% to 2.75%

There were no loans and advances granted to related parties that were credit-impaired during the year (2021: None).

(c) Shareholders and their related companies

The Bank's largest shareholder CMG and its related companies held 29.97 % (2021: 29.97%) of the Bank's shares as at 31 December 2022 (among them 13.04 % of the shares were directly held by CMSNCL (2021: 13.04%)).

The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2022	2021
On-balance sheet:		
– Placements with banks and other financial institutions	**2,000**	–
– Amounts held under resale agreements	**2,589**	13,967
– Loans and advances to customers	**40,772**	42,645
– Financial investments	**7,626**	1,147
– Deposits from banks and other financial institutions	**29,726**	29,755
– Deposits from customers	**45,342**	45,708
– Lease liabilities	**210**	186
Off-balance sheet:		
– Irrevocable guarantees	**5,087**	3,645
– Irrevocable letters of credit	**318**	251
– Bills of acceptances	**285**	188
Interest income	**1,848**	1,738
Interest expense	**(1,376)**	(1,599)
Net fee and commission income	**1,027**	669
Operating expenses	**(177)**	(42)
Other net (expenses)/income	**(10)**	38

61. Material related party transactions *(continued)*

(d) Companies that share common directors, supervisors or senior management with the Bank (other than those disclosed in Note 61(c)) and they can control or exercise significant influence over the companies

	2022	2021
On-balance sheet:		
– Placements with banks and other financial institutions	2,277	–
– Amounts held under resale agreements	3,770	285
– Loans and advances to customers	28,103	13,366
– Financial investments	770	595
– Deposits from banks and other financial institutions	4,346	21,356
– Placements from banks and other financial institutions	6,047	–
– Deposits from customers	13,447	31,016
– Lease liabilities	65	73
Off-balance sheet:		
– Irrevocable guarantees	580	1,711
– Irrevocable letters of credit	6	46
– Bills of acceptances	–	225
Interest income	1,035	927
Interest expense	(475)	(984)
Net fee and commission income	133	273
Operating expenses	(274)	(1,654)
Other net (expenses)/income	(129)	7

(e) Associates and joint ventures other than those disclosed in Note 61(c)

	2022	2021
On-balance sheet:		
– Placements with banks and other financial institutions	14,675	14,500
– Loans and advances to customers	6,848	6,044
– Deposits from banks and other financial institutions	896	1,251
– Deposits from customers	331	693
Off-balance sheet:		
– Irrevocable guarantees	–	8,700
Interest income	306	516
Interest expense	(19)	(20)
Net fee and commission income	2,498	1,695
Operating expenses	(8)	(6)

61. Material related party transactions *(continued)*

(f) Other major shareholders holding more than 5% shares of the Bank and exercising significant influence over the Bank

	2022	2021
On-balance sheet:		
– Amounts held under resale agreements	–	399
– Loans and advances to customers	**27,070**	17,654
– Financial investments	**4,302**	2,512
– Deposits from banks and other financial institutions	**2,929**	7,502
– Deposits from customers	**14,872**	19,704
– Lease liabilities	**40**	46
Off-balance sheet:		
– Irrevocable guarantees	**8,511**	7,895
– Irrevocable letters of credit	**1,835**	337
– Bills of acceptances	**5,125**	5,068
Interest income	**913**	738
Interest expense	**(633)**	(585)
Net fee and commission income	**2,242**	1,411
Operating expenses	**(138)**	–
Other net expense	**(1)**	(10)

(g) Subsidiaries

	2022	2021
On-balance sheet		
– Balances with banks and other financial institutions	**958**	1,950
– Placements with banks and other financial institutions	**32,438**	37,055
– Loans and advances to customers	**1,396**	–
– Financial investments	**3,415**	3,454
– Deposits from banks and other financial institutions	**4,630**	7,246
– Amounts sold under repurchase agreements	–	816
– Deposits from customers	**5,206**	3,957
Off-balance sheet		
– Irrevocable guarantees	**38**	–
– Irrevocable letters of credit	**4,599**	1,998
– Bills of acceptances	**222**	81
Interest income	**943**	1,124
Interest expense	**(129)**	(258)
Net fee and commission expenses	**(93)**	(1,294)
Operating expenses	**(1,797)**	(96)
Other net income	**150**	111

All significant balances and transactions between the Bank and its subsidiaries have been eliminated in the consolidated financial statements.

61. Material related party transactions *(continued)*

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

	2022 in thousands	2021 in thousands
Salaries and other emoluments	**38,249**	39,264
Discretionary bonuses	**–**	11,087
Share-based payment	**(41,066)**	17,312
Contributions to defined contribution retirement schemes	**–**	567
Total	**(2,817)**	68,230

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 39(a)(iii)) to senior management under the Bank's H share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in Note 4(17); and the amounts are charged to the consolidated statement of profit or loss and other comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2022 and 2021.

62. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the subsidiaries, the Group does not have any subsidiary with significant non-controlling interests during the reporting period.

