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.]

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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]

[**Paragraph 21 of the Hong Kong SFC Code of Conduct** – As paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission applies to this offering of Notes, prospective investors should refer to the section on "*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*" appearing on pages [●] to [●] of the Offering Circular, and CMIs (as defined in the Offering Circular) should refer to the section on "*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)*" appearing on pages [●] to [●] of the Offering Circular.]

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*] (the "**Notes**")
under the U.S.$5,000,000,000 Medium Term Note Programme (the "**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.

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[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 the Bank or the Group 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 Bank and the Group. 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*)
	• 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*)
- 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 preceding the first date of the relevant Interest Accrual Period – *used for SOFR Compounded Index only*]
- SOFR $\text{Index}_{\text{End}}$: [Not Applicable]/[[●] U.S. Government Securities Business Days preceding the Interest Period Date relating to the relevant Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date) – *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[8]:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

39. . .	ISIN Code:	[●]
40. . .	Common Code:	[●]
41. . .	CMU Instrument Number:	[●]

[8] To consider if amendments to the Singapore selling restrictions for flexibility of sales to persons other than accredited investors and institutional investors are required.

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/US$[●]]
48. . .	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
49. . .	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]
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:	[as indicated in the Offering Circular]/[*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 2023. This table should be read in conjunction with the financial statements and the accompanying notes included in this Offering Circular.

	As at 31 December 2023
	(in millions of RMB)
Liabilities[(1)]	
Debt securities issued	119,193
Negotiable interbank certificates of deposit issued	21,443
Certificates of deposit and other debt securities issued[(2)]	34,128
Interest payable	1,814
Total debt securities issued	176,578
Equity	
Share capital	25,220
Other equity instruments	150,446
– Preference shares	27,468
– Perpetual bonds	122,978
Capital reserve	65,432
Investment revaluation reserve	13,656
Hedging reserve	92
Surplus reserve	108,737
General reserve	141,481
Retained earnings	518,638
Proposed profit appropriation	49,734
Exchange reserve	2,934
Total equity attributable to equity holders of the Bank	1,076,370
Non-controlling interests	9,359
– Non-controlling interest	6,521
– Perpetual debt capital	2,838
Total equity	1,085,729
Total Capitalisation[(3)]	1,262,307

(1) As at 31 December 2023, 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 2023.

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 business development and to replenish liquidity.

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 2023, the Bank had 143 branches and 1,781 sub-branches in mainland China, two branch-level specialised institutions (a credit card centre and a capital operation centre), 2,226 self-service banks, 5,281 cash self-service devices and 7,603 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 2023, the Bank ranked 1st among Chinese joint-stock banks in terms of the balance of deposits from retail customers (data from WIND). As at the date of this Offering Circular, the Bank is the 5th largest bank in China by market capitalization (data from WIND).

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, retirement finance, digital 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 continues 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 acceleration in the construction of China's modern industrial system, the Bank consistently enhances its quality and efficiency in serving the real economy and social well-being, and strives to create more value for customers, employees, shareholders, partners and society, with the aim of making greater contributions to the modernisation process with Chinese characteristics.

As at 31 December 2022 and 2023, the Group had approximately RMB10,138.912 billion and RMB11,028.483 billion in total assets, respectively, and RMB6,051.459 billion and RMB6,508.865 billion in total loans and advances to customers, respectively. For the years ended 31 December 2022 and 2023, the Group had an operating income of RMB342.215 billion and RMB336.602 billion, respectively, and a net profit of RMB139.294 billion and RMB148.006 billion, respectively. For the year ended 31 December 2023, the Group had a net profit attributable to shareholders of the Bank of RMB146.602 billion, representing a year-on-year increase of 6.22%. Net operating income[9] was RMB339.078 billion, representing a year-on-year decrease of 1.64%, among which, the net interest income was RMB214.669 billion, representing a year-on-year decrease of 1.63%. The Groups net non-interest income was RMB124.409 billion, representing a year-on-year decrease of 1.66%. The return on average asset (ROAA) attributable to shareholders of the Bank and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.39% and 16.22%, down by 0.03 percentage point and 0.84 percentage point year-on-year, respectively. For the years ended 31 December 2022 and 2023, the net interest spread of the Group was 2.28% and 2.03%, respectively, and the net interest margin of the Group was 2.40% and 2.15%, respectively.

In 2022 and 2023, the Bank received a number of honours and awards from organisations both at home and abroad, including:

- 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 U.S.$24.4 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 "Honoured 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.

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[9] 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 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 honoured 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 Bank ranked 10th globally in "The Top 500 Banking Brands 2023" released by The Banker (UK) in February 2023, with a brand value of U.S.$24.536 billion.

- In March 2023, the Bank was awarded the "Best Retail Bank in China" in "Asia Trailblazer Awards 2023" hosted by Retail Banker International.

- In June 2023, the US-based Institutional Investor magazine released the results of the "2023 All-Asia Executive Team", recognising the Bank as the bank with the highest overall ranking and the most awards in the Asian region. The Bank won several awards, including "Best Board of Directors", "Asia's Most Respected Company", "Best IR Company" and "Best ESG Company".

- In July 2023, the Bank ranked 11th on the list of "Top 1,000 World Banks 2023" released by The Banker (UK), ranking first in the best performing Chinese banks for three consecutive years.

- In July 2023, the Bank received the award of "Best Bank in China" at the "2023 Awards for Excellence" ceremony staged by Euromoney (UK) for the fifth consecutive year, marking the first "5-year championship streak" in its awarding history, and was also the only Chinese bank to receive the "Awards for Excellence" in that year.

- The list of Fortune Global 500 was officially released in August 2023, on which the Bank ranked 179th and making the list for 12 consecutive years.

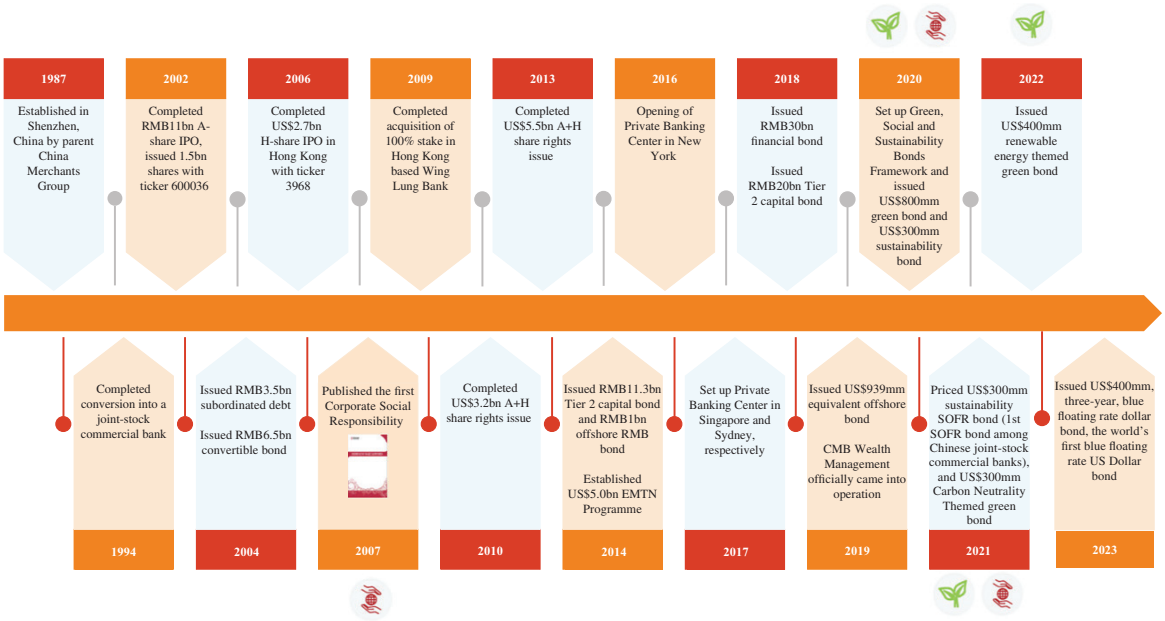
- In August 2023, the Bank was recognised as the "Best CSR Bank in China" and "Best Investment Bank in China" at the awards ceremony for the "Best Banks in China 2023" hosted by Asiamoney.

- In September 2023, in the selection of the "2023 China Star" organised by the US-based Global Finance magazine, the Bank was honoured with three awards, namely, "Best Wealth Management Provider", "Best Corporate Governance Bank" and "Best Transaction Service Bank".

- In November 2023, the Bank ranked among China's Most Admired Companies by Fortune magazine.

- In December 2023, the Bank won "Top 10 Best Employers 2023", "Most Socially Responsible Employer" and "Most Admired Employer by Women" at the awards ceremony for the "Best Employer in China 2023" jointly organised by Zhaopin.com and Institute of Social Science Survey, Peking University, and has been shortlisted in the top 10 list of "Best Employers of the Year" for 13 consecutive years.

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 2023, profit before tax of retail finance business of the Group amounted to RMB99.913 billion, up by 6.09% year-on-year, accounting for 56.57% of the profit before tax of the Group, representing a year-on-year decrease of 0.47 percentage point; net operating income amounted to RMB194.315 billion, up by 1.52% year-on-year, accounting for 57.31% of the net operating income of the Group, representing a year-on-year increase of 1.79 percentage points.

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 2023, the Bank's total corporate loans amounted to RMB2,321.585 billion, representing an increase of 10.70% as compared with the end of 2022, accounting for 37.65% of the Bank's total loans and advances. For the year ended 31 December 2023, the Bank's M&A financing business volume amounted to RMB193.348 billion, representing a year-on-year increase of 3.71%, ranking first in both book runner and lead arranger in the Asia Pacific M&A syndicate ranking published by Bloomberg.

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. The Bank uses a marketing strategy that combines segmentation, classification, and regional management to strengthen its customer base in goods and services trade and capital account. The Bank also expands its service scope by using its advantage of offering integrated services at home and abroad to three key customer groups and situations: the global operation of Chinese firms, the foreign invested companies "bringing in", and the overseas capital market.

For the year ended 31 December 2023, the Bank recorded U.S.$356.887 billion (based on the latest calibre of the State Administration of Foreign Exchange) of international balance of payments for corporate customers, representing an increase of 4.90% based on the same calibre as compared with 2022. In particular, the balance of payments for corporate customers under trade in goods amounted to U.S.$173.814 billion, representing a year-on-year increase of 9.92%.

Innovative e-channels and IT platform

The Bank adheres to the business development underpinned by technological innovation, and continuously promotes the construction of "Digital CMB" around online, data-based, intelligent, platform-based and ecological operation, and improves the service level of "people + digitalisation" by virtue of intelligent technology, so as to drive the high-quality development of the Bank with innovation. Focusing on the five major development directions of digital operation and management, cutting-edge technology capabilities, bank-to-business ecosystem, bank-to-consumer ecosystem, innovation and incubation, the Bank continuously promotes the construction of new capabilities and the exploration of new models of Fintech Innovation Project Fund. During the year ended 31 December 2023, 558 new projects were launched, and 612 new projects were put into operation. As at 31 December 2023, the number of the Bank's Fintech innovation projects launched and put into operation reached an aggregate of 3,800 and 3,062, respectively.

In terms of retail customer service, in 2023, the Bank accelerated the transformation and upgrading from "online retail (線上零售)" to "digital and intelligent retail (數智零售)", constructed the intelligent wealth engine and intelligent customer service engine, and consolidated our digital capabilities. CMB APP further integrated artificial intelligence, intelligent customer service and remote consultancy capabilities to launch the brand new intelligent wealth assistant "Xiao Zhao (小招)", which provided one-stop wealth management services such as financial analysis, product selection strategies, market views and yield analysis, as well as personalised and customised advisory services. As at 31 December 2023, the monthly active users (MAU) of the CMB APP and the CMB Life APP reached 117 million. For the year ended 31 December 2023, the micro-finance loans granted through online approval accounted for 66.74% of the micro-finance loans granted through all channels, representing a year on year increase of 7.13 percentage points. With the upgrading of "Wealth Alpha+" platform in respect of wealth management business, the Bank realised digital and intelligent operation of the whole process in investment research, product selection and post-investment management, and deepened the empowerment to improve the professionalism of key positions.

In terms of wholesale customer service, digital channel has become an important portal of customer acquisition. Based on online operation, the Bank used digital tools to improve the quality and efficiency of services of relationship managers, and facilitated the digital transformation as well as integrated transformation of business and finance of enterprises with products such as Treasury Management Cloud (財資管理雲). For the year ended 31 December 2023, the Bank achieved list-based high-quality customer acquisition of 112,600 customers, representing a year-on-year increase of 28.85%; the volume of service delivered via Enterprise WeChat exceeded 17 million times. As at 31 December 2023, the percentage of financing business conducted online was 92.28%, representing an increase of 10.14 percentage points as compared with the end of 2022, and the percentage of foreign exchange business conducted online was 75.34%, representing an increase of 9.85 percentage points as compared with the end of 2022. As at 31 December 2023, Treasury Management Cloud (財資管理雲) accumulatively served 477,600 corporate customers, representing an increase of 62.15% as compared with the end of 2022.

In terms of risk management, the Bank constructed the intelligent risk control engine, and comprehensively utilised internal and external data to continuously enhance its digital risk control capability and efficiency. For the year ended 31 December 2023, the intelligent pre-warning coverage rate of on- and off-balance sheet "all businesses" reached 100%. "Libra (天秤)" guarded transaction security, effectively helping customers block telecommunications fraud, and the percentage of fraud and account takeover amounts by non cardholders was lowered to 0.1 in ten millionths. The corporate loans newly granted through the online risk control platform amounted to RMB303.560 billion, representing a year-on-year increase of 53.58%. By applying digital processes, the Bank reduced the average time taken for the granting of an inclusive finance mortgage loan from one month to 2.7 days.

In terms of operation management, the Bank used data to drive operation decisions, so as to improve the efficiency and accuracy of management decisions. For the year ended 31 December 2023, the Bank built a strategic operation decision-making analysis platform for retail business lines, and developed a mobile business intelligence, a unified data reviewing portal for the Head Office and branches, and a business scenario-based data ecosystem to improve the efficiency of operation analysis for all positions, all businesses and all scenarios. The Bank promoted the construction of a digital platform of customer relationship management (CRM) system for wholesale business lines, which linked the whole chain of operation and management of the Head Office, branches and sub-branches, significantly improving the digital operation and management level of corporate business. The Bank built a risk portal for risk business lines, integrated various risk data inside and outside the Bank, and built a rich database, model library, knowledge base and application functions to provide effective data and decision-making support for credit officers. The Bank realised comprehensive operation monitoring and intelligent reasoning

analysis for the Head Office, branches and sub-branches via "Zi Zhai Tong (資債通)" portal of the finance and accounting business line, the closed-loop management of all online pricing process via the product pricing management system, and integrated the New Capital Regulation into the internal management system via the capital management system, which significantly improved the efficiency of resource allocation and stimulated the enthusiasm of frontline operations through digital tools. The Bank built a digital platform for smart finance, realising online and intelligent management of all financial processes, and building a leading financial management system in the domestic banking industry.