(a) Perpetual debt capital

CMB WLB, the Group's subsidiary, issued perpetual debt of US$170 million on 27 April 2017 and another perpetual debt of US$400 million on 24 January 2019. CMB WLB redeemed the USD170 million perpetual debt issued in 2017 during the current year. Movements of these perpetual debt capital are as follows:

	Principal	**Distributions/Paid**	**Total**
At 1 January 2022	**3,636**	**–**	**3,636**
Redemption in 2022	**(1,104)**	**–**	**(1,104)**
Distributions in 2022	**–**	**202**	**202**
Paid in 2022	**–**	**(202)**	**(202)**
Exchange difference	**255**	**–**	**255**
At 31 December 2022	**2,787**	**–**	**2,787**

	Principal	Distributions/Paid	Total
At 1 January 2021	3,753	–	3,753
Distributions in 2021	–	227	227
Paid in 2021	–	(227)	(227)
Exchange difference	(117)	–	(117)
At 31 December 2021	3,636	–	3,636

There is no maturity for the instruments and the payments of distribution can be cancelled at the discretion of the issuer. Cancelled interest is non-cumulative. There is no contractual obligation to deliver cash to other parties. During the years ended 31 December 2022 and 2021, CMB WLB did not cancel the payment of distribution and the corresponding amounts were paid to the perpetual debt holders accordingly.

63. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases, such transfers may give rise to full or partial derecognition of the financial assets concerned, and in other cases the transfers may not qualify for derecognition as the Group retains substantially all the risks and rewards of these transferred assets. As a result, the Group continues to recognise these transferred assets.

Securitisation of credit assets

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

With respect to the credit assets that are securitised and qualified for derecognition, based on the criteria set out in Note 4(5), the Group derecognises the transferred credit assets in their entirety. During the year ended 31 December 2022, the Group transferred loans amounting to RMB17,362 million (2021: RMB56,068 million) in securitisation arrangements, as well as substantially all the risks and rewards associated with the loans. The full amount of such securitised loans were then derecognised.

In the cases that the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and for which the Group retains control, the Group recognises an asset in the consolidated statement of financial position to the extent of the Group's continuing involvement in the transferred assets, the remaining portion is derecognised. The extent of the Group's continuing involvement is the extent of the risks and rewards exposed by the Group to the value changes of the transferred assets. For the year ended 31 December 2022, there were no new securitised credit assets in which the Group retained the continuing involvement (2021: RMB15,942 million). The carrying amount of the continuing involvement asset and the corresponding continuing involvement liability, are recognised in other assets and other liabilities in the consolidated statement of financial position, amounting to RMB5,274 million as at 31 December 2022 (31 December 2021: RMB5,274 million).

Transfers of credit assets to third parties

During the year of 2022, in addition to securitisation transactions, the Group transferred credit assets amounting to RMB995 million (2021: RMB548 million) to independent third parties directly during the year ended 31 December 2022. The Group determined that these transferred assets qualified for full derecognition, based on the criteria set out in Note 4(5), since the Group has transferred substantially all the risks and rewards of the transferred assets to the counterparties.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities, discounted bills held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold 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 determines that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. Instead, it recognises a financial liability for cash received as collateral.

64. Interests in unconsolidated structured entities

The scope of the Group's consolidated financial statements is determined on a control basis. Control means that the investor has the power over the investee, enjoys variable returns by participating in the relevant activities of the investee, and has the ability to use the power to affect the amount of its return.

The Group has the power over structured entities, and the other investors have no substantive rights. In the meantime, the Group is entitled to variable returns, and will consolidate entities, in which the Group has the right to affect the amount of its return.

In addition to the above-mentioned structured entities that have been included in the Group's consolidated financial statements, the Group's equity information on structured entities which is not covered by the consolidated financial statements is as follows:

(a) Interests in the structured entities sponsored by third parties institutions

The Group holds interests in some structured entities sponsored by third parties through investments in the units issued by these structured entities. Such interests include investments in wealth management products, asset management schemes, trust beneficiary rights, assets-backed securities and fund investments, and the Group does not consolidate these structured entities. The purpose of the Group holding these structured entities is to obtain investment income, capital appreciation or both.

The following tables set out an analysis of the balance of interests held by the Group in the structured entities sponsored by third parties and an analysis of the line items in the consolidated statement of financial positions as at 31 December 2022 and 31 December 2021 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	2022				
	Balance				
	Financial investments at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	–	48,362	–	48,362	48,362
Trust beneficiary rights	–	37,954	–	37,954	37,954
Asset-backed securities	835	1,031	170	2,036	2,036
Fund investments	186,311	–	–	186,311	186,311
Wealth management products	110	–	–	110	110
Total	187,256	87,347	170	274,773	274,773

	2021				
	Balance				
	Financial investments at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	–	67,432	–	67,432	67,432
Trust beneficiary rights	–	34,112	–	34,112	34,112
Asset-backed securities	2,537	307	1,205	4,049	4,049
Fund investments	156,112	–	–	156,112	156,112
Total	158,649	101,851	1,205	261,705	261,705

The maximum exposures of investments in funds, trust beneficiary rights, asset management schemes, wealth management products and asset-backed securities are the balance of these assets.

64. Interests in unconsolidated structured entities *(continued)*

(b) Interests in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products, funds and assets management schemes. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issuance of investment products to investors. Interest of the Group in these unconsolidated structured entities is limited to fees and commissions charged for management services provided.

As at 31 December 2022, the amount of unconsolidated non-principal-guaranteed wealth management products sponsored by the Group was RMB2,667,663 million (31 December 2021: RMB2,777,537 million).

As at 31 December 2022, the amount of unconsolidated funds sponsored by the Group was RMB1,219,793 million (31 December 2021: RMB1,200,150 million).

As at 31 December 2022, the amount of unconsolidated asset management schemes sponsored by the Group was RMB189,332 million (31 December 2021: RMB174,555 million).

As at 31 December 2022, amounts held under resale agreements transacted between the Group and the non-principal-guaranteed wealth management products sponsored by the Group were nil (31 December 2021: RMB30,896 million). The above transactions were conducted in accordance with normal business terms and conditions.

As at 31 December 2022, the amount of unconsolidated non-principal-guaranteed wealth management products held by the Group was RMB2,433 million (31 December 2021: RMB2,396 million).

As at 31 December 2022, the amount of unconsolidated funds held by the Group was RMB14,228 million (31 December 2021: RMB6,658 million).

During the year ended 31 December 2022, the amount of unconsolidated non-principal-guaranteed wealth management products sponsored by the Group transferred to investments measured at amortised cost of the Group was RMB11,143 million (2021: RMB11,004 million).

During the year ended 31 December 2022, the amount of fee and commission income the Group received from such non-principal-guaranteed wealth management products was RMB17,037 million (2021: RMB11,998 million).

During the year ended 31 December 2022, the amount of fee and commission income the Group received from such unconsolidated funds was RMB5,627 million (2021: RMB4,223 million).

During the year ended 31 December 2022, the amount of fee and commission income the Group received from such unconsolidated asset management schemes was RMB526 million (2021: RMB627 million).

The total amount of non-principal-guaranteed wealth management products sponsored by the Group after 1 January 2022 with a maturity date before 31 December 2022 was RMB620,318 million (2021: RMB1,529,874 million).

65. Comparative figures

Certain comparative figures in the notes have been re-presented to conform to presentation in current year.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries and regions.

In accordance with the Advanced Measurement Approach approved by the CBIRC in April 2014, the Group calculates core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	2022	2021
Core tier-1 capital adequacy ratio	**13.68%**	12.66%
Tier-1 capital adequacy ratio	**15.75%**	14.94%
Capital adequacy ratio	**17.77%**	17.48%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**65,397**	67,491
Surplus reserves	**94,948**	82,104
Regulatory general reserve	**132,451**	115,288
Retained earnings	**488,970**	424,768
Qualifying portion of non-controlling interests	**–**	–
Other (note (i))	**14,480**	12,788
Total core tier-1 capital	**821,466**	727,659
Regulatory deductions from core tier-1 capital	**22,114**	23,322
Net core tier-1 capital	**799,352**	704,337
Additional tier-1 capital (note (ii))	**120,446**	127,043
Net tier-1 capital	**919,798**	831,380
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**20,000**	24,170
Surplus provision for loans impairment	**96,579**	115,472
Qualifying portion of non-controlling interests	**1,565**	1,584
Total tier-2 capital	**118,144**	141,226
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**118,144**	141,226
Net capital	**1,037,942**	972,606
Total risk-weighted assets	**5,841,685**	5,563,724

Notes:

(i) : Under CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional), other includes investment revaluation reserve, exchange reserve, hedging reserve in the consolidated financial statements, etc.

(ii) : The Group's additional tier-1 capital includes preference shares, perpetual bonds, etc.

In 2022, in accordance with the advanced capital management approach approved by CBIRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 13.23%, tier-1 capital adequacy ratio is 15.42%, capital adequacy ratio is 17.51%, net capital is RMB927,881 million and total risk-weighted assets is RMB5,299,237 million.

In 2022, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 11.52%, tier-1 capital adequacy ratio is 13.25%, capital adequacy ratio is 14.68%, net capital is RMB1,018,678 million and total risk-weighted assets is RMB6,941,350 million.

In 2022, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Bank's core tier-1 capital adequacy ratio is 10.97%, tier-1 capital adequacy ratio is 12.79%, capital adequacy ratio is 14.22%, net capital is RMB908,572 million and total risk-weighted assets is RMB6,390,196 million.

(B) leverage ratio

In accordance with the CBIRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio is as follows. The basis used herein may differ from those adopted in Hong Kong or other countries and regions.