In terms of internal operation, the Bank relieved its staff from repetitive, time-consuming work by leveraging technology and consolidated experience with data to construct the intelligent operation engine and achieve a high-quality balance of experience, efficiency, risk and cost. For the year ended 31 December 2023, "Kaiyang Portal (開陽門戶)", a new generation of open operation service platform, completed the intelligent transformation and application of over 400 operation processes, and the processing efficiency of key businesses increased by 27%. By leveraging the intelligent application in scenarios such as the intelligent customer service, intelligent process, quality inspection and the Conch RPA (Robot Process Automation), our staff were relieved from repetitive, time-consuming work equivalent to a workload of over 17,000 full-time individuals.

In terms of digital infrastructure, the Bank has entered into a more stable, agile and resilient "post-cloud era". The technology middle office strengthened component governance and accelerated the establishment and promotion of low-threshold development platform. The data middle office pushed forward the import of external data and enterprise-level data governance and application. As at 31 December 2023, the overall availability of the cloud services (being the arithmetic average of the availability of each important system running on the cloud platform) exceeded 99.999%, while the "Project of Full-scale Cloud Deployment of CMB Banking System" winning the first prize of Fintech Development Award of the People's Bank of China. The system supported on-demand application expansion with minute-level flexibility, which could adjust the flexible allocation of resources according to business needs and strategies to achieve the optimal use of resources. The technology middle office had launched over 5,100 components, among which 1,254 components passed the quality certification of the Bank, representing an increase of 146.85% as compared with the end of 2022. The Bank launched 5,646 applications on the low-code development platform, of which the business personnel accounted for more than 53% of all developers. The data middle office introduced nearly 400 data sources, and the big data services covered 60% of the employees in the Bank.

The Bank grasped the definite opportunities of the large language model, and actively carried out the construction and application of the large language model. On the one hand, the Bank actively strengthened the construction of large models, introduced large models with hundreds of billions of parameters, used its own corpus to optimise, train and adapt to bank-wise application scenarios, and actively followed up the technological development of open-source large models. The Bank also self-developed the large models with tens of billions of parameters in professional scenarios. On the other hand, we actively explored the application of large models in retail business, wholesale business, middle office and back office. At the same time, the Bank established the large model experience platform, connecting to various mainstream large models in China.

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. The Bank has won wide international acclaim in recognition of its excellent performance. It ranked first in the award of "Best Performing Chinese Bank" released by The Banker (UK) for three consecutive years, and achieved the first "5 Consecutive Championship" in the history of the "Best Bank in China" selection by Euromoney.

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:

- **Enlarging wealth management business and accelerating the transformation of the business model.** By adopting a customer-centric approach to business operations and focusing on the value creation chain of "volume growth – revenue growth – profit growth – value growth", the Bank aims to foster a flywheel effect by fully integrating its four major business segments: retail finance, corporate finance, investment banking and financial markets, wealth management and asset management, and will strive to deliver sustained growth in both total assets under management ("**AUM**") from retail customers and the aggregate financing products to corporate customers ("**FPA**").

- **Optimising Fintech and accelerating comprehensive digital transformation.** Focusing on the goal of online, data-based, intelligent, platform-based and ecological operation, we will comprehensively promote the digital reshaping of financial infrastructure and capability system, customers and channels, businesses and products, management and decision-making. In particular, we are actively exploring the new mode of "AI + Finance" to make artificial intelligence a more important part of the Bank's intelligence, and build a value creation bank through the "Digital CMB".

- **Strengthening risk management and building a fortress-style overall risk and compliance management system.** Adhering to the prudent risk management principle, using Fintech as the tool, and taking a prudent risk appetite as a safeguard measure, we will create a "Six All" risk management system covering all risks, all branches and subsidiaries, all customers, all assets, all processes, and all factors to support the operation of the value creation bank.

- **Pursuing the core values and building the cultural and organisational foundation for a value creation bank.** Firstly, we will uphold and enhance the Bank's corporate culture focusing on entrepreneurship, service quality, innovation, risk management, compliance, management excellence, and people-orientation, with an aim to create a vibrant and evolving cultural system. Secondly, we will establish an organising team for supporting our service strategies and creating value together, providing organisational support and talent foundations for a value creation bank. Thirdly, we will actively implement sustainable development principles in serving the real economy, actively fulfilling environmental and social responsibilities, and enhancing the standard of our corporate governance.

In 2023, the Bank focused on the strategic objective of "value creation bank", and adhered to the priority of stability, while pursuing progress amid stability. The Bank accelerated to improve its capabilities in wealth management, Fintech and risk management, maintaining stable operating results and further enhancing market competitiveness, so as to take solid steps on the path of high-quality development. The Bank implemented its business development strategies as follows:

Firstly, the Bank achieved dynamically balanced development of "Quality, Profitability and Scale". Focusing on the value creation chain of "volume growth – revenue growth – profit growth – value growth", the Bank adhered to the principle of "takes quality as the foundation and profitability as priority, while maintaining moderate scale and reasonable structure", maintained stable asset quality, leading position in risk compensation capacity, steady profit growth, and a relatively high level of ROAA and ROAE during 2023. The Bank's business scale grew steadily, and the customer base, assets and liabilities increased in quantity and maintained in good quality. In light of the operational structure with obvious advantages, retail finance business contributed to more than 55% in terms of both net operating income and profit; indicators such as proportion of demand deposits, proportion of net non-interest income and others maintained a relatively good level; and customer structure and asset structure were continuously optimised.

Secondly, the Bank's four major sectors achieved balanced and coordinated development. In 2023, the Bank continued to promote the development of four major sectors, namely "retail finance, corporate finance, investment banking and financial markets, wealth management and asset management", to form a business pattern of balanced and coordinated development with distinctive features, strengthened and enhanced the capital-heavy business, and optimised and expanded the capital-light business.

- *Retail finance sector*: the systematic advantages of the Bank's retail finance sector were further highlighted. Focusing on the original needs of customers in "deposit, loan, and remittance (存貸匯)", the Bank constantly improved the service level through the methodology of "people + digitalisation" services. As at 31 December 2023, the Bank's retail customers reached 197 million in total, representing an increase of 7.07% as compared with the end of 2022. As at 31 December 2023, the balance of total AUM from retail customers amounted to RMB13.32 trillion, representing an increase of 9.88% as compared with the end of 2022. The balance of deposits from retail customers amounted to RMB3,314.318 billion, representing an increase of 12.13% as compared with the end of 2022. The balance of retail loans amounted to RMB3,373.633 billion, representing an increase of 8.49% as compared with the end of 2022. Due to continued improvement of the debit and credit card integrated customer acquisition and operating efficiency, 65.72% of our credit card customers held both our debit cards and credit cards as at 31 December 2023, up by 1.62 percentage points as compared with the end of 2022.

- *Corporate finance sector*: the featured advantages of the Bank's corporate finance sector were continuously strengthened. Focusing on the needs of the nation and the capabilities of the Bank, the Bank built featured finance services, including sci-tech finance, green finance, inclusive finance and intelligent manufacturing finance, upgraded the customer acquisition and service model, and continued to expand the breadth and depth of customer services. As at 31 December 2023, the total number of corporate customers served by the Bank reached 2,820,600, representing an increase of 11.66% as compared with the end of 2022. The balance of deposits from corporate customers amounted to RMB4,557.243 billion, representing an increase of 5.52% as compared with the end of 2022; and the balance of loans to corporate customers amounted to RMB2,321.585 billion, representing an increase of 10.70% as compared with the end of 2022. Among them, the growth rate of loans in key areas such as sci-tech finance, green finance, inclusive finance and manufacturing finance was significantly higher than the overall growth rate of the loans of the Bank. As at 31 December 2023, the balance of loans extended to the sci-tech enterprises[10] was RMB428.477 billion, representing an increase of 44.95% as compared with the end of 2022; the balance of green loans amounted to RMB447.765 billion, representing an increase of 26.00% as compared with the end of 2022; the balance of SME inclusive finance loans was RMB804.279 billion, representing an increase of 18.56% as compared with the end of 2022; and the balance of loans extended to the manufacturing industry amounted to RMB555.102 billion, representing an increase of 25.06% as compared with the end of 2022.

- *Investment banking and financial markets sector*: the leading advantages of the Bank's investment banking and financial markets sector were continuously consolidated. The Bank accelerated the transformation of its investment banking business to become a "fund originator", and continuously improved its business capabilities in terms of bond underwriting and M&A financing. As at 31 December 2023, the balance of the aggregate financing products to corporate customers (FPA) contributed by the investment banking business increased by 14.91% as compared with the beginning of the year. The self-operated investment and research systems of the financial markets business were continuously improved, and the advantages of tradings on behalf of customers were further consolidated. For the year ended 31 December 2023, the Bank provided hedging services to 6,285 companies with a total transaction volume of U.S.$64.783 billion in derivatives from corporate customers. With the on-going improvement of the integrated operation capability of bill business, the Bank continued to enhance its bill transaction business. For the year ended 31 December 2023, the number of customers of bill business of the Bank was 159,700 with a year-on-year increase of 11.38% and the volume of commercial acceptance bill discounting ranked first in the market (data from the Commercial Bank Bill Business Association).

- *Wealth management and asset management*: the Bank's capabilities of wealth management and asset management were constantly enhanced. The Bank continued to promote the development of extensive wealth management business. On the client side, as at 31 December 2023, the number of customers holding our wealth management products reached 51,379,500, representing an increase of 19.13% as compared with the end of 2022, and the number of private banking customers exceeded 140,000. On the product side, the Bank carefully selected diversified products in the whole market for customers, and enhanced the exploration of high-quality products. On the service side, the Bank further promoted the "CMB TREE Asset Allocation Service System". The number of customers[11] who conducted asset allocation under the system reached 9,114,500, representing an increase of

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[10] Represents loans granted to sci-tech enterprises such as "specialised, competitive, distinguished, and innovative (專精特新)" enterprises, high-tech enterprises and technology-based SMEs by the Bank.

[11] Refers to the golden card and golden sunflower card holders who have two or more types of wealth management products out of the four types of wealth management products, namely, trade-ready management, protection-based management, conservative investment and aggressive investment.

12.15% as compared with the end of 2022. The Bank continued to build the service ecosystem with partners and accompanied customers throughout their investment journey. As at 31 December 2023, 152 asset management institutions have been introduced to the "Zhao Cai Hao (招财號)", an open platform of wealth management business of the Bank. The Group's asset management subsidiaries continued to strengthen the six major capabilities of investment research, asset origination, risk management, technology support, business innovation and talent team. As at 31 December 2023, the scale of assets management business amounted to RMB4.48 trillion. The Bank accelerated the exploration of the service model of asset custody business of "service + technology + collaboration". As at 31 December 2023, the total asset under custody of the Bank reached RMB21.12 trillion, ranking first in the industry (data from the Custody Business Professional Committee under China Banking Association).

Thirdly, the Bank promoted the construction of digital finance and pressing ahead towards "Smart CMB (智慧招行)". The Bank promoted the construction of digital finance around the transformation direction of "online, data-based, intelligent, platform-based and ecological operation", thereby shifting from "Online CMB" towards "Smart CMB". For the year ended 31 December 2023, the Bank's information technology input amounted to RMB14.126 billion. The ratio of information technology input to the Bank's net operating income reached 4.60%. The Bank attached great importance to the construction of digital talent pool. As at 31 December 2023, the number of R&D personnel of the Group reached 10,650, accounting for 9.14% of the total number of employees of the Group. Focusing on the five major development directions of digital operation and management, cutting-edge technology capabilities, bank-to-business ecosystem, bank-to-consumer ecosystem, innovation and incubation, the Bank continuously promoted the construction of new capabilities and the exploration of new models of Fintech Innovation Project Fund. For the year ended 31 December 2023, 558 new projects were launched, and 612 new projects were put into operation. As at 31 December 2023, the number of the Bank's Fintech innovation projects launched and put into operation reached an aggregate of 3,800 and 3,062, respectively.

Fourthly, the Bank strives to continue building a fortress-style overall risk and compliance management system. For the year ended 31 December 2023, the Bank continued to promote the "Six All" risk management system covering "all risks, all branches and subsidiaries, all customers, all assets, all processes, and all factors", optimised the centralised system of credit granting and limit management of customers granted with large credit facility, further enhanced centralised customer management, established a domestic branch-based risk profile and classification system, and enhanced the risk management for subsidiaries and overseas institutions. The Bank actively prevented and mitigated risks in key areas, effectively and steadily disposed a number of real estate projects associated with risk, promoted the prudent and differentiated management of local government financing business, steadily carried out the business of small- and medium-sized financial institutions, and continued to promote the collection of nonperforming loans. The Bank promoted the dynamic rebalancing of asset business, optimised the "one branch, one policy", list-based operation for the asset business, and optimised research policies on industrial clusters, advantageous industries and regional economies. The Bank comprehensively reinforced the internal control and compliance management, strengthened the promotion of risk and compliance culture, strengthened the construction of inspection and supervision team at branches, continued to strengthen the sanction and compliance management, and continuously deepened the money laundering risk management.

Fifthly, the Bank strives to accelerate the construction of advantages in key regions. For the year ended 31 December 2023, the Bank proactively responded to the nation's major regional development strategy and industrial cluster development strategy, and accelerated the release of development potential of the key branches among the Yangtze River Delta, the Pearl River Delta, Chengdu-Chongqing Region and the Western Taiwan Straits Economic Zone in combination with the regional layout and business structure of the Bank's branches so as to adapt to local economic development. The Bank carried out the "deep and

intensive cultivation" centring on regional advantageous and characteristic industries as well as customer needs, strengthened its core competitiveness and enhanced the operating efficiency of branches in key regions by "promoting featured services of the Bank in key regions, developing region-based strategies within CMB" to develop new growth engines for high-quality development. The development strategy of key regions has achieved initial results. As at 31 December 2023, the growth rates of core deposits, AUM and corporate loans of 17 branches of the Bank in key regions were higher than the average level of the Bank. As at 31 December 2023, the balance of corporate loans of the above 17 branches in the key regions amounted to RMB867.679 billion, representing an increase of RMB124.941 billion as compared with the end of 2022, accounting for 37.37% of the total corporate loans of the Bank. The increased loans accounted for 55.66% of the total incremental corporate loans of the Bank.

Sixthly, the Bank strives to comprehensively improve the level of refined management. For the year ended 31 December 2023, the Bank insisted on building a refined and standardised management system to improve the efficiency, effectiveness, and efficacy of value creation. By further reforming in organisational structure, the Bank steadily promoted the reform of operational system of branches, and adjusted and optimised the structure and management model of Head Office departments, so the organisational structure became more aligned with value creation bank. The Bank also strengthened talent management, promoted the development of talents across different organisational level, upgraded talent exchange program, enhanced the application of the "Six Can-do" mechanism (六能機制), and comprehensively strengthened the code of conduct of employees. The Bank optimised the management of asset and liability, upgraded the asset and liability management system and the performance management system focusing on value creation, and actively promoted the preparation for implementation of the New Capital Regulation. The Bank upgraded its service management, explored the construction of an "extensive consumer protection" working pattern, strengthened the protection of consumer rights, focused on the traceability and rectification of key and difficult issues, created new service standards for the Bank, and constantly improved service quality and efficiency. Therefore, the number of customer complaints was reduced by 35% year-on-year. The Bank implemented strict financial management, adhered to careful planning, and strengthened the closed-loop management of the whole process of costs and expenses.