The difference between regulatory items and accounting items :

	2022	2021
Total consolidated assets as per published financial statements	**10,138,912**	9,249,021
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(47,666)**	(54,231)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**(7,911)**	(8,526)
Adjustment for securities financing transactions	**12,444**	27,776
Adjustment for off-balance sheet items	**1,496,177**	1,204,181
Other adjustments	**(22,114)**	(23,322)
Balance of adjusted on-balance sheet and off-balance sheet assets	**11,569,842**	10,394,899

Leverage ratio, net tier-1 capital, adjusted on-balance sheet and off-balance sheet exposures and other information:

	2022	2021
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	**9,796,112**	8,647,884
Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(22,114)**	(23,322)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**9,773,998**	8,624,562
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	**5,551**	5,374
Add-on amounts for potential future exposure associated with all derivatives transactions	**5,175**	9,489
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	**–**	–
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	**–**	–
Less: Exempted central counterparty leg of client-cleared trade exposures	**–**	–
Effective notional amount of written credit derivatives	**–**	–
Less: Adjusted effective notional deductions for written credit derivatives	**–**	–
Total derivative exposures	**10,726**	14,863
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**276,497**	523,517
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
Counterparty credit risk exposure for SFT assets	**12,444**	27,776
Agent transaction exposures	**–**	–
Total securities financing transaction exposures	**288,941**	551,293
Off-balance sheet exposure at gross notional amount	**3,093,836**	2,576,292
Less: Adjustments for conversion to credit equivalent amounts	**(1,597,659)**	(1,372,111)
Balance of adjusted off-balance sheet assets	**1,496,177**	1,204,181
Net tier-1 capital	**919,798**	831,380
Balance of adjusted on-balance sheet and off-balance sheet assets	**11,569,842**	10,394,899
Leverage ratio	**7.95%**	8.00%

(C) Liquidity coverage ratio

The Group prepared and disclosed information on liquidity coverage ratio in accordance with the "Measures for the Disclosure of Information on Liquidity Coverage Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other countries and regions. The average of liquidity coverage ratio of the Group was 164.92% in the fourth quarter of 2022, an increase of 14.46 percentage points from the previous quarter, mainly due to the increase in high quality liquid assets. The liquidity coverage ratio of the Group at the end of the fourth quarter of 2022 was 180.48%, which met the regulatory requirements of the China Banking and Insurance Regulatory Commission in 2022. The breakdown of the Group's average value of each item of liquidity coverage ratio in the fourth quarter of 2022 is set out below:

(Expressed in millions of Renminbi except percentage)

Serial No.		Unweighted amount (average value)	Weighted amount (average value)
Stock of high quality liquid assets			
1	**Total stock of high quality liquid assets**		**1,776,915**
Cash outflows			
2	Retail and small business customers deposits, of which:	3,040,565	268,155
3	Stable deposits	718,034	35,902
4	Less stable deposits	2,322,531	232,253
5	Unsecured wholesale funding, of which:	4,308,337	1,404,145
6	Operational deposits (excluding correspondent banks)	2,736,973	678,934
7	Non-operational deposits (including all counterparties)	1,551,553	705,400
8	Unsecured debt issuance	19,811	19,811
9	Secured funding		20,190
10	Additional requirements, of which:	1,867,358	361,680
11	Cash outflows arising from derivative contract and other transactions arising from related collateral requirements	266,606	266,606
12	Cash outflows arising from secured debt instruments funding	–	–
13	Undrawn committed credit and liquidity facilities	1,600,752	95,074
14	Other contractual obligations to extend funds	80,435	80,435
15	Other contingent funding obligations	3,097,405	101,227
16	**Total cash outflows**		**2,235,832**
Cash inflows			
17	Secured lending (including reverse repo and securities borrowing)	225,766	225,358
18	Contractual inflows from fully performing loans	1,080,962	667,225
19	Other cash inflows	270,677	265,803
20	**Total cash inflows**	**1,577,405**	**1,158,386**

		Adjusted value
21	Total stock of high quality liquid assets	1,776,915
22	Net cash outflows	1,077,446
23	Liquidity coverage ratio (%)	164.92%

Notes:

(i) The domestic data in the above table is a simple arithmetic average of the 92-day value for the latest quarter and the month-end average for the data of subsidiaries.

(ii) The high quality liquid assets in the above table are prepared based on cash and the central bank reserve available under pressure conditions, as well as the bond in line with definition of Tier 1 and Tier 2 assets set by China Banking and Insurance Regulatory Commission on the "Measures for the Liquidity Risk Management of Commercial Banks".

(D) Net stable funding ratio

The Group prepared and disclosed information on Net Stable Funding Ratio in accordance with the "Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks". The Group's Net Stable Funding Ratio at the end of the fourth quarter of 2022 was 131.83%, representing an increase of 7.59 percentage points as compared with the previous quarter, which was mainly affected by the increase in deposit scale. The breakdown of the Group's Net Stable Funding Ratio in the last two quarters is set out below:

31 December 2022

(Expressed in millions of Renminbi except percentage)

Serial No.		Unweighted amount				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
Available stable funding (ASF) item						
1	Capital	943,308	–	–	20,000	963,308
2	Regulatory capital	943,308	–	–	20,000	963,308
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from Small business customer	2,400,097	1,062,658	52,074	6,630	3,209,709
5	Stable deposits	791,230	2,954	459	1,470	756,381
6	Less stable deposits	1,608,867	1,059,704	51,615	5,160	2,453,328
7	Wholesale funding	2,899,666	1,826,714	230,630	323,306	2,585,899
8	Operational deposits	2,676,551	–	–	–	1,338,276
9	Other wholesale funding	223,115	1,826,714	230,630	323,306	1,247,623
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	3,638	137,770	55,822	150,708	148,595
12	NSFR derivative liabilities				30,024	
13	All other liabilities and equity not included in the above categories	3,638	137,770	55,822	120,684	148,595
14	Total ASF					6,907,511
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					293,732
16	Deposits held at other financial institutions for operational purposes	48,737	10,735	1,923	352	31,049
17	Performing loans and securities	94,038	2,253,736	1,188,547	3,624,374	4,542,753
18	Performing loans to financial institutions secured by Level 1 HQLA	–	236,212	–	–	35,432
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	1,065	553,921	199,151	45,021	227,856
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,267,001	907,300	2,062,210	2,805,652
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	200,534	107,892	171,885	265,938
22	Performing residential mortgages, of which:	–	35,699	29,582	1,328,198	1,160,015
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	92,973	160,903	52,514	188,945	313,798
25	Assets with matching interdependent liabilities	–	–	–	–	–

(D) Net stable funding ratio *(continued)*

31 December 2022 *(continued)*

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12 months	≥ 12 months	Weighted amount
Required stable funding (RSF) item *(continued)*						
26	Other assets	13,170	64,852	31,762	79,313	165,066
27	Physical traded commodities, including gold	2,960				2,516
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				193	164
29	NSFR derivative assets				29,609	–
30	NSFR derivative liabilities before deduction of variation margin posted				6,052	6,052
31	All other assets not included in the above categories	10,210	64,852	31,762	49,511	156,334
32	Off-balance sheet items				5,240,954	207,200
33	Total RSF					5,239,800
34	Net Stable Funding Ratio (%)					131.83%

30 September 2022

(Expressed in millions of Renminbi except percentage)

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12 months	≥ 12 months	Weighted amount
Available stable funding (ASF) item						
1	Capital	915,811	–	–	20,000	935,811
2	Regulatory capital	904,111	–	–	20,000	924,111
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from Small business customer	2,083,658	929,901	50,652	6,169	2,799,967
5	Stable deposits	717,290	2,328	560	1,492	685,660
6	Less stable deposits	1,366,368	927,573	50,092	4,677	2,114,307
7	Wholesale funding	2,695,594	2,089,784	204,797	294,768	2,480,625
8	Operational deposits	2,586,666	–	–	–	1,293,333
9	Other wholesale funding	108,928	2,089,784	204,797	294,768	1,187,292
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	1,881	133,303	57,590	178,153	153,577
12	NSFR derivative liabilities				53,370	
13	All other liabilities and equity not included in the above categories	1,881	133,303	57,590	124,783	153,577
14	Total ASF					6,369,980
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					263,625
16	Deposits held at other financial institutions for operational purposes	66,875	7,425	426	358	37,721
17	Performing loans and securities	133,231	2,064,861	1,221,079	3,521,960	4,445,654
18	Performing loans to financial institutions secured by Level 1 HQLA	–	29,972	–	–	4,496
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	2,075	616,806	233,095	44,055	253,446
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,231,312	905,290	1,970,877	2,708,159
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	183,747	112,249	176,934	263,005

(D) Net stable funding ratio *(continued)*

30 September 2022 *(continued)*

Serial No.		Unweighted amount				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
Required stable funding (RSF) item *(continued)*						
22	Performing residential mortgages, of which:	–	36,764	28,732	1,334,010	1,164,925
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	131,156	150,007	53,962	173,018	314,628
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	13,381	55,991	21,802	81,815	128,438
27	Physical traded commodities, including gold	2,849				2,422
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				197	168
29	NSFR derivative assets				53,610	240
30	NSFR derivative liabilities before deduction of variation margin posted				10,917	10,917
31	All other assets not included in the above categories	10,532	55,991	21,802	28,008	114,691
32	Off-balance sheet items				6,059,234	251,667
33	Total RSF					5,127,105
34	Net Stable Funding Ratio (%)					124.24%

Notes:

(i) The Group calculates Net Stable Funding Ratio in accordance with the "Measures for the Liquidity Risk Management of Commercial Banks" and relevant statistical regulations.

(ii) Items to be reported in the "no maturity" time include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

(iii) The item 26 "Other assets" unweighted amount in the above table does not include the item 30 "NSFR derivative liabilities before deduction of variation margin posted".

(E) Currency concentrations other than RMB

	2022			
	USD	HKD (in millions of RMB)	Other	Total
Non-structural position				
Spot assets	**547,489**	**41,714**	**53,176**	**642,379**
Spot liabilities	**530,903**	**16,460**	**91,232**	**638,595**
Forward purchased	**276,555**	**2,258**	**56,399**	**335,212**
Forward written	**305,169**	**17,447**	**18,938**	**341,554**
Net option position	**15,700**	**(1,122)**	**(695)**	**13,883**
Net long position	**3,672**	**8,943**	**(1,290)**	**11,325**
Net structural position	**9,974**	**40,691**	**1,136**	**51,801**

	2021			
	USD	HKD (in millions of RMB)	Other	Total
Non-structural position				
Spot assets	495,257	35,808	59,918	590,983
Spot liabilities	512,533	15,558	83,915	612,006
Forward purchased	491,072	4,528	56,172	551,772
Forward written	492,022	19,146	32,156	543,324
Net option position	13,086	361	417	13,864
Net long position	(5,140)	5,993	436	1,289
Net structural position	19,155	33,220	991	53,366

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investment properties, property and equipment, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in overseas subsidiaries.