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 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 financial services provided to retail customers include 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.

The following table sets forth the operating results of each segment of the Group for the periods indicated.

	For the year ended 31 December							
	2023				2022			
Item	Profit before tax by segment	Percentage	Net operating income	Percentage	Profit before tax by segment	Percentage	Net operating income	Percentage
(in millions of RMB)		(%)		(%)		(%)		(%)
Retail finance	99,913	56.57	194,315	57.31	94,178	57.04	191,415	55.52
Wholesale finance .	72,765	41.20	134,625	39.70	67,149	40.67	142,094	41.22
Other businesses . .	3,940	2.23	10,138	2.99	3,786	2.29	11,231	3.26
Total	**176,618**	**100.00**	**339,078**	**100.00**	**165,113**	**100.00**	**344,740**	**100.00**

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 2023, the profit before tax from the retail finance business of the Bank amounted to RMB97.292 billion, representing an increase of 4.95% as compared with 2022. The net operating income from the retail finance business amounted to RMB190.146 billion, representing an increase of 0.89% as compared with 2022 and accounting for 61.86% of the net operating income of the Bank. The net interest income from the retail finance business amounted to RMB133.766 billion, representing an increase of 3.42% as compared with 2022 and accounting for 70.35% of the net operating income from retail finance; the net non-interest income from the retail finance business amounted to RMB56.380 billion, representing a decrease of 4.66% as compared with 2022 while accounting for 29.65%of the net operating income from retail finance and 56.56% of the net non-interest income of the Bank. For the year ended 31 December 2023, the fee and commission income from retail wealth management business of the Bank was RMB27.007 billion, representing a decrease of 8.71% as compared with 2022 and accounting for 48.80% of the net fee and commission income from retail finance; the Bank recorded a fee income of RMB19.394 billion from retail bank card business, representing a decrease of 8.80% as compared with 2022.

For the year ended 31 December 2023, by adhering to its core value of "being customer-centric and creating value for customers", the Bank continued to consolidate its systematic strengths in retail finance by expanding its capital-light businesses such as wealth management and strengthening its capital-heavy business, and continued to enhance its value creation capability, thereby promoting the high-quality development of its retail business. Through building the "people + digitalisation" omni-channel service system, strengthening the ecological construction of financial scenarios, and continuously optimising the core retail finance products, the Bank provided more customers with better retail finance services to actively satisfy the needs of people's livelihood. For the year ended 31 December 2023, the retail business of the Bank maintained a good momentum of development.

Retail Customers and Total Assets Under Management for Retail Customers

For the year ended 31 December 2023, in the face of the complex and volatile external situation and the increasingly fierce competition from the banks and other financial institutions, the Bank proactively promoted the strategic deployment in key regions to explore growth potential, and further propelled business integration to strengthen its ability to expand group finance service. The Bank intensified the customer base operation, returned to the original needs of customers in "deposit, loan, and remittance (存貸匯)" banking services, made full use of Fintech to push forward the innovation of retail products and refined operation, and diversified the categories and offerings of products and deepened asset allocation services catering for customers' needs. For the year ended 31 December 2023, the number of retail customers and the balance of the total AUM from retail customers of the Bank maintained stable growth.

As at 31 December 2023, the Bank had 197 million retail customers (including debit and credit card customers), representing an increase of 7.07% as compared with the end of 2022, among which the number of customers in the level of Golden Sunflower and above (those with minimum daily average total assets of RMB500,000 for each month) reached 4,640,600, representing an increase of 12.00% as compared with the end of 2022.

As at 31 December 2023, the balance of total assets under management for retail customers of the Bank amounted to RMB13,321.131 billion, representing an increase of 9.88% as compared with the end of 2022. Among them, the balance of total assets under management for the customers in the level of Golden Sunflower and above amounted to RMB10,819.744 billion, representing an increase of 9.66% as compared with the end of 2022. As at 31 December 2023, the balance of deposits from retail customers of the Bank amounted to RMB3,314.318 billion, representing an increase of 12.13% as compared with the end of 2022. For the year ended 31 December 2023, the demand deposits accounted for 58.16% of the daily average balance of deposits from retail customers of the Bank.

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 2023, the Bank's balance of retail wealth management products amounted to RMB3,499.766 billion, representing an increase of 11.51% as compared with the end of 2022, mainly due to the increased allocations towards stable long-term products by the Bank in line with customers' needs, resulting in an increased growth rate in the scale of wealth management products under management as compared with 2022. For the year ended 31 December 2023, the agency distribution of non-money-market mutual funds of the Bank totalled RMB296.809 billion, representing a decrease of 11.42% year-on-year. The decrease was mainly due to further decline in customer risk appetite as the capital market remained under pressure. However, the sales of more stable bond fund products recovered on a quarter-to-quarter basis in the second half of the year. For the year ended 31 December 2023, the Bank achieved the agency distribution of insurance premiums of RMB96.826 billion, representing an increase of 33.76% year-on-year. The increase was mainly due to the fact that the Bank further seized market opportunities and increased its efforts in the allocation of regular insurance, which drove an overall increase in premiums. During the year ended 31 December 2023, the Bank recorded RMB84.647 billion in agency distribution of trust schemes, representing a decrease of 24.77% as compared with the year ended 31 December 2022, which was mainly due to the fact that the Bank actively adjusted its business direction under the policy background of "reform of trust business classification", and other policy backgrounds.

For the year ended 31 December 2023, the Bank recorded a fee and commission income from retail wealth management business of RMB27.007 billion, among which income from agency distribution of insurance policies amounted to RMB12.743 billion, income from agency distribution of funds amounted to RMB5.457 billion, income from agency distribution of wealth management products amounted to RMB5.291 billion, income from agency distribution of trust schemes amounted to RMB3.175 billion, and other income amounted to RMB341 million.

For the year ended 31 December 2023, in the light of customers' demands for stable-performing products, the Bank strengthened its capability of offering professional wealth management services, built an omni-channel service system based on "people + digitalisation", and helped customers achieve asset preservation and appreciation.

First, the Bank stepped up efforts in upgrading payment settlement customers to wealth management customers for the purpose of increasing the number of customers holding our wealth products. The Bank insisted on the scenario construction of payment settlement service and continuously improved customers' service experience in various scenarios to promote the upgrade of customers' needs from payment settlement towards wealth management. As at 31 December 2023, the Bank had 51,379,500 customers holding our wealth products, representing an increase of 19.13% as compared with the end of 2022.

Second, the Bank increased its offering of stable products in response to changes in customers' risk appetite. In terms of wealth management products, the Bank integrated the advantageous resources of its partners, offered stable products as its core offering, and captured periodic investment opportunities. In terms of fund products, the Bank increased its offering of short-term debt and "fixed income+" products and thus improve customers' experience in comprehensive income. In terms of insurance products, the Bank has continued to enrich its product offerings to cover major insured types such as pension, health, accident and property, so as to satisfy customers' needs for insurance. Furthermore, the Bank continued to broaden its product categories and cooperation channels, and further explored customers' asset allocation needs, providing customers of various channels and types with appropriate business strategies and products.

Third, the Bank constantly optimised the "CMB TREE Asset Allocation Service System" to guide customers to make scientific asset allocation. In terms of customer service, the Bank integrated its online and offline customer services to form a service model centring on asset allocation and continuous review on re-balancing service to build a virtuous operation cycle. In terms of capability enhancement, the Bank provided its front-line team with systematic training to improve its abilities in communication and interaction with customers, professional market analysis and judgement, and asset allocation services, so as to help customers form a correct investment philosophy. As at 31 December 2023, the Bank had 9,114,500 customers who conducted asset allocation under such system, representing an increase of 12.15% as compared with the end of 2022.

Fourth, the Bank constantly iterated the open platform capabilities to enhance the customer's experience with wealth management product held with the Bank. The Bank further optimised the service capabilities of "Zhao Cai Hao (招财號)", an open platform of wealth management business on CMB APP, improved the operation and organisation mechanism, and provided customers with better wealth services. As at 31 December 2023, "Zhao Cai Hao (招财號)" on CMB APP has onboarded in total 152 asset management institutions with industrial representativeness. For the year ended 31 December 2023, "Zhao Cai Hao (招财號)" provided professional investment guidance and companion for customers on their investment journey by offering wealth information, online interactions and organisation of events, etc.

Private Banking

As at 31 December 2023, the Bank had 148,842 private banking customers (retail customers of the Bank with minimum total daily average assets of RMB10 million per month), representing an increase of 10.42% as compared with the end of 2022.

For the year ended 31 December 2023, the Bank continued to enhance the core capabilities of the private banking business, continuously improved and upgraded the comprehensive service system of "individual, family, enterprise and society (人家企社)"[12] in response to the evolving comprehensive needs of its clients. The Bank pursued steady progress and promoted the steady quality development of its private banking business in a prudent manner.

Firstly, the Bank diversified its products and services following the principle of "being customer-centric". It focused on satisfying customers' demand for stable products based on a clear understanding of the changes in their actual needs. Thus, the Bank selected asset management institutions outperforming the entire market with the aim of continuously enriching its products portfolio, and developed specific accompanying service for customers throughout their whole investment journey. Meanwhile, the Bank integrated the resources of the group members and third-party partners to deliver a "financial + non-financial" service ecosystem for customers and the enterprises behind them.

Secondly, the Bank embraced technology-driven innovation to achieve service upgrades. In particular, it improved the exclusive APP for private banking customers to increase the proportion of online transactions, built an ecosystem for private equity institutions and upgraded digital comprehensive financial services. Benefiting from the development of a digital wealth management and asset allocation system, the Bank upgraded the "one-to-one" advisory asset allocation services with digital tools. It also sought to create an operation model driven by advanced technology to accurately analyse and deeply understand customers' needs based on digital means.

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[12] The term "individual, family, enterprise and society" specifically refers to the needs of individuals, families, enterprises and the society.

Thirdly, the Bank continued to fulfil its social responsibilities under the principle of common prosperity. Under the principle of common prosperity, the Bank identified the intersection between customer service and social welfare by actively responding to the needs of customers to participate in public charity and practicing ESG principles. The Bank promoted the implementation of charitable projects through charitable trusts and other tools, for example, with the release of the 2023 Charity Research Report among High-Net-Worth Individuals in China (《2023年中國高淨值人群慈善調研報告》) and the establishment of a philanthropy exchange platform named "Goodwill Hall (議善廳)".

Fourthly, the Bank adhered to prudent operations and fortified risk management. The Bank conducted proactive risk assessment, continuously improved the segmented and classified management system of its products to achieve appropriate matching between product risks and clients' risk-return preferences, empowering business development while maintaining risk control.

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 2023, the Bank had issued an aggregate of 97.1181 million active credit cards, representing a decrease of 5.44% as compared with the end of 2022, and there were 69.7404 million active credit card users, representing a decrease of 0.37% as compared with the end of 2022, mainly due to the decrease in newly-acquired customers as the Bank placed more emphasis on high-quality customer acquisition. For the year ended 31 December 2023, the credit card transactions of the Bank amounted to RMB4,814.967 billion, representing a decrease of 0.44% as compared with the year ended 31 December 2022. Interest income from credit cards amounted to RMB63.515 billion, representing a decrease of 0.72% as compared with the year ended 31 December 2022. Non-interest income from credit cards amounted to RMB27.228 billion, representing a decrease of 3.02% as compared with the year ended 31 December 2022.

In terms of risk management, the Bank continued to optimise its customer structure and asset portfolio under the guidance of the operation strategy focusing on "stability and low volatility". Additionally, the Bank has further studied regional strategies with forward-looking judgement, and continued to iterate various types of quantitative models to enhance its risk decision-making capability, while continuously upgrading the post-loan digital operations to improve operational efficiency and collection effects. For the year ended 31 December 2023, the risk indicators for its credit card business declined, indicating enhanced risk-resistant capabilities. As at 31 December 2023, the balance of non-performing credit card loans was RMB16.381 billion, representing a non-performing loan ratio of credit card loans of 1.75% with a decrease of 0.02 percentage point from the end of 2022. In view of the current complicated external environment, the Bank will prudently arrange various strategic deployments in the next stage, continue to optimise its strategy on customer structure and asset portfolio, coordinate regional business development based on specific local policies, explore various ways of restructuring the balance between risk and growth under the new situation, and continue to promote high quality development of its credit card business.

In terms of business development, the Bank adhered to the value-oriented and innovation-driven approach to promote service and product upgrades. Firstly, the transformation of customer acquisition strategies has facilitated the Bank's high-quality customers acquisition efforts. Additionally, it has constantly enriched its card product portfolio by launching green and low-carbon themed credit card in practicing the ESG concept, and joined hands with Meituan and Mango TV to launch co-branded cards in satisfying the needs of young customers for online shopping and entertainment. In particular for female customers, the Bank launched, among others, the Hello Kitty pink graffiti card and "Free Life (自由人生)" platinum credit card (Pink Version), enabling the Bank to further strengthen the connection with its customers. Secondly, the Bank applied a combination of measures to boost consumption, seizing the consumption hotspots of festivals and holidays and e-commerce promotions to enhance the efficiency of marketing operations. Furthermore, it capitalised on the recovery of overseas transactions by launching the themed marketing campaign of "Extraordinary Overseas Tours (非常境外遊)". Thirdly, the Bank continued to focus on the operation of instalment assets and enhance the operating efficiency of bill instalments and consumption instalments. Meanwhile, it innovated the post-loan procedure for automobile instalment loans and enhanced service quality and efficiency through online solutions. Fourthly, it deepened the digital transformation based on the credit card core system 3.0, upgrading business procedures and functions, creating the "people + digitalisation" omni-channel service system and promoting the digital and intelligent transformation of customer service. In addition, the Bank has further enhanced 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 2023, the balance of retail loans of the Bank amounted to RMB3,373.633 billion, representing an increase of 8.49% as compared with the end of 2022 and accounting for 54.71% of the Bank's total loans and advances to customers, up by 0.35 percentage point as compared with the end of 2022. Among them, the balance of the Bank's retail loans (excluding credit card loans) reached RMB2,437.856 billion, representing an increase of 9.55% as compared with the end of 2022, accounting for 39.53% of total loans and advances to customers of the Bank and representing an increase of 0.63 percentage point as compared with the end of 2022.

As to business development, for the year ended 31 December 2023, the Bank actively implemented the requirements of national policies, adhered to the implementation of city-specific policies, proactively adapted to the major changes in the supply and demand relationship in the real estate market, and supported rigid and improving housing demands of house buyers, thus achieving a healthy development of the residential mortgage loan business. Furthermore, while maintaining proper risk control management and stable asset quality, the Bank proactively adjusted its business structure and increased the granting of micro-finance loans and consumer loans. With respect to micro-finance loans, the Bank strictly implemented various regulatory requirements, enriched its product portfolio and enhanced policy adaptation to meet the diversified needs of micro-finance loan customers, and expanded the coverage of micro-finance loan customers, to constantly improve the quality and efficiency of micro-finance services. With respect to the consumer loan business, the Bank insisted on selecting high-quality customers and continued to build on its big data risk control capabilities. The Bank carried out segmented management of customer groups with different needs, stroke a balance between returns and risks, and reduced operating

costs. As at 31 December 2023, the Bank recorded a balance of residential mortgage loans of RMB1,376.814 billion, representing a decrease of 0.22% as compared with the end of 2022. The balance of retail micro-finance loans amounted to RMB749.773 billion, representing an increase of 19.08% as compared with the end of 2022. The balance of consumer loans amounted to RMB301.538 billion, up by 49.11% as compared with the end of 2022. As at 31 December 2023, the Bank had 15.5772 million retail loan (excluding credit card loans) customers, representing an increase of 28.31% as compared with the end of 2022. The expansion of customer base was mainly attributable to the light model of customer acquisition through online platform.