(F) International claims

The Group is principally engaged in business operations within the Chinese mainland, and regards all claims on third parties outside the Chinese mainland and claims in foreign currencies on third parties within the Chinese mainland as international claims.

International claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills, certificates of deposit and securities investment.

International claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk is transferred only when the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2022			
	Banks and other financial institutions	**Public sector entities**	**Other**	**Total**
Foreign currencies transactions in the Chinese mainland	**89,883**	**4,419**	**156,029**	**250,331**
Asia Pacific excluding the Chinese mainland	**62,407**	**22,043**	**162,273**	**246,723**
– of which attributed to Hong Kong	**39,726**	**19,891**	**146,107**	**205,724**
Europe	**12,472**	**1,732**	**20,479**	**34,683**
North and South America	**44,948**	**81,981**	**19,809**	**146,738**
Total	**209,710**	**110,175**	**358,590**	**678,475**

	2021			
	Banks and other financial institutions	Public sector entities	Other	Total
Foreign currencies transactions in the Chinese mainland	62,411	4,288	138,985	205,684
Asia Pacific excluding the Chinese mainland	94,844	31,175	168,891	294,910
– of which attributed to Hong Kong	74,244	28,801	146,575	249,620
Europe	10,851	2,098	18,389	31,338
North and South America	67,533	54,437	18,008	139,978
Total	235,639	91,998	344,273	671,910

(G) Further analysis on loans and advances to customers analysed by industry sector

Operation in the Chinese mainland

	2022		2021	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Transportation, storage and postal services	**461,434**	**37**	412,417	47
Manufacturing	**445,218**	**32**	309,635	39
Property development	**349,682**	**48**	367,642	52
Production and supply of electric power, heating power, gas and water	**203,870**	**38**	187,611	47
Wholesale and retail	**171,786**	**32**	138,352	36
Leasing and commercial services	**158,320**	**14**	170,009	26
Construction	**103,998**	**24**	117,453	21
Telecommunications, software and IT services	**78,950**	**48**	58,267	44
Finance	**75,593**	**23**	57,988	28
Water, environment and public utilities management	**64,886**	**30**	64,427	41
Mining	**34,421**	**33**	28,854	32
Others	**67,677**	**30**	66,364	23
Corporate loans and advances subtotal	**2,215,835**	**35**	1,979,019	40
Discounted bills	**514,054**	**100**	431,305	100
Residential mortgage	**1,379,825**	**100**	1,364,534	100
Credit cards	**884,395**	**–**	840,254	–
Micro-finance loans	**629,857**	**79**	560,657	81
Others	**213,599**	**8**	173,527	16
Retail loans and advances subtotal	**3,107,676**	**61**	2,938,972	63
Gross loans and advances to customers	**5,837,565**	**54**	5,349,296	57

(G) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside the Chinese mainland

	2022		2021	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Finance	36,521	23	37,345	16
Transportation, storage and postal services	30,814	19	33,186	84
Property development	26,298	37	34,062	51
Manufacturing	20,494	39	23,763	28
Telecommunications, software and IT services	10,908	30	7,727	25
Production and supply of electric power, heating power, gas and water	9,023	33	7,077	18
Wholesale and retail	8,923	28	8,920	26
Mining	6,074	46	5,651	21
Leasing and commercial services	3,430	30	4,749	46
Construction	1,772	99	3,481	69
Water, environment and public utilities management	110	40	821	60
Others	5,414	72	5,137	51
Corporate loans and advances subtotal	159,781	32	171,919	42
Discounted bills	–	–	–	–
Residential mortgage	9,383	100	9,872	100
Credit cards	124	–	117	–
Micro-finance loans	1,181	100	1,214	99
Others	43,425	93	37,616	98
Retail loans and advances subtotal	54,113	94	48,819	98
Gross loans and advances to customers	213,894	47	220,738	55

(G) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

When the amount of loans and advances to customers for an industry/category accounts for 10% or above of the total amount of loans and advances to customers, the amount of overdue loans, impaired loans and credit impairment allowances in each expected credit loss stage are disclosed as follows:

	2022				
	Overdue loans and advances	Impaired loans and advances	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)
Residential mortgage	**7,342**	**4,904**	**8,604**	**2,441**	**3,821**
Credit card	**31,413**	**15,650**	**26,255**	**19,383**	**14,665**
Micro-business loan	**4,582**	**4,031**	**11,180**	**1,839**	**3,640**

	2021				
	Overdue loans and advances	Impaired loans and advances	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)
Residential mortgage	3,966	3,821	19,333	1,525	2,677
Credit card	26,823	13,846	21,585	8,506	12,987
Micro-business loan	3,101	3,500	11,285	728	3,007

As at 31 December 2022, for corporate loans and advances measured at amortised cost, the fair value of collateral held against impaired loans and advances is RMB3,206 million (31 December 2021: RMB3,304 million).

(H) Loans and advances to customers overdue for more than 90 days

(i) By geographical segments

	2022	2021
Headquarters	11,980	13,812
Yangtze River Delta region	7,716	3,711
Bohai Rim region	4,051	3,490
Pearl River Delta and West Coast region	4,619	5,052
Northeast region	967	1,510
Central region	5,239	4,066
Western region	3,653	2,295
Outside the Chinese mainland	395	166
Subsidiaries	2,458	997
Total	41,078	35,099

(ii) By overdue period

	2022	2021
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	15,379	8,629
– between 6 and 12 months (inclusive)	11,290	7,710
– over 12 months	14,409	18,760
Total	41,078	35,099
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	0.25%	0.15%
– between 6 and 12 months (inclusive)	0.19%	0.14%
– over 12 months	0.24%	0.33%
Total	0.68%	0.62%

(H) Loans and advances to customers overdue for more than 90 days

(continued)

(iii) Collateral information

	2022	2021
Secured portion of overdue loans and advances	**16,404**	13,345
Unsecured portion of overdue loans and advances	**24,674**	21,754
Fair value of collateral held against overdue loans and advances	**42,302**	29,922

The amount of the Group's overdue loans and advances to financial institutions for more than 90 days as at 31 December 2022 was RMB1 million (2021: RMB1 million).

Note: The above analysis represents loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collateral of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(I) Renegotiated loans and advances to customers

	2022		2021	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Renegotiated loans and advances to customers (Note)	**12,076**	**0.20%**	16,517	0.30%
Less:				
– Renegotiated loans and advances overdue more than 90 days	**5,207**	**0.09%**	10,406	0.19%
– Renegotiated loans and advances overdue less than 90 days	**6,869**	**0.11%**	6,111	0.11%

Note: Represents the restructured non-performing loans.

The amount of the Group's renegotiated loans and advances to financial institutions as at 31 December 2022 was nil (2021: RMB1 million).

(J) Non-bank the Chinese mainland exposures

The Bank is a commercial bank incorporated in the Chinese mainland with its banking business primarily conducted in the Chinese mainland. As of 31 December 2022 and 31 December 2021, most of the Bank's exposures arose from businesses with the Chinese mainland non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

5 Financial Statements

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Expressed in millions of Renminbi unless otherwise stated)

	January to March 2023	January to March 2022
Interest income	93,344	86,286
Interest expense	(37,935)	(31,822)
Net interest income	55,409	54,464
Fee and commission income	27,317	30,845
Fee and commission expense	(2,238)	(2,150)
Net fee and commission income	25,079	28,695
Other net income	9,344	8,256
Operating income	89,832	91,415
Operating expenses	(27,323)	(26,109)
Operating profit before impairment losses	62,509	65,306
Expected credit losses	(16,421)	(21,523)
Share of profits of joint ventures	529	397
Share of profits of associates	264	187
Profit before tax	46,881	44,367
Income tax	(7,655)	(8,058)
Net Profit	39,226	36,309
Attributable to:		
Shareholders of the Bank	38,839	36,022
Non-controlling interests	387	287
Earnings per share		
Basic and diluted earnings per share (RMB Yuan)	1.54	1.43

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in millions of RMB unless otherwise stated)

	January to March 2023	January to March 2022
Net profit for the period	39,226	36,309
Other comprehensive income, net of tax		
Items that will be reclassified subsequently to profit or loss:		
Share of other comprehensive income from equity-accounted investees that will be reclassified subsequently to profit or loss	466	(794)
Fair value change on financial assets measured at fair value through other comprehensive income	(1,473)	(3,226)
Net changes in expected credit losses of financial assets measured at fair value through other comprehensive income	(1,626)	2,955
Cash flow hedge: net movement in hedging reserve	(36)	62
Exchange difference on translation of financial statements of foreign operations	(935)	(355)
Items that may not be reclassified subsequently to profit or loss:		
Fair value gain on equity instruments measured at fair value through other comprehensive income	277	50
Other comprehensive income for the period, net of tax	(3,327)	(1,308)
Attributable to:		
Shareholders of the Bank	(3,255)	(1,273)
Non-controlling interests	(72)	(35)
Total comprehensive income for the period	35,899	35,001
Attributable to:		
Shareholders of the Bank	35,584	34,749
Non-controlling interests	315	252

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in millions of Renminbi unless otherwise stated)

Item	31 March 2023	31 December 2022
Assets		
Cash	12,171	15,209
Precious metals	2,233	2,329
Balances with central bank	585,469	587,818
Balances with banks and other financial institutions	102,385	91,346
Placements with banks and other financial institutions	265,788	264,209
Amounts held under resale agreements	153,641	276,676
Loans and advances to customers	6,080,449	5,807,154
Financial investments at fair value through profit or loss	520,659	423,467
Derivative financial assets	12,677	18,671
Debt investments at amortised cost	1,611,527	1,555,457
Debt investments at fair value through other comprehensive income	821,288	780,349
Equity investments designated at fair value through other comprehensive income	18,255	13,416
Interest in joint ventures	14,737	14,247
Interest in associates	10,021	9,597
Investment properties	1,255	1,268
Property and equipment	104,736	99,919
Right-of-use assets	17,175	17,553
Intangible assets	3,152	3,402
Goodwill	9,999	9,999
Deferred tax assets	92,925	90,848
Other assets	68,210	55,978
Total assets	10,508,752	10,138,912