In terms of risk management, the Bank kept intensifying its risk control capabilities. Firstly, the Bank strengthened the monitoring and prediction of market risk situations, and adjusted its risk management and control strategies in a timely manner in line with changes in market conditions. Secondly, the Bank prioritised the development of areas with better economic development and market potential, while adhering to the selection of high-quality customer groups and preference for customers with good credit records and stable repayment sources as the main business targets and selecting premium property development projects in core zones as collaterals. Thirdly, the Bank continued to strengthen its big data quantitative risk control capabilities and enhanced the digital level of risk management by leveraging Fintech, actively expanded access to data sources, continuously enriched data labels, iteratively updated the strategic model, deepening the application of quantitative risk control tools throughout the entire process of the loan to accurately identify and control risks. Through these measures, the non-performance loan ratio of retail loans of the Bank remained stable. As at 31 December 2023, the balance of the Bank's retail special-mentioned loans (excluding credit card loans) amounted to RMB17.366 billion, special-mentioned loan ratio was 0.71%, representing an increase of 0.09 percentage point as compared with the end of 2022. As at 31 December 2023, the balance of non-performing retail loans (excluding credit card loans) amounted to RMB14.158 billion, with the nonperforming loan ratio of 0.58%, representing an increase of 0.02 percentage point as compared with the end of 2022. Excluding credit card loans, the mortgage and pledged loans accounted for 57.98% of the Bank's new non-performing retail loans formed for the year ended 31 December 2023, the loan-to-value ratio of the above-mentioned mortgage and pledged loans As at 31 December 2023 was 35.12%. Given that the vast majority of such new non-performing retail loans were fully secured by collaterals, the risk was within a controllable range.

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.

For the year ended 31 December 2023, the Bank achieved profit before tax from wholesale finance of RMB69.648 billion, representing an increase of 11.63% as compared with the year ended 31 December 2022. The net operating income from wholesale finance of the Bank was RMB119.481 billion, representing a decrease of 6.55% as compared with the year ended 31 December 2022, and accounting for 38.87% of the net operating income of the Bank. Among them, net interest income of wholesale finance business amounted to RMB81.058 billion, representing a decrease of 6.33% as compared with the year ended 31 December 2022, and accounting for 67.84% of the net operating income of wholesale finance business; the net non-interest income of wholesale finance business amounted to RMB38.423 billion, representing a decrease of 7.00% as compared with the year ended 31 December 2022, and accounting for 32.16% of the net operating income of wholesale finance business, and 38.55% of the net non-interest income of the Bank.

For the year ended 31 December 2023, the Bank captured opportunities arising from the transformation of economic growth momentum and accelerated industrial transformation. The Bank focused on the development of key finance sectors, including sci-tech finance, green finance, inclusive finance, retirement finance and digital finance, etc., and continued to develop its distinctive advantages and upgraded business models, to push forward the optimisation and adjustment of the customer structure and business structure of wholesale finance, ultimately enhancing the quality and efficiency of serving the real economy.

The Bank provided three-dimensional, all-round and multi-level financing support to corporate clients with its perspective of integrating investment banking and commercial banking based on its commitment to serving customers' needs at all times. As at 31 December 2023, the Bank's balance of aggregate financing products to corporate customers was RMB5,517.537 billion[13], representing an increase of RMB429.410 billion over the beginning of the year. Among them, the balance of traditional financing[14] was RMB3,149.757 billion, representing an increase of RMB351.513 billion over the beginning of the year; the balance of non-traditional financing[15] was RMB2,367.780 billion, representing an increase of RMB77.897 billion over the beginning of the year. The balance of non-traditional financing accounted for 42.91% of the balance of FPA, representing a decrease of 2.09 percentage points over the beginning of the year.

Wholesale Customers

The Bank has established a corporate customer service system with segmentation and classification-based management for strategic customers, institutional customers, financial institution customers, cross-border customers and basic customers. For the year ended 31 December 2023, the Bank continued to focus on the industry specialised operation for strategic customers of the Head Office level and branch level, acquisition of high-quality corporate customers and in-depth operations of existing customers. As at 31 December 2023, the total number of corporate customers of the Bank came in at 2,820,600, representing an increase of 11.66% as compared with the end of 2022. The number of newly acquired corporate customers for the year ended 31 December 2023 was 481,900, contributing daily average deposits of RMB172.744 billion.

In terms of strategic customers, the Bank optimised and upgraded its strategic customer service model by enhancing industry understanding, improving capability of the industry-specialised service for strategic customers, deepening industry chain and investment chain operations for strategic customers and leading to the innovation of the industrial service model. As at 31 December 2023, the Bank had 321[16] strategic customers at the Head Office level, with a daily average balance of deposits of RMB1,071.146 billion, representing an increase of 2.50% on the same calibre as compared with 2022, and the balance of loans

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13 Since the scope of financing wealth management and matching transactions included in FPA were adjusted in this period, the same-calibre adjustment was made to the data at the beginning of the period, with the opening balance of the adjusted FPA of RMB5,088.1 billion, of which amount of traditional financing amounted to RMB2,798.2 billion and amount of non-traditional financing amounted to RMB2,289.9 billion.

14 Traditional financing comprises general corporate loans and commercial bills discounting (including transfer-out of outstanding bills), acceptance, letters of credit, financial guarantees and non-financial guarantees.

15 The eight compositions of non-traditional financing include: asset operation, proprietary non-standardised corporate investments, financing wealth management, debt financing instruments with the Bank as the lead underwriter, matching transactions, financial leasing, cross-border coordination financing and leading syndicated loans.

16 The number of strategic customers of the Head Office level is that of the group number as the strategic customers of the Head Office level served by the Bank. There was an adjustment to the list of strategic customers of the Head Office level in 2023, and the same-calibre adjustment was made to the 2022 data.

was RMB1,118.486 billion, representing an increase of 8.00% as compared with the beginning of the year. As at 31 December 2023, the number of strategic customers of the Bank of the branch level was 7,013[17]. The daily average balance of deposits was RMB774.371 billion, representing an increase of 6.01% on the same calibre as compared with 2022, and the balance of loans was RMB407.267 billion, representing an increase of 14.55% as compared with the beginning of the year.

With regards to its institutional customers, the Bank continued to optimise its product systems and user experience focusing on scenarios including government and industry funds, local government special bonds, income and expense management of fiscal funds, tax payment and refund as well as convenient civil services, aiming to provide differentiated services for all levels and types of institutional customers, and further tap into the full potential of institutional customers through the service chain. In terms of serving national government institutions, the Bank was recognised as excellent agency for all the three agency qualifications in the 2023 Central Fiscal Agency Service Assessment, and continued to strengthen the multi-dimensional cooperation in terms of policies, qualifications, systems, data and other aspects, and to build a distinctive brand with digital services. In terms of serving local governments and competent authorities, the Bank provided customers with a package of solutions encompassing intelligence, financing and technology service system, and established its reputation in the market for its integrated services. As at 31 December 2023, the Bank had 50,600 institutional customers, with an average daily deposit balance of RMB1,077.397 billion.

With regards to its financial institution customers, the Bank comprehensively deepened its customer operation by constantly improving its operation system for financial institution customers, enhanced its capabilities of the industry specialised operation through classified operations for specific industries, and joined hands with the financial institutions customers to serve the customers, which facilitated acquisition and operation of corporate customers and retail customers. At the same time, the Bank cooperated with policy banks to carry out sub-loans services and implemented the decisions and arrangements related to the national inclusive finance development.

With regards to cross-border customers, the Bank overcame multiple challenges at home and abroad and continued to build distinctive advantages in cross-border finance. Focusing on the acquisition and operation of customers and strengthening its strategic organisation and professional empowerment, the Bank recorded stable growth in the cross-border business, aiming to become the "principal bank for settlement" and "first bank to inquire" for customers of cross-border transactions business. As at 31 December 2023, according to the latest statistical calibre of the State Administration of Foreign Exchange, the Bank had 75,601 corporate customers in respect of international balance of payments, representing an increase of 14.03% on the same calibre as compared with 2022.

[17] The number of strategic customers of the branch level is the corporate legal entity number of strategic customers of the branch level served by the Bank. There was an adjustment to the list of strategic customers of the branch level in 2023, and the same-calibre adjustment was made to the 2022 data.

With regard to basic customers, the Bank continued to explore the "people + digitalisation" service model by optimising the centralised operation mechanism, empowering the middle office of the Head Office and branches and improving the comprehensive capability of its frontline teams. The Bank also enhanced the effectiveness and experience of customer services through standardisation of offline processes, online operation of customer services and digitalised customer operation and customer contact. The Bank used intelligent methods to build customer profiles and identify customer potential through big data, improve customer service processes, establish a closed loop of service and operation covering all processes and the full-life cycle of services and operations, and enhance the breadth and efficiency of services. For the year ended 31 December 2023, the Bank served 37.0604 million times for corporate customers through various online channels. For the year ended 31 December 2023, the Bank had 1,197,800 corporate customers for withholding transactions, representing a year-on-year increase of 11.36%. The transaction amount was RMB2.17 trillion, representing a year-on-year increase of 7.96%.

Corporate Customer Deposits

For the year ended 31 December 2023, the Bank continued to take advantage of the business opportunities arising from capital diversion in the key sectors of the capital market, enhanced the fund origination for trade settlement based on the enterprise's operation scenarios, proactively expanded low-cost deposits. As at 31 December 2023, corporate customer deposit balance was RMB4,557.243 billion, representing an increase of 5.52% as compared with the end of 2022. The daily average balance was RMB4,532.794 billion, representing an increase of 6.42% as compared with 2022. Demand deposits accounted for 57.92% of the average daily balance of corporate customers' deposits, representing a decrease of 2.63 percentage points as compared with 2022. For the year ended 31 December 2023, the average cost rate of corporate customer deposits was 1.75%, representing an increase of 3 basis points as compared with 2022.

Corporate Loans

As at 31 December 2023, the Bank's total corporate loans amounted to RMB2,321.585 billion, representing an increase of 10.70% as compared with the end of 2022, accounting for 37.65% of the Bank's total loans and advances, representing an increase of 0.99 percentage point as compared with the end of 2022. Among them, the balance of medium- and long-term domestic corporate loans amounted to RMB1,425.673 billion, representing an increase of 7.44% as compared with the end of 2022, accounting for 63.76% of the total domestic corporate loans, representing a decrease of 1.94 percentage points as compared with the end of 2022. The non-performing loan ratio of the corporate loans was 1.15%, representing a decrease of 0.10 percentage point as compared with the end of 2022.

As at 31 December 2023, the balance of loans to domestic national-standard large enterprises was RMB1,021.981 billion, representing an increase of 9.71% as compared with the end of 2022, accounting for 45.70% of the domestic corporate loans, representing a decrease of 0.43 percentage point as compared with the end of 2022, and the non-performing loan ratio was 0.84%, representing a decrease of 0.06 percentage point as compared with the end of 2022. The balance of loans to domestic national-standard medium- sized enterprises was RMB579.121 billion, representing an increase of 4.16% as compared with the end of 2022, accounting for 25.90% of the domestic corporate loans, representing a decrease of 1.63 percentage points as compared with the end of 2022, and the non-performing loan ratio was 1.91%, representing a decrease of 0.15 percentage point as compared with the end of 2022. The balance of domestic national-standard small-sized and micro-sized enterprise loans was RMB484.632 billion, representing an increase of 25.27% as compared with the end of 2022, accounting for 21.67% of the domestic corporate loans, representing an increase of 2.51 percentage points as compared with the end of 2022, and the non-performing loan ratio was 0.74%, representing a decrease of 0.26 percentage point as compared with the end of 2022. The balance of domestic loans to enterprises in other national-standard

classifications[18] was RMB150.439 billion, representing an increase of 3.66% as compared with the end of 2022, accounting for 6.73% of the domestic corporate loans, representing a decrease of 0.46 percentage point as compared with the end of 2022, and the non-performing loan ratio was 1.75%, representing an increase of 0.37 percentage point as compared with the end of 2022.

For the year ended 31 December 2023, the Bank continued to optimise its loan structure and maintained greater support for loan granting in sci-tech innovation, green economy, inclusive economy for small-sized and micro-sized enterprises, manufacturing industry and other sectors in response to national policy guidance, steadily and orderly promoted the development of the real estate business. For the key regulatory areas such as local government financing platforms, the loan granting control was strictly implemented in accordance with the regulatory guidance. As at 31 December 2023, the balance of the corporate loans extended to the manufacturing industry was RMB555.102 billion, representing an increase of RMB111.250 billion as compared with the end of 2022, accounting for 23.91% of the total corporate loans, representing an increase of 2.75 percentage points as compared with the end of 2022. The balance of green loans was RMB447.765 billion, representing an increase of RMB92.408 billion as compared with the end of 2022, accounting for 19.29% of the total corporate loans, representing an increase of 2.34 percentage points as compared with the end of 2022. The balance of loans to strategic emerging industries was RMB375.097 billion, representing an increase of RMB72.774 billion as compared with the end of 2022, accounting for 16.16% of the total corporate loans, representing an increase of 1.74 percentage points as compared with the end of 2022.

Sci-tech Finance Business

The Bank has launched the sci-tech finance service brand, offering integrated service solutions for sci-tech enterprises catering for their five core needs, namely "bank financing, treasury management, capital connection, cross-border development, and talent retention and employment". The Bank innovatively launched the exclusive financing product "Sci-Tech Loan (科創貸)", established "six specialised (六個專門)" working mechanism to serve sci-tech enterprises covering teams, products, policies, institutions, assessments and processes, expanded the layout of key branches for sci-tech finance, thereby increasing the number of key branches to 11, and carried out the bulk acquisition and operation of sci-tech enterprise customers through major channels. As at 31 December 2023, the number of sci-tech enterprise customers of the Bank reached 140,800, representing an increase of 42.51% as compared with the end of 2022; and the balance of loans extended to sci-tech enterprises amounted to RMB428.477 billion, representing an increase of 44.95% as compared with the end of 2022.

Bill Business

For the year ended 31 December 2023, the Bank further deepened the transformation of comprehensive services for bill customers, continuously improved the experience of bill customers, and continued to enhance the direct discounting and inter-bank discounting linkage capabilities and bill transaction capabilities, and actively responded to the changes in the external markets. For the year ended 31 December 2023, the number of customers of bill business of the Bank was 159,690 with a year-on-year increase of 11.38%, among which 122,800 were micro-, small- and middle-sized customers, accounting for 76.90% of the total. The volume of direct bill discounting business was RMB1,895.076 billion for the year ended 31 December 2023, representing a year-on-year increase of 24.78%, still ranking second in the market (data from the China Banking Association), of which the volume of commercial acceptance bill

[18] Such loans include loans made by domestic institutions to overseas and offshore customers, domestic non-enterprise customers and self-employed businesses.

discounting business was RMB234.208 billion, ranking first in the market (data from the Commercial Bank Bill Business Association). As at 31 December 2023, the Bank's bill discounting balance was RMB471.127 billion, representing a decrease of 8.32% as compared with the end of 2022, mainly due to the active adjustment and optimisation of the Bank's asset allocation due to the decrease in interest rate in the bill market.

The Bank keeps on improving the bill investment and research integration mechanism and the band trading strategy and flow management, optimises the mechanism of Head Office and branch cooperation, and continues to enhance its trading capabilities. For the year ended 31 December 2023, the discounted bills transferred to other financial institutions (buy-out) amounted to RMB1,851.516 billion, representing a year-on-year increase of 27.62%, 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, supports enterprise financing through rediscounting, and improves the quality and efficiency of serving the real economy. For the year ended 31 December 2023, the business volume of bill rediscounting amounted to RMB260.061 billion, representing a year-on-year increase of 25.84%. As at 31 December 2023, the Bank's rediscounting balance was RMB101.161 billion, representing an increase of 22.66% as compared with the end of 2022, ranking first in the market (data from the China Banking Association).

Transaction Banking Business

For the year ended 31 December 2023, the Bank, in response to the "Digital China (數字中國)" campaign, not only accelerated its own digital transformation, but also focused on the three business scenarios of corporate treasury management, sales and procurement. The Bank enhanced products innovation and deepened ecological connection, so as to forge its two major advantages of "digital treasury management" and "digital integration of business and finance". By actively integrating with and empowering the digital transformation of enterprises, the Bank explored new growth points for the corporate banking business. For the year ended 31 December 2023, the Bank officially launched the "Enterprise Digital Intelligent Finance (企業數智金融)" brand, establishing three major service systems, namely "Online Finance (線上金融)", "Treasury Management Cloud (財資管理雲)" and "Scenario-based Finance (場景金融)", to provide enterprises with intelligent solutions for their efficient operation, cost reduction and efficiency enhancement.

Relying on Fintech, the Bank accelerated the online migration of whole-process of corporate banking business and enhanced the convenience and efficiency of "Online Finance (線上金融)" services. For the year ended 31 December 2023, the online operation of the financing business of the Bank was further enhanced. Based on digital risk control technology, the Bank continued to upgrade its "Flash Series (閃電系列)" of domestic trade finance products to improve the efficiency of short-term financing for enterprises. Furthermore, the Bank continued to upgrade the "people + digitalisation" whole-process companion model and explored the introduction of artificial intelligence technology to create a "digital product manager (數字產品經理)", forming a service system of instant response to customer needs for multiple scenarios to improve service efficiency and enhance customer experience. For the year ended 31 December 2023, the letters and certificates issuance business transactions of the Bank amounted to RMB488.285 billion, representing a year-on-year increase of 20.49%; the domestic trade financing business volume amounted to RMB1,204.238 billion, representing a year-on-year increase of 29.48%.

Based on the demand for upgrading treasury management under the multi-entity, cross-region and even global business model gradually adopted by enterprises during their business expansion, the Bank took the Treasury Management Cloud as the digital service platform for enterprises, and developed the "Single Account Version, Standard Version, Professional Version and Treasury Version (單戶版、標準版、專業版、司庫版)" to completely cover and precisely meet the needs of treasury management and intelligent analysis and decision-making for various enterprises and users at different stages of development, with different size of business, under different management modes and with different roles, thus to assist enterprises in improving their efficiency in allocating financial resources. At the same time, the Bank actively responded to the needs of large enterprises to accelerate the construction of treasury systems, built up the core functions of the Treasury Management Cloud and innovatively launched the "consulting + finance + technology (諮詢+金融+科技)" treasury service model, so as to deepen the cooperation with large conglomerates. As at 31 December 2023, the number of customers of Treasury Management Cloud services reached 477,600, representing an increase of 62.15% as compared with the end of 2022.

The Bank also actively explored the comprehensive digital services for enterprises under the scenario of "integration of business and finance", and developed the "Payment Centre (付款中心)" for procurement scenarios based on the whole procurement service process, providing enterprises with full-cycle digital payment service in respect of integration of business and finance. As for the corporate sales scenarios, the Bank relied on the "Corporate Cashier (企業收銀台)" to offer an omni-channel and whole-process unified sales collection service, assisting enterprises with digital upgrade of sales management. The Bank developed and further promoted the digital intelligent finance solutions for various industries such as automobile, consumption, pharmaceutical, infrastructure and energy, and created branded services such as "Automobile Cashier (汽車收銀台)" to contribute to the digital transformation of the real economy. For the year ended 31 December 2023, the customers of corporate collection products reached 87,100, representing a year-on-year increase of 38.92%. The transaction amount of corporate collection products was RMB6.28 trillion, representing a year-on-year increase of 47.76%.

Also, the Bank continued to innovate the "Cloud-based H2H Connection" model to expand the breadth and depth of the connection between its digital platforms such as the Treasury Management Cloud and the digital systems of enterprises, which facilitated rapid access to the financial services of the Bank by customers of mainstream SaaS office platforms. As at 31 December 2023, the number of customers of the Cloud-based H2H Connection service reached 169,800, representing an increase of 31.93% as compared with the end of 2022.

Cross-border Finance Business

For the year ended 31 December 2023, the Bank focused on the target customer groups of cross-border businesses, improved product service system, aiming to become the "principal bank for settlement" for customers of cross-border transactions and the "global principal bank" for core customers by implementing operation and management and solidifying foundational capacity building. For the year ended 31 December 2023, the Bank recorded U.S.$356.887 billion[19] of international balance of payments for corporate customers, representing an increase of 4.90% based on the same calibre as compared with 2022. In particular, the balance of payments for corporate customers under trade in goods amounted to U.S.$173.814 billion, representing a year-on-year increase of 9.92%.

[19] The data for 2023 is based on the latest calibre of the State Administration of Foreign Exchange.

Centring on customer group acquisition and operation, the Bank made solid progress in customer group construction. The Bank established its marketing strategy led by segmentation-based management and supplemented by classification-based management and regional division, thereby consolidating the basic customer groups of trade in goods and consolidating our strengths in serving customers of trade in services and capital account. At the same time, the Bank extended its service coverage by leveraging the strengths in providing integrated services at home and abroad to three major customer groups and scenarios, namely the global operation of Chinese enterprises, the foreign invested companies "bringing in" and the overseas capital market.

The Bank has fully developed the comprehensive digital and facilitated service system for the cross-border finance business and formed differentiated competitive advantages. In addition, it continued to improve its online service capability for the basic products, carried out the digital transformation of international trade finance business, launched the global cash management service system, deepened the segmentation and classification-based service mechanism in respect of international documents, efficiently operated the international business section of CMB U-Bank and the CMB Corporate APP, and developed a one-stop service platform for its cross-border finance business. For the year ended 31 December 2023, 107,206 customers visited the international business section of CMB U-Bank, representing a year-on-year increase of 98%. The total number of online transactions was 1.5 million, among which, the online replacement rate for key products was over 86%.

The Bank reinforced proactive management of risks in key areas and built the solid "first line of defence" for risk management of cross-border business. It also continued to strengthen the closed-loop risk management for products covering the full-life cycle, enhanced risk monitoring in key areas, further optimised the anti-money laundering process, and improved the ability to prevent sanction risks.

Inclusive Finance Business

For the year ended 31 December 2023, the Bank implemented the policy guidance of providing financial support for small- and micro-sized enterprises, and steadily improved the quality and efficiency of its financial services for the real economy while maintaining stable asset quality and strengthening compliance management. As at 31 December 2023, the balance of loans granted by the Bank to inclusive small- and micro-sized enterprises amounted to RMB804.279 billion, representing an increase of RMB125.930 billion or 18.56% as compared with the end of 2022, 10.77 percentage points higher than the overall loan growth rate of the Bank. The number of inclusive small- and micro-sized enterprises with loan balance was 1,004,500, representing an increase of 13,800 as compared with the end of 2022. During the year of 2023, the Bank has newly issued inclusive loans of RMB602.821 billion for inclusive small- and micro-sized enterprises, with an average interest rate of 4.48%, down by 67 basis points year-on-year.

With regard to its supply chain and scenario-based finance, the Bank innovated and upgraded the supply chain finance 3.0 service system by launching the new products such as "CMB Chain Easy Loan (招鏈易貸)" and the "Distribution Easy Loan (經銷易貸)", which further improved the supply chain product system and effectively enhanced the efficiency of product operation and customer experience. Leveraging the advantage of "One Entire Bank for One Customer (全行服務一家)", the Bank provided exclusive credit support to customers in key industries such as automobile, green energy, medical security and healthcare, communication, power and equipment manufacturing under the "product + customer group" scenario-based business model. For the year ended 31 December 2023, the business volume of the Bank's supply chain financing amounted to RMB818.733 billion, representing an increase of 23.68% as compared with the end of 2022. The Bank served 6,556 core enterprises, and 39,490 upstream and downstream customers.

Retirement Finance Business

For the year ended 31 December 2023, the Bank actively practised the concept of "finance for the people" and "finance to serve the real economy", and regarded the retirement finance business as a strategic business with continuously increased input of resources. With the aim of building its distinctive advantages in retirement finance, the Bank made overall planning in respect of top-level design of retirement finance, integrating retirement finance with non-financial service scenarios and building a four-in-one innovative service model integrating "products + services + channels + technology" to provide customers with all-round, one-stop, personalised and comprehensive solutions for retirement finance. Following the national development strategy of accelerating the formation of a multi-level and multi-pillar pension insurance system and leveraging its advantages as a fully licenced financial institution, the Bank promoted its retirement finance business into a new stage of high-quality development.

In terms of the first pillar, the Bank offered convenient online services for insured persons such as social security inquiry, qualification certification, annual report review and other services. As at 31 December 2023, the Bank has issued a total of 62,586,200 electronic social security cards.

In terms of the second pillar, the Bank strengthened the construction of core capability with distinctive services and formed its differentiated competitive advantages. As at 31 December 2023, the number of enterprise annuity accounts under management reached 2,224,800.

In terms of the third pillar, a total of 5,356,200 individual pension fund accounts had been opened as at 31 December 2023.

At the same time, the custody service has covered in depth the three-pillar pension insurance system. As at 31 December 2023, the pension funds under custody amounted to RMB1.05 trillion, realising an increase in both market share and scale.

Investment Banking Business

For the year ended 31 December 2023, the Bank accelerated the transformation of its investment banking business by building an all-round service system for corporate investment banking and stepping up its role change from a loan provider to a fund originator.

With respect to its bond underwriting business, the Bank strove to serve real economy-based enterprises in direct financing and asset revitalisation, with dedication in green finance and sci-tech finance. For the year ended 31 December 2023, the debt financing instruments with the Bank as the lead underwriter amounted to RMB591.813 billion, representing a year-on-year decrease of 5.28%, ranked third among its industry peers (based on the data from the National Association of Financial Market Institutional Investors). In particular, the Bank ranked first by the size of perpetual bonds and sci-tech innovation notes, second by the size of green bonds and third by the size of asset-backed notes (ABN) among its industry peers.

With respect to its M&A financing business, the Bank actively served the industrial integration of real economy-based enterprises and built up the ability to provide systematic services in the capital market throughout the full-life cycle for enterprises. For the year ended 31 December 2023, the Bank's M&A financing business volume amounted to RMB193.348 billion, representing a year-on-year increase of 3.71%, ranking first in both book runner and lead arranger in the Asia Pacific M&A syndicate ranking published by Bloomberg.

With respect to its corporate wealth management business, the Bank actively responded to fluctuations in the fixed income market, and continued to improve the product system, thereby enhancing customer service experience. For the year ended 31 December 2023, the Bank's average daily balance of corporate wealth management products was RMB306.759 billion, representing a year-on-year decrease of 20.32% due to the redemption of bank wealth management products at the beginning of the year, with the reduction narrowed down by 6.41 percentage points from the middle of the year.

With respect to its market transactions (matching services) business, the Bank, in collaboration with licenced financial institutions, provided a diverse range of funding services in addition to bank credit, while focusing on the needs of customers. For the year ended 31 December 2023, the Bank's market transaction (matching services) amounted to RMB371.405 billion, representing a year-on-year increase of 14.54%.

Financial Institution Business

With respect to financial institution liability business, for the year ended 31 December 2023, the daily average balance of financial institution deposits of the Bank amounted to RMB565.449 billion, representing a year-on-year decrease of 14.79%. The decrease was mainly due to corrections in the equity market, the contraction of the overall bank wealth management market, business restructuring of the trust industry, as well as the Bank's refined management and control over the interest-bearing costs and its initiative to reduce high-priced deposits.

With respect to its depository service, the Bank's security and future margin depository services were in stable operation. The Bank partnered with 106 securities companies in third-party depository services and 16,618,000 customers were secured as at 31 December 2023, representing an increase of 7.39% as compared with the end of 2022. Also, the Bank entered into cooperation with 144 futures companies on fund transfer, securing 423,200 customers as at 31 December 2023, representing an increase of 17.13% as compared with the end of 2022.

Asset Management Business

As at 31 December 2023, the total asset management business of CMB Wealth Management, China Merchants Fund Management Co., Ltd. ("**China Merchants Fund**"), CIGNA & CMB Asset Management Company Limited ("**CIGNA & CMAM**"), and CMB International Capital all being subsidiaries of the Bank, amounted to RMB4.48 trillion[20], representing an increase of 1.59% as compared with the end of 2022. Among them, the balance of wealth management products under management by CMB Wealth Management amounted to RMB2.55 trillion, representing a decrease of 4.49% as compared with the end of 2022; the scale of asset management business of China Merchants Fund amounted to RMB1.55 trillion, representing an increase of 4.73% as compared with the end of 2022; the scale of asset management business of CIGNA & CMAM amounted to RMB267.593 billion, representing an increase of 62.44% as compared with the end of 2022; the scale of asset management business of CMB International Capital amounted to RMB113.466 billion, representing an increase of 8.77% as compared with the end of 2022.

[20] The total volume of asset management business of China Merchants Fund and CMB International Capital both included the data of their respective subsidiaries.

For the year ended 31 December 2023, CMB Wealth Management promoted the efficient operation of the value cycle chain in accordance with the business strategy of "stabilising scale, adjusting structure and enhancing capacity". In terms of improving its investment and research capabilities, it continued to build on its capabilities in terms of asset allocation and multi-strategy investment, while promoting the integration of investment and research, maintaining a reasonable staff arrangement in the investment and research system and continuous improvement in the conversion efficiency of investment and research results. In terms of increasing its efforts on product innovation, 20 investment strategies highlighting quality asset allocation have been implemented based on market demands, which were well accepted by the channels and customers. In terms of enhancing investor experience, CMB Wealth Management increased the business hours for wealth management products to 24 hours, extending the daily cut-off time for redemption application of cash management products from 15:30 to 24:00, winning favourable recognition from customers. In terms of improving risk management, CMB Wealth Management strove to build a comprehensive risk and compliance management system in line with the rules of wealth management and investment following the principle of prudent and sound risk management.