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Expressed in millions of RMB unless otherwise stated)

Item	31 March 2023	31 December 2022
Liabilities		
Borrowing from central bank	**195,122**	129,745
Deposits from banks and other financial institutions	**572,043**	645,674
Placements from banks and other financial institutions	**245,488**	207,027
Financial liabilities at fair value through profit or loss	**51,294**	49,144
Derivative financial liabilities	**11,641**	18,636
Amounts sold under repurchase agreements	**128,654**	107,093
Deposits from customers	**7,832,912**	7,590,579
Salaries and welfare payable	**23,476**	23,866
Tax payable	**23,111**	19,458
Contract liabilities	**6,621**	6,679
Lease liabilities	**12,700**	13,013
Provisions	**22,303**	22,491
Debt securities issued	**265,472**	223,821
Deferred tax liabilities	**1,480**	1,510
Other liabilities	**126,673**	125,938
Total liabilities	**9,518,990**	9,184,674
Equity		
Share capital	**25,220**	25,220
Other equity instruments	**120,446**	120,446
Including: Preference shares	**27,468**	27,468
Perpetual bonds	**92,978**	92,978
Capital reserve	**65,435**	65,435
Investment revaluation reserve	**9,460**	11,815
Hedging reserve	**115**	151
Surplus reserve	**94,985**	94,985
Regulatory general reserve	**132,689**	132,471
Retained profits	**487,760**	449,139
Proposed profit appropriations	**43,832**	43,832
Exchange reserve	**1,145**	2,009
Total equity attributable to shareholders of the Bank	**981,087**	945,503
Non-controlling interest	**8,675**	8,735
Including: Non-controlling interest	**5,952**	5,948
Perpetual debt capital	**2,723**	2,787
Total equity	**989,762**	954,238
Total liabilities and equity	**10,508,752**	10,138,912

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in millions of RMB unless otherwise stated)

	January to March 2023	January to March 2022
Operating activities		
Profit before tax	46,881	44,367
Adjustments for:		
– Impairment losses on loans and advances	16,550	11,060
– Impairment losses on investments and others	(129)	10,463
– Unwinding of discount on the allowances of loans and advances	(53)	(62)
– Depreciation of property and equipment and investment properties	2,446	1,064
– Depreciation of right-of-use assets	1,026	1,003
– Amortisation of other assets	290	320
– Net gain on investments in debt securities and equity instruments	(2,460)	(2,336)
– Interest income on investments	(19,529)	(15,158)
– Interest expense on issued debt securities	1,853	3,029
– Share of profits of associates	(264)	(187)
– Share of profits of joint ventures	(529)	(397)
– Net gains on disposal of property and equipment and other assets	(82)	(139)
– Interest expense on lease liabilities	131	140
Changes in:		
Balances with central bank	11,021	(12,198)
Loans and advances to customers	(267,788)	(186,503)
Other assets	(53,704)	(7,757)
Deposits from customers	236,136	333,016
Deposits and placements from banks and other financial institutions	(13,512)	(153,871)
Balances and placements with banks and other financial institutions with original maturity over 3 months	(26,497)	(25,528)
Borrowings from central bank	65,216	9,290
Other liabilities	(4,735)	1,057
Net cash generated from operating activities before income tax payment	(7,732)	10,673
Income tax paid	(4,886)	(5,122)
Net cash generated from operating activities	(12,618)	5,551

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Expressed in millions of RMB unless otherwise stated)

	January to March 2023	January to March 2022
Investing activities		
Payment for the purchase of investments	(449,172)	(287,863)
Proceeds from the disposal of investments	340,191	114,264
Investment gains received from investments	25,584	19,014
Payment for the purchases of property and equipment and other assets	(9,313)	(9,013)
Proceeds from the disposal of properties and equipment and other assets	835	208
Net cash flows used in investing activities	(91,875)	(163,390)
Financing activities		
Proceeds from the issue of negotiable interbank certificates of deposits	49,322	17,339
Proceeds from the issue of certificates of deposits	9,859	742
Proceeds from the issue of debt securities	31,127	5,343
Proceeds from other financing activities	5,350	6,021
Repayment of negotiable interbank certificates of deposits	(22,210)	(88,000)
Repayment of certificates of deposit	(8,124)	(2,465)
Repayment of debt securities	(19,189)	(1,500)
Repayment of lease liabilities	(1,127)	(1,190)
Distribution paid on perpetual debt capital	(90)	(83)
Interest paid on financing activities	(974)	(908)
Repayments for other financing activities	–	(65)
Net cash generated from/(used in) financing activities	43,944	(64,766)
Decrease in cash and cash equivalents	(60,549)	(222,605)
Cash and cash equivalents as of 1 January	567,198	801,754
Effects of foreign exchange rate changes on cash and cash equivalents	(1,709)	(726)
Cash and cash equivalents as of 31 March	504,940	578,423
Cash flows from operating activities include:		
Interest received	73,496	70,670
Interest paid	29,794	25,215

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