For the year ended 31 December 2023, following the "high-quality development" requirements of mutual funds, China Merchants Fund stabilised performance, expanded growth, improved capabilities, and upheld to the bottom line, and recorded steady progress under the adverse environment prevailing in the fund market. As at 31 December 2023, the total size of non-money-market mutual funds amounted to RMB575.568 billion, representing an increase of 2.62% as compared with the end of 2022. In terms of improving the investment and research capability, the organisation of industry chain research teams was optimised, the building of a digital investment and research platform was well on track while investment and research capabilities continued to grow. In terms of product layout, it insisted on deploying equity products amid the adverse environment, and launched as the industry pioneer the first hybrid valuation product, the shareholder return ETF of Central state-owned enterprises, the manager concession products and the first green bond index product, so as to satisfy the needs of investors through business model innovation. In terms of customer operations, China Merchants Fund actively promoted channel and customer base expansion, maintained steady operation of fund investment advisory business, took advantage of the opportunity arising from pension business development, further engaged in customer accompany and investor education, satisfied customers' needs and realised stable growth in business scale. In terms of basic management, it strengthened value orientation, optimised human resource management, accelerated to promote the digital transformation, and tightened risk control compliance and operational assurance management to help boost the quality and efficiency of various businesses. No major risk compliance incidents occurred for the year ended 31 December 2023.

For the year ended 31 December 2023, CIGNA & CMAM was positioned as a professional and stable long-term capital management institution, adhered to the "customer-centric" value orientation, fully integrated into the Group's strategic layout, and strove to become an asset management institution with core competitiveness. With regard to the insurance fund fiduciary business, it viewed enhancement of fiduciary investment returns as the core objective and survival foundation to improve the market competitiveness of insurance products. As at 31 December 2023, the scale of insurance funds under entrusted management was RMB144.963 billion, representing an increase of 33.15% as compared with the end of 2022. In terms of product creation, CIGNA & CMAM adopted the approach of "upholding fundamental principles and breaking new ground (守正創新)" and conquered challenges to actively seek for new business growth points. During the year, it obtained the issuance qualification under the insurance asset support scheme, and has basically acquired the issuance and management capability for all types of insurance asset management products. Meanwhile, it steadily improved itself in handling the portfolio asset management products, and as at 31 December 2023, it ranked among the top of the industry in terms of alternative insurance asset management products business. In terms of operation and risk management, it proceeded with high-quality ground work, established an efficient operation and management system, continued to improve the comprehensive risk management system, and accelerated the construction of digital infrastructure, with steady progress achieved.

For the year ended 31 December 2023, CMB International Capital closely aligned with the Bank's strategic goal of building a value creation bank by making active business coordination with the Bank and strengthening the linkage mechanism of investment banking and commercial banking to jointly propel high quality development. Notwithstanding the weak capital market in Hong Kong, CMB International Capital completed a total of 30 Hong Kong IPO projects for the year ended 31 December 2023, maintaining its leading position in terms of Hong Kong IPO underwriting business. According to the statistics of Bloomberg in respect of the market share of IPO underwriting in Hong Kong, CMB International Capital ranked third among all the investment banks and first among the investment banks with Chinese banking background as at 31 December 2023. In respect of domestic asset management business, CMB International Capital has focused on the private equity investments business as the core business to consolidate its position in the industry. For the year ended 31 December 2023, four investment projects were successfully listed domestically and overseas by CMB International Capital. Additionally, it ranked the fifth for three consecutive years in the "Zero2IPO Group Top 100 Private Equity Investment Institutions in China (清科中國私募股權投資機構百強榜)" and was considered one of the top tier companies in private equity investment industry with the best performance among the banking PE institutions. In respect of overseas asset management business, three investment projects with respect to CMB International Capital's private equity products completed their listing domestically or overseas for the year ended 31 December 2023, and two listed projects were successfully delisted through sound trading strategies. Meanwhile, CMB International Capital has made great efforts to develop monetary mutual funds business. For the year ended 31 December 2023, the issuance of USD money market funds by CMB International Capital was approved by the Hong Kong Securities and Futures Commission, which made the product become the Group's first mutual funds product approved overseas.

Asset Custody Business

As at 31 December 2023, the balance of assets under custody of the Bank was RMB21.12 trillion, representing an increase of 5.28% as compared with the end of 2022. The total scale of custody ranked first in the industry (data from the Custody Business Professional Committee under China Banking Association).

Through perseverance with high quality development, the Bank aimed to become the first choice of customers in respect of custody banks with core competitiveness. For the year ended 31 December 2023, the Bank's custody business reached a new stage of development. The custody customer acquisition capability and comprehensive service capability was continuously improved, and the custody brand influence was constantly enhanced.

Firstly, the Bank continued to optimise its business structure, with significant effect in high-quality development. As at 31 December 2023, the Bank's asset management products[21] accounted for 72.02% of its incremental custody size, surpassing the average proportion of the industry by 3.30 percentage points. Among them, the scales of custody of four key businesses, including mutual funds, insurance, pension and cross-border business, increased by 15.07% as compared with the end of 2022, 2.84 percentage points higher than the average increase of the industry.

[21] According to the statistical calibre of the Custody Business Professional Committee under China Banking Association, the custody of asset management products includes custody of securities investments funds, customer asset management of fund companies, customer asset management of securities companies, bank wealth management, trust property, private equity investment funds, insurance assets, pension funds, QDII products, QFI products, futures, etc.

Secondly, the Bank continued to consolidate its business strengths in various segments, delivering breakthroughs in key products. As at 31 December 2023, the scale of pension products under the Bank's custody totalled to RMB1.05 trillion, a new breakthrough exceeding one trillion. Additionally, the Bank continued to rank first in terms of number of public REITs under its custody (data from WIND). For the year ended 31 December 2023, the newly offered mutual funds under the custody by the Bank ranked the first in terms of number and scale (data from WIND). For the year ended 31 December 2023, the Bank effectively took the market opportunity to finalise the custody of the first batch of cross-border QDII semi-conductor ETF and the first fixed-income QDII-FOF fund.

Thirdly, the Bank made active efforts in propelling digitalisation, aiming to enhance customers experience through technology empowerment. The Bank kept on raising digital service capabilities, and developed a number of service platforms such as online customer service digital platform, "custody + bank and enterprise" reconciliation platform, "custody + treasury management" cloud platform and "custody + investment" cloud platform to broaden the boundaries of custody service.

Financial Markets Business

For the year ended 31 December 2023, the Bank continued to build on its investment and research capabilities for proprietary investment and service capabilities for trading on behalf of customers, tightened up risk management, and strengthened Fintech application. While serving the real economy, the Bank achieved high-quality development in various businesses.

In terms of investment transactions, the Bank adhered to prudent operation, actively studied and made judgement on the economic fundamentals of the PRC and the major overseas economies, the trend of inflation and the direction of monetary policy, continued to strengthen macro policy research and market analysis, improved proprietary investments research and analysis framework, strengthened indicator tracking and monitoring, optimised the portfolio structure, and enhanced investments returns. Furthermore, *the Bank* continued to actively provide liquidity to the market in the capacity as a market maker, and continued to strengthen the comprehensive capability of market making and to enhance its quotation and trading services. Also, it closely followed the guidance of national economic strategies, focused on the national industrial structure adjustment, increased its credit bond investment in "specialised, competitive, distinguished and innovative (專精特新)" enterprises and corporate clients in area of new growth engines, thereby assisting the development of strategic emerging industries. For the year ended 31 December 2023, the transaction volume of RMB bond investments amounted to RMB2.79 trillion, representing a year-on-year increase of 21.57%.

In terms of business of tradings on behalf of customers, the Bank continued to advocate the concept of neutral management of exchange rate risk to corporate customers, and helped the enterprises to fully understand and manage exchange rate risk in a scientific manner. Also, to fulfil customer needs, *the Bank* provided solutions against financial market risks such as exchange rate and interest rate risks faced by enterprises tailored to their main business scenarios. For the year ended 31 December 2023, the Bank provided hedging services to 6,285 companies with a total transaction volume of derivatives to corporate customers amounting to U.S.$64.783 billion.

In terms of digital transformation, the Bank continued to promote the in-depth integration of technology and business, and continued to deepen the application of digital technology in its financial markets business. In terms of digital investment and research, the Bank has initially studied and developed a multi-factor trading strategy covering bonds, foreign exchange and precious metals, formed a multi-dimensional investment decision-making system covering fundamental, policy and sentiment perspectives and achieved positive progress in the development of its self-developed digital trading platform. The

monitoring signals of its self-developed bond investment credit risk management system were increasingly diversified, which effectively improved the foresight and effectiveness of risk identification. The Bank accelerated the building of online platforms for business of tradings on behalf of customers, diversified online products, and enhanced the convenience of corporate business processing. For the year ended 31 December 2023, the Bank provided online derivative trading services to 5,287 corporate clients, with a total transaction volume of U.S.$22.661 billion.

For the year ended 31 December 2023, the Bank continued to actively perform its duties as a market maker, and successfully completed the first batch of standardised interest rate swap trading through National Interbank Funding Centre, and once again received the "Northbound Top Market Maker" award from Bond Connect Company Limited.

Distribution Channels

The Bank provides products and services via multiple online and offline distribution channels.

Offline Channels

The Bank's business is mainly in the market of China, and its distribution network is mainly distributed in major central cities in the Chinese mainland and some international financial centres such as China's Hong Kong, New York, London, Singapore, Luxembourg and Sydney. As at 31 December 2023, the Bank has 143 branches and 1,781 sub-branches in China, two branch-level specialised institutions (a credit card centre and a global markets centre), 2,226 self-service banks, 5,281 cash self-service devices and 7,603 visual counters. The Bank has a Hong Kong branch in Hong Kong, China ("**Hong Kong Branch**"), a representative office in Chinese Taipei, a New York branch ("**New York Branch**") and a representative office in the United States, a London branch in the United Kingdom ("**London Branch**"), a Singapore branch in Singapore ("**Singapore Branch**"), a Luxembourg branch in Luxembourg ("**Luxembourg Branch**") and a Sydney branch in Australia ("**Sydney Branch**").

Major Online Channels for Retail

CMB APP:

For the year ended 31 December 2023, the Bank continued to deepen its core financial scenario services around extensive wealth management, focusing on the "people + digitalisation" service model, and continuously improving the customer experience of the CMB APP. It also innovatively launched customised wealth products based on users' needs and professional services to further improve the self-service model of online wealth management. The reach of account management services has been expanded revolving around the purpose of becoming customers' principal bank of main accounts, thus improving the account management experience.

As at 31 December 2023, the cumulative number of users of CMB APP amounted to 207 million. For the year ended 31 December 2023, the maximum number of daily active users of CMB APP reached 21,638,200. The number of monthly active users was 75,054,300 As at 31 December 2023.

CMB Life APP for credit card:

For the year ended 31 December 2023, the Bank continued to further enhance the customer service and mobilisation capabilities of the CMB Life APP. The Bank enriched the online service ecosystem focusing on high-frequency consumption scenarios and connecting with quality partners. Also, the Bank enhanced interaction efficiency and customer experience with upgraded search, recommendation and other intelligent service capabilities. Furthermore, a series of marketing campaigns such as "618 Save Money to Spend (618 會省才敢花)", "Exceptional Hainan (非常海南)", "Cashback (筆筆返現)" and "Welcome to the New Year with Credit Cards (禮迎新年, 刷卡有鯉)" were launched, to build up and continuously improve the ability to mobilise large-scale online and offline customers.

As at 31 December 2023, the cumulative number of users of CMB Life APP amounted to 144 million. For the year ended 31 December 2023, the maximum number of daily active users of CMB Life APP reached 6,792,300 and the number of monthly active users was 41,975,500 as of the end of the period. 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 real-time, comprehensive, prompt, and professional services to its customers via telephone, network, video, etc. and applies intelligent technology to link such services with the processing interface of the CMB APP directly, making the services more convenient.

The Bank continued to enrich the service mode and provided a more intuitive service experience by means of images, videos, the same-screen services and other modes to solve complex operational issues. The Bank optimised the response speed and processing efficiency in handling "business that are urgent, complicated, distressing and waiting for help" by intelligent dispatch, which made the issues solved in a more efficient manner. The Bank further intensified the customised service and warm service for elderly customers to duly fulfil its social responsibilities. For the year ended 31 December 2023, the remote online omni-channel manual service connection rate was 97.26%, the remote online omni-channel manual service response rate within 20 seconds was 92.52%, and the remote online omni-channel customer satisfaction rate was 99.10%. With "people + digitalisation" as the core driving force, the Bank fully leverage on Fintech, continued to enhance the service level of intelligent robots, and provided the most suitable solutions for customers through intelligent dispatch.

Smart service system

In terms of debit card smart service system, for the year ended 31 December 2023, the Bank continued to optimise the intelligent service network of the Bank's mobile app, CMB APP, further integrating artificial intelligence, intelligent customer service and remote consultancy service capabilities to launch the brand-new intelligent wealth assistant "Xiao Zhao (小招)". "Xiao Zhao (小招)" has strong conversational interactional capabilities and can provide customers with one-stop wealth management service such as financial analysis, product selection strategies and yield analysis, etc.. It supports inquiries for various business scenarios. Furthermore, "Xiao Zhao (小招)" can be also connect to remote relationship managers to provide customers with customised consultancy services.

In terms of credit card smart service system, for the year ended 31 December 2023, the Bank continued to promote the digitisation and intelligent transformation of credit card customer service, improved the construction of the intelligent service management system, and enhanced the comprehensive service capabilities for customers. On the one hand, the Bank managed to build a new-generation customer contact centre to enhance customer interaction experience and operational efficiency through continuous promotion of service channel collaboration and digitalisation. On the other hand, CMB Life APP "Xiao Zhao (小招)" assistant, through real-time prediction of users' needs offered a new companion service centred around the image of "Xiao Zhao Miao (小招喵)", reshaping intelligent services and interaction patterns.

Major wholesale online channels

For the year ended 31 December 2023, the Bank focused on the enterprises' demands for digital transformation, adopted "Treasury Management Cloud +" as the main interface to deliver the "Enterprise Digital Intelligent Finance (企業數智金融)" scenario-based services, and transformed the comprehensive customer-oriented product services towards scenario-based turnkey (整車交付) solutions. Firstly, the Bank built the Treasury Management Cloud (Single Account Version) to explore a batch operation model comprising online marketing, online delivery and online operation of digital products for corporate customers, making the treasury management services accessible to large conglomerates as well as individual start-up enterprises, so as to take the leading position in digital services. Secondly, with the two major service channels of CMB Corporate U-Bank and CMB Corporate APP, the Bank continued to upgrade its channel service capability. For the year ended 31 December 2023, the Bank launched the upgraded 6.0 version of the Mobile Treasury on CMB Corporate APP catering to the core needs of legal persons, executives and other key personnel of enterprises, and provided them with convenient treasury management service via the mobile terminals. Thirdly, highlighting core financial scenarios such as cross-border, Special Service Section for Specific Scenario, financing and wealth management, the Bank built "Treasury Management Cloud + Special Service Section for Specific Scenario (財資管理雲+場景專區服務)" based on customers' perspective. As at 31 December 2023, the Bank had 2,713,700 wholesale customers on the online channels, representing an increase of 13.43% as compared with the end of 2022. The coverage rate of wholesale customers on the online channels was 96.21%, representing an increase of 1.50 percentage points as compared with the end of 2022. The Bank had 1,696,900 monthly active customers of wholesale online channels, representing a year-on-year increase of 11.68%; the total number of wholesale online channel transactions handled by the Bank reached 412 million, representing a year-on-year increase of 26.38%; and the total value of wholesale online channel transactions amounted to RMB210.22 trillion, representing a year-on-year increase of 20.37%.

Major Overseas Branches

Hong Kong Branch

Established in 2002, the Hong Kong Branch of the Bank is the first branch duly established overseas by the Bank, which can 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 comprehensive 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 can provide personal banking services and private wealth management services for customers. Featured products include "Hong Kong All-in-one Card" and "Hong Kong Bank-Securities Express".

For the year ended 31 December 2023, the Hong Kong Branch optimised its business structure, focused on customer group construction, continuously innovated and developed featured businesses while expanding and strengthening its traditional banking business, and increased investment in quality assets by capitalising on the interest rate hike, enhanced compliance and risk management, and achieved stable growth in efficiency while maintaining good control over asset quality. For the year ended 31 December 2023, the Hong Kong Branch achieved a net operating income of HKD3.552 billion.

New York Branch

Established in 2008, the New York Branch of the Bank is the first branch of Chinese banks approved in the U.S. since the implementation of U.S. 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 in China and the U.S. Such services and products mainly include: deposit-taking, settlement, foreign exchange transactions, international documents, trade financing, bilateral loans, syndicated loans, working capital financing, M&A financing, privatisation financing, fund financing, etc. At the same time, the New York 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.

For the year ended 31 December 2023, the New York Branch achieved notable results regarding customer base expansion, origination of quality asset, and digital transformation. For the year ended 31 December 2023, the New York Branch achieved a net operating income of U.S.$91.7710 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 takes cross-border finance and wealth management as its core businesses. In terms of cross-border financial business, the Singapore branch strives to provide all-round one-stop solutions to the Chinese companies "going global" and the foreign companies "brought in" located in Singapore and other Southeast Asian countries. The main services and products of the Singapore Branch 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 provided private banking products and value-added services with integrated investment and financing services, such as cash management, asset allocation and wealth inheritance to high-net-worth customers.

For the year ended 31 December 2023, the Singapore Branch has practised the strategy of "building a value creation bank" and broadened the range of its customer services focusing on strategic customers "going global", while assisting the branch's characteristic operation with regional advantages, to create value in diversified businesses. For the year ended 31 December 2023, the Singapore Branch achieved a net operating income of U.S.$22.4820 million.

Luxembourg Branch

The Luxembourg Branch of the Bank, established in 2015, is positioned as an important cross-border financial platform in continental Europe, providing comprehensive cross-border one-stop financial solutions to 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. The branch is also committed to building a business platform in Europe by combining the advantages of the Bank and European characteristics.

For the year ended 31 December 2023, the Luxembourg Branch clarified its strategic orientation, optimised its customer structure, and cemented its business roots. For the year ended 31 December 2023, the Luxembourg Branch achieved a net operating income of EUR36.8897 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 one-stop financial 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. At the same time, 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.

For the year ended 31 December 2023, the London Branch adhered to a value-oriented strategy by emphasising on origination of quality asset and building a value-based customer group, deepening business restructuring and optimising customer structure, and solidifying the foundations of risk and compliance management, therefore achieving steady progress in its overall business operations amid stability. For the year ended 31 December 2023, the London Branch achieved a net operating income of U.S.$19.6287 million.

Sydney Branch

The Sydney Branch of the Bank was established in 2017 and is the first branch approved to be established in Australia among the PRC joint-stock commercial banks. Based on the overall requirement of "steady growth, improved quality and efficiency, enhanced foundation, featured business and risk prevention", the Sydney Branch adheres to the high-quality development path guided by the Bank's values and managed to get a foothold in businesses derived from China-Australia economic, trade and investment exchanges. The Sydney Branch focuses on the needs of the strategic customers and top-tiered customers of Australia and New Zealand, creating value for customers through providing two-way cross-border financial services. The main services and products of the Sydney Branch include: settlement, foreign exchange transactions, trade financing, M&A financing and commitment business, project financing, syndicated loans and fund financing. At the same time, the 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.

For the year ended 31 December 2023, the Sydney Branch promoted the balanced business development with origination of high-quality asset. For the year ended 31 December 2023, the Sydney Branch achieved a net operating income of AUD58.3127 million.

Major Subsidiaries

The Bank exercises the rights of shareholders in compliance with the law, keeps on strengthening the comprehensive control over the corporate governance, capital management, risk management, financial management and other aspects of its subsidiaries, and capitalises on the synergy of comprehensive operation to enhance the Group's capabilities of providing comprehensive financial services to customers while achieving their own high-quality growth.

CMB Wing Lung Bank Limited

Founded in 1933, CMB Wing Lung Bank has a registered capital of HKD1.161 billion, and is a wholly-owned subsidiary of the Bank in Hong Kong. CMB Wing Lung Bank provides customers with diversified banking products and services, including retail and private banking, corporate banking and other banking businesses. CMB Wing Lung Bank also provides asset management and insurance brokerage services through its subsidiaries.

As at 31 December 2023, the total assets of CMB Wing Lung Group amounted to HKD426.640 billion. Total equity attributable to shareholders amounted to HKD46.392 billion. For the year ended 31 December 2023, CMB Wing Lung Group realised a net profit attributable to shareholders of HKD1.605 billion. For detailed financial information on CMB Wing Lung Group, please refer to the 2023 annual results of CMB Wing Lung Bank, which is published on the website of CMB Wing Lung Bank (www.cmbwinglungbank.com).

CMB Financial Leasing Co., Ltd.

CMB Financial Leasing is a wholly-owned subsidiary established by the Bank in 2008 with a registered capital of RMB12 billion. It meets the needs of lessees to purchase equipment, promote sales, revitalise assets, balance tax burden and improve financial structure through 10 major financial solutions relating to aviation, shipping, energy, infrastructure, equipment manufacturing, environment, health, culture and tourism, public transportation and logistics, intelligent interconnect and integrated circuit and leasing industry, etc.

As at 31 December 2023, the total assets of CMB Financial Leasing were RMB290.794 billion and the net assets were RMB33.111 billion. For the year ended 31 December 2023, the net profit was RMB3.675 billion.

CMB International Capital Holdings Corporation Limited

Established in 1993, CMB International Capital is a wholly-owned subsidiary of the Bank in Hong Kong with a registered capital of HKD4.129 billion. At present, the business scope of CMB International Capital and its subsidiaries mainly covers corporate finance, asset management, wealth management, global market business and structured finance.

As at 31 December 2023, the total assets of CMB International Capital amounted to HKD69.714 billion, and its net assets amounted to HKD13.146 billion. For the year ended 31 December 2023, it realised a net profit of HKD1.152 billion.

CMB Wealth Management

CMB Wealth Management was officially opened in 2019, and its business scope includes issuing wealth management products, providing wealth management advisory and consulting services and other businesses approved by regulatory authorities. As at 31 December 2023, the registered capital of CMB Wealth Management was approximately RMB5.556 billion. The Bank and JP Morgan Asset Management (Asia Pacific) Limited hold 90% and 10% of its shares respectively.

As at 31 December 2023, CMB Wealth Management had total assets of RMB21.062 billion and net assets of RMB20.135 billion. For the year ended 31 December 2023, the net profit was RMB3.190 billion.

China Merchants Fund

Established in 2002, China Merchants Fund has a registered capital of RMB1.31 billion. As at 31 December 2023, the Bank and China Merchants Securities Co., Ltd. held 55% and 45% of China Merchants Fund's shares, respectively. The business scope of China Merchants Fund covers fund establishment, fund management and other operations approved by the CSRC.

As at 31 December 2023, the total assets of China Merchants Fund amounted to RMB14.151 billion, and its net assets amounted to RMB9.325 billion. It realised a net profit of RMB1.753 billion for the year ended 31 December 2023.

CIGNA & CMAM

CIGNA & CMAM was established in 2020 with a registered capital of RMB500 million, and it is an indirectly owned subsidiary of the Bank, which is owned as to 87.3458% and 12.6542% by CIGNA & CMB Life Insurance Co., Ltd. ("**CIGNA & CMB Life Insurance**"), a joint venture of the Bank, and CMB International Capital, a subsidiary of the Bank, respectively. The business scope of CIGNA & CMAM includes entrusted management of client's funds, issuance of insurance asset management products and asset management related consultation business.

As at 31 December 2023, CIGNA & CMAM had total assets of RMB920 million, with net assets of RMB713 million and a net profit of RMB108 million for the year ended 31 December 2023.

CMB Europe S.A.

CMB Europe S.A. was approved to be established in 2021 with a registered capital of EUR100 million (the Bank made an additional capital injection of EUR50 million to CMB Europe S.A. in June 2023). It is a wholly-owned subsidiary of the Bank in Europe and the regional headquarter of the Bank in continental Europe. CMB Europe S.A. will be fully integrated into the Bank's extensive wealth management system and leverage its full licence advantage to provide its 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 2023, CMB Europe S.A. had total assets of EUR118 million and net assets of EUR92 million.

Major Joint Ventures[22]

CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance, a joint venture of the Bank, was established in 2003 with a registered capital of RMB2.8 billion. As at 31 December 2023, the Bank held 50% shares in CIGNA & CMB Life Insurance and Cigna Health and Life Insurance Company held the other 50% shares. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance, accident injury insurance and the reinsurance of the above insurances.

As at 31 December 2023, the total assets of CIGNA & CMB Life Insurance amounted to RMB165.340 billion, and its net assets amounted to RMB9.855 billion. For the year ended 31 December 2023, CIGNA & CMB Life Insurance realised a net profit of RMB429 million.

Merchants Union Consumer Finance

Merchants Union Consumer Finance, a joint venture of the Bank, was established in 2015 with a registered capital of RMB10.0 billion. As at 31 December 2023, the Bank held 50% shares in Merchants Union Consumer Finance and China United Network Communications Limited held the other 50% shares. Upon the approval from regulatory authorities, Merchants Union Consumer Finance completed the registration of the change of its Chinese name from "招聯消費金融有限公司" to "招聯消費金融股份有限公司" in July 2023. Merchants Union Consumer Finance is mainly engaged in the granting of personal consumer loans.

As at 31 December 2023, the total assets of Merchants Union Consumer Finance amounted to RMB176.421 billion and the net assets were RMB20.367 billion. It realised a net profit of RMB3.600 billion for the year ended 31 December 2023.

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. The Bank took the lead in the industry in achieving a full-scale cloud deployment, and the "Project of Full-scale Cloud Deployment of CMB Banking System" won the first prize of Fintech Development Award of the People's Bank of China. The Bank initiated the construction of a large model ecosystem, and established a large model experience platform, connecting to multiple mainstream large models in China.

[22] The major joint ventures of the Bank include CIGNA & CMB Life Insurance and Merchants Union Consumer Finance, and their financial data have been adjusted in accordance with the accounting policies of the Group, where necessary.

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 such that 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 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. It 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. 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.

In 2023, the Bank sped up the transition from "Online CMB" to "Smart CMB". It increased input in technology with the information technology input reaching 4.60% of the Bank's net operating income, and R&D personnel accounting for 9.14% of its total employee headcount. The Bank sets its sights on the cutting edge technologies, robustly strengthened the research and development as well as comprehensive applications of AI technology, and launched brand new intelligent wealth assistant "Xiao Zhao (小招)". AI has relieved staff from repetitive, time-consuming work equivalent to the workload of over 17,000 individuals. The Bank improved its service capability of "people + digitalisation", serving over 200 million users via the CMB APP; the online rate of its basic corporate banking business and financing business exceeded 92%; the digital application capabilities of all employees of the Bank continued to improve, further enhancing the quality and efficiency for integrated online and offline services.

In terms of information security, the Information Security Management Committee of the Bank has set up a data security team led by the Information Technology Department at the Head Office, which is composed of the leaders in charge of data security and data security administrators from over 40 departments at the Head Office, to oversee and implement various key areas of data security. The Information Technology Department at the Head Office, as a leading management department for network security, is responsible for the Group's network security management under the leadership of the Information Security Management Committee. The Information Technology Department at the Head Office, the Risk Management Department at the Head Office and audit departments at all levels assume the responsibilities of the first, second and third lines of defence for network and data security management.

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 Environmental, Social and Governance ("**ESG**") into the daily operation and management of the Bank, constantly improve the sustainable development management mechanism, fully communicate with stakeholders, effectively fulfil corporate social responsibility and continuously promotes high-quality financial development.

In 2023, the Bank achieved the social contribution value of RMB17.04 per share[23] (calculated on the Group's statistical calibre), and the total amount of external donations of the Bank was RMB115 million.

The Bank continued to promoting green finance, green operation and building a green home. For the year ended 31 December 2023, the Bank did not have any environmental violations.

Green Finance

The Bank actively integrated itself into the national green development strategy. For the year ended 31 December 2023, the Bank released the "CMB Green Finance" brand, which is in line with the green development of the Bank, with an aim to realise green value creation. In addition, it published the "Sustainable Finance Report under 'Dual Carbon' Goal" (《"雙碳"背景下的可持續金融報告》) to provide guidance on implementing the green finance business strategy. Moreover, the Bank incorporated the green finance concept into the main direction of the Bank's financial development, with a view to building a green financial service system to help achieve the "dual carbon" goal in the PRC. The Bank innovated and promoted carbon-linked loan products, deploying 18 carbon-linked loans in 2023, totalling RMB370 million. For the year ended 31 December 2023, the Bank further increased the provision of green financial services focusing on green deposits, green credits, ESG bonds, green wealth management, green investment, green consumption and others.

In terms of green deposit and green credit, the Bank launched innovative green deposit products, while increasing the funds allocation to the green sector, with a focus on energy conservation and environmental protection, clean production, clean energy, ecological environment, green upgrade of infrastructure, green services and other sectors. For the year ended 31 December 2023, the Bank's green deposits[24] amount was RMB917 million with a closing balance of RMB420 million. As at 31 December 2023, the Bank's balance of green loans was RMB447.765 billion, representing an increase of 26.00% as compared with the end of 2022. For the year ended 31 December 2023, the Bank granted RMB370 million of carbon emission reduction-linked loans. For the year ended 31 December 2023, CMB Financial Leasing, a subsidiary of the Bank, granted loans of RMB54.721 billion in green leasing, accounting for 49.67% of the total loans granted by CMB Financial Leasing, with a closing balance for green leasing of RMB121.500 billion, representing an increase of 15.31% as compared with the end of 2022.

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[23] Social contribution value per share = basic earnings per share + (taxes paid + employee expenses + interest expenses + total external donations)/total share capital of ordinary shares at the end of the period.

[24] Green deposit is a green finance product that raises funds for sustainable projects of green economy, helping drive the economic transition to low carbon, climate change adapted and sustainable development.

With respect to ESG bonds, for the year ended 31 December 2023, the Bank issued the world's first floating-rate blue bond overseas with an issuing scale of U.S.$400 million. The proceeds raised will be applied to support sustainable water resources management and offshore wind power projects, contributing to water ecological protection, marine renewable energy and marine economic construction. As at 31 December 2023, the balance of the Bank's existing domestic green bonds amounted to RMB15.000 billion, and the balance of existing overseas ESG bonds amounted to U.S.$1.900 billion. For the year ended 31 December 2023, the Bank served as leading underwriter for 41 green bonds and underwrote RMB27.073 billion in those bonds. For the year ended 31 December 2023, CMB International Capital, a subsidiary of the Bank, assisted 11 enterprises to issue 11 green bonds, with a fundraising scale of U.S.$5.980 billion.

In terms of green wealth management, as at 31 December 2023, the Bank had a total of 7 existing ESG-themed wealth management products from its agency distribution, with a balance of RMB3.718 billion. CMB Wealth Management, a subsidiary of the Bank, issued 4 ESG-concept wealth management products in total, with an existing fund size of RMB1.730 billion.

In terms of green investment, the Bank's subsidiaries effectively practised the ESG investment philosophy. CMB Wealth Management prioritised the investment in green finance products such as green finance bonds, green enterprise bonds, green debt financing instruments and green asset-backed securities, with a balance of green bonds investment of RMB29.286 billion as at 31 December 2023. China Merchants Fund insisted on taking social responsibility, ESG guidelines and "dual carbon" strategy as the main direction of product deployment, and constantly improved the product spectrum of ESG funds. For the year ended 31 December 2023, it focused on the issuance of China Merchants Social Responsibility Mixed Fund and China Merchants CFETS Green Bond Index Fund, the first green bond index product in the industry. As at 31 December 2023, China Merchants Fund had a total of 10 existing ESG-related products, with an existing fund size of RMB9.321 billion, representing an increase of 154.53% as compared with the end of 2022. CMB International Capital actively promoted the transformation, upgrading and sustainable development of the green industry, and invested in 8 green finance industry projects with an amount of totalling RMB735 million for the year ended 31 December 2023.

In terms of promoting green consumption, the Bank strengthened proactive marketing to customers in environmental-friendly and green properties, advanced the granting of green micro-finance loans, and proactively explored green consumption business innovation. For the year ended 31 December 2023, the Bank issued the green and low-carbon themed credit card which is integrated with a number of exclusive rights and interests regarding environmental protection. The Bank also increased its financial support to new energy vehicles, created the "e-second car purchase" green finance product, simplified the application process for new energy vehicle instalments, pioneered the dedicated service model for new energy business, and worked with new energy vehicle shops to provide customers with one-stop services from shop entry to vehicle delivery and vehicle registration, so as to facilitate green consumption.

Green Operation

The Bank continued to promote the establishment of smart service system. By strengthening smart service capabilities, enriching online services, and optimising service points, the Bank provided convenient digital financial services to hundred-million customers to effectively reduce the frequency of customers going to physical outlets for business, thereby decreasing carbon emissions from customer travel. The Bank encouraged credit card customers to accept electronic bills and continued to upgrade and optimise reconciliation across various online channels, as well as guided customers to check their accounts quickly through self-service channels. As at 31 December 2023, with the proportion of credit card electronic bill reaching 99.57%, the Bank saved more than 1.893 billion pieces of paper in billing for the year ended 31 December 2023.

The Bank adhered to the concept of "green operation", striving to reduce the impact of operation on the environment. For the year ended 31 December 2023, starting with sorting out the Bank's carbon footprint to identify carbon emission sources, the Bank conducted a comprehensive inventory of all carbon emission sources of over 1,900 organisations across the Bank over the past three years benchmarking against general international standards, and grasped the energy management mechanism and consumption of each organisation. The Bank assessed the potential for carbon emission reduction based on the results of the inventory, to formulate carbon emission reduction measures. From the perspectives of energy management, water resources management, paper management, waste management and other dimensions, the Bank implemented various emission reduction measures according to local conditions, and effectively promoted the green transformation of its operations.

In terms of energy management, as at 31 December 2023, the online energy management platform achieved automatic collection and real-time monitoring of the power energy consumption data of 54 Head Office and branch office buildings and 172 sub-branch offices. Through a series of energy-saving measures and continuous refinement of management, the energy consumption per square metre of the Head Office Tower was 118.98KWH/(㎡a) in 2023, which was reduced to below the constraint value as published in the "Guangdong Province Standard for Energy Consumption of Public Buildings", and successfully passed the assessment of "Three-Star Green Property Management Project" in Shenzhen. The Pinghu Data Centre in Shenzhen and Zhangjiang Data Centre in Shanghai reduced power consumption by about 10.82 million kWh a year through various measures such as AI controlled tuning of the chilled water system, use of natural cooling sources, highly airtight cold and hot aisles, intelligent speed-regulated operation of precision air conditioners, and intelligent lighting.

In terms of water resources management, the Bank earnestly carried out water conservation publicity campaign and water conservation sign posting; completed direct drinking fountain renovation in the break room and removed barrelled water; reduced the use of bottled water during meetings and receptions; installed additional air-conditioning condensate recycling equipment with the processed air-conditioning condensate as a source of water for the atrium pool; adopted infrared-detecting human-sensor faucets and water-saving toilets; and used high-pressure scrubbers and sweeping robots to sweep the floor of the plaza and lobbies to enhance the efficiency of water resource utilisation.

In terms of paper management, the Bank actively carried out daily paper-saving publicity campaign, advocated double-sided printing, adopted shared printers monitoring and other measures to reduce paper-wasting behaviours; reduced the consumption of all kinds of materials for meetings, such as disposable paper cups and tissues. The Bank also used big data and cloud storage instead of paper archives, and reduced the use of paper documents through system module construction. For the year ended 31 December 2023, through continuously promoting straight-through business processes and digitalisation of counter service agreements, the Bank saved approximately 69.96 million pieces of paper, achieving energy saving and carbon emission reduction of 181.90 tonnes.

In terms of waste management, the Bank has set up various treatment methods for different types of wastes to ensure that wastes are treated in a timely and scientific manner. For the year ended 31 December 2023, the Bank standardised the garbage storage sites on the office floors of the Head Office Tower to achieve full-process compliance management of garbage classification at the Head Office Tower; advocated the "Clean Your Plate" campaign and promoted the "Against Food Waste" work. For the year ended 31 December 2023, food waste for the five restaurants at the Head Office decreased by 9.81% year-on-year.

EMPLOYEES

As at 31 December 2023, the Group had a total of 116,529 employees[25] (including dispatched employees).

The classification of the Group's employees by gender is: 49,864 males and 66,665 females, with a relatively balanced gender ratio.

The classification of the Group's employees by profession is: 19,746 employees in corporate finance, 52,834 employees in retail finance, 6,844 employees in risk management, 17,377 employees in operation and management, 10,650 employees in research and development, 983 employees in administrative and logistics support and 8,095 employees in comprehensive management.

The classification of the Group's employees by educational background is: 28,352 employees with master's degrees and above, 74,849 employees with bachelor's degrees and 13,328 employees with junior college degrees or below.

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 2024

On 29 April 2024, the Group announced its unaudited IFRS financial results as at and for the three months ended 31 March 2024. 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 2023 and 2024 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 2023 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.

[25] Including employees of the Bank, CMB Wing Lung Bank and its subsidiaries, CMB Financial Leasing, CMB International Capital and its subsidiaries, CMB Wealth Management, China Merchants Fund and its subsidiaries, CIGNA & CMB Life Insurance, CIGNA & CMAM, MUCFC, CMB Network Technology and CMB YunChuang.

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	
	2024	2023
	(unaudited) (Expressed in millions of Renminbi unless otherwise stated)	
Interest income	94,135	93,344
Interest expense	(42,135)	(37,935)
Net interest income	**52,000**	**55,409**
Fee and commission income	22,296	27,317
Fee and commission expense	(2,092)	(2,238)
Net fee and commission income	**20,204**	**25,079**
Other net income	**13,470**	**9,344**
Operating income	**85,674**	**89,832**
Operating expenses	(26,965)	(27,323)
Operating profit before impairment losses	**58,709**	**62,509**
Expected credit losses	(14,267)	(16,421)
Share of profits of joint ventures	371	529
Share of profits of associates	375	264
Profit before taxation	**45,188**	**46,881**
Income tax	(6,746)	(7,655)
Profits for the period	**38,442**	**39,226**
Attributable to:		
Equity holders of the Bank	38,077	38,839
Non-controlling interests	365	387
Earnings per share		
Basic and diluted (RMB Yuan)	1.51	1.54
Profit for the period	**38,442**	**39,226**
Other comprehensive income after tax		
Items that may be reclassified subsequently to profit or loss:		
Net fair value gain/(loss) on financial assets measured at fair value through other comprehensive income	2,867	(1,473)
Net changes in expected credit losses of financial assets measured at fair value through other comprehensive income	(403)	(1,626)
Net movement in cash flow hedge reserve	(12)	(36)
Share of other comprehensive income/(expense) from equity-accounted investees	636	466
Exchange difference on translation of financial statements of foreign operations	822	(935)
Items that will not be reclassified subsequently to profit or loss:		
Net fair value gain on equity instruments designated at fair value through other comprehensive income	650	277
Other comprehensive income for the period, net of tax	**4,560**	**(3,327)**
Attributable to:		
Equity holders of the Bank	4,518	(3,255)
Non-controlling interests	42	(72)
Total comprehensive income for the period	**43,002**	**35,899**
Attributable to:		
Equity holders of the Bank	42,595	35,584
Non-controlling interests	407	315

The following table sets forth, as at the dates indicated, the Group's unaudited consolidated statement of financial position.

	As at 31 March 2024	As at 31 December 2023
	(unaudited) (Expressed in millions of Renminbi unless otherwise stated)	
Assets		
Cash	16,129	14,931
Precious metals	2,209	2,321
Balances with central bank	797,211	667,871
Balances with banks and other financial institutions	92,427	100,769
Placements with banks and other financial institutions	294,182	287,694
Amounts held under resale agreements	224,494	172,246
Loans and advances to customers	6,555,072	6,252,755
Financial investments at fair value through profit and loss	524,686	526,145
Derivative financial assets	19,463	18,733
Debt investments at amortised cost	1,739,594	1,749,024
Debt investments at fair value through other comprehensive income	916,465	899,102
Equity investments designated at fair value through other comprehensive income	20,117	19,649
Interest in joint ventures	16,649	15,707
Interest in associates	11,574	10,883
Investment properties	1,139	1,160
Property and equipment	119,210	115,348
Right-of-use assets	17,215	17,041
Intangible assets	2,535	2,709
Goodwill	9,954	9,954
Deferred tax assets	89,978	90,557
Other assets	49,923	53,884
Total assets	**11,520,226**	**11,028,483**
Liabilities		
Borrowings from central bank	254,270	378,621
Deposits from banks and other financial institutions	561,995	508,378
Placements from banks and other financial institutions	277,693	247,299
Financial liabilities at fair value through profit or loss	48,765	43,958
Derivative financial liabilities	17,413	17,443
Amounts sold under repurchase agreements	162,679	135,078
Deposits from customers	8,533,902	8,240,498
Salaries and welfare payable	28,346	28,679
Tax payable	16,308	13,597
Contract liabilities	5,251	5,486
Lease liabilities	12,907	12,675
Provisions	21,142	19,662
Debt securities issued	311,560	176,578
Deferred tax liabilities	1,638	1,607
Other liabilities	140,866	113,195
Total liabilities	**10,394,735**	**9,942,754**

	As at 31 March 2024	As at 31 December 2023
	(unaudited) (Expressed in millions of Renminbi unless otherwise stated)	
Equity		
Share capital	25,220	25,220
Other equity instruments	150,446	150,446
Including: Preference shares	27,468	27,468
Perpetual bonds	122,978	122,978
Capital reserve	65,432	65,432
Investment revaluation reserve	17,370	13,656
Hedging reserve	80	92
Surplus reserve	108,737	108,737
General reserve	141,591	141,481
Retained profits	556,627	518,638
Proposed profit appropriations	49,734	49,734
Exchange reserve	3,728	2,934
Total equity attributable to shareholders of the Bank	**1,118,965**	**1,076,370**
Non-controlling interest	6,526	9,359
Including: Non-controlling interest	6,526	6,521
Perpetual debt capital	–	2,838
Total equity	**1,125,491**	**1,085,729**
Total liabilities and equity	**11,520,226**	**11,028,483**

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	
	2024	2023
	(unaudited) (Expressed in millions of Renminbi unless otherwise stated)	
Net cash generated from operating activities before income tax payment	3,477	(7,732)
Income tax paid	(4,685)	(4,886)
Net cash used in operating activities	(1,208)	(12,618)
Net cash flows generated from/(used in) investing activities	1,119	(91,875)
Net cash generated from financing activities	129,954	43,944
Increase/(decrease) in cash and cash equivalents	**129,865**	**(60,549)**
Cash and cash equivalents as of 1 January	599,019	567,198
Effects of foreign exchange rate changes on cash and cash equivalents	195	(1,709)
Cash and cash equivalents as of 31 March	**729,079**	**504,940**

Analysis of capital adequacy ratios as at 31 March 2024

The Bank continuously optimise its business structure and enhance capital management and satisfies the various capital requirements of the PRC Banking Regulatory Authority.

As at 31 March 2024, 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 14.07%, 16.30% and 18.20%, respectively.

The Group	As at 31 March 2024	As at 31 December 2023
	(in millions of RMB, except for percentages)	
The capital adequacy ratios under the Advanced Measurement Approach[1]		
1. Net core Tier 1 capital	948,069	907,308
2. Net Tier 1 capital	1,098,515	1,057,754
3. Net capital	1,226,629	1,181,487
4. Core Tier 1 capital adequacy ratio	14.07%	13.73%
5. Tier 1 capital adequacy ratio	16.30%	16.01%
6. Capital adequacy ratio	18.20%	17.88%
Information on leverage ratio[2]		
7. Balance of on- and off-balance sheet assets after adjustment	13,549,939	12,806,260
8. Leverage ratio	8.11%	8.26%

(1) The "Advanced Measurement Approach" refers to the "Internal Ratings-Based (IRB) Approach for Credit Risk", "the Standardised Approach for Market Risk" and "the Standardised Approach for Operational Risk" set out in the "Capital Rules for Commercial Banks" issued by the National Financial Regulatory Administration on 1 November 2023 (same as below). In accordance with the provisions of the "Capital Rules for Commercial Banks", the scope of entities for calculating the capital adequacy ratios of the Group shall include the Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratios of the Bank shall include all the domestic and overseas branches and sub-branches of the Bank. As at 31 December 2023, the Group's subsidiaries for calculating its capital adequacy ratios included CMB Wing Lung Bank, CMB International Capital, CMB Financial Leasing, CMB Wealth Management, China Merchants Fund, CIGNA & CMAM and CMB Europe S.A. A commercial bank shall use both the advanced capital measurement approach and other approach to calculate capital adequacy ratios in parallel and comply with the capital floor requirements.

(2) Since 2024, the leverage ratio shall be calculated based on the "Capital Rules for Commercial Banks" issued by the National Financial Regulatory Administration on 1 November 2023. The leverage ratios of the Group were 8.26%, 7.93% and 7.70% respectively as at the end of 2023, the end of the third quarter and the end of the second quarter of 2023.

(3) As the "Capital Rules for Commercial Banks" came into effect on 1 January 2024, the data as at 31 March 2024 in the above table was calculated in accordance with the provisions of the "Capital Rules for Commercial Banks", while the data as at 31 December 2023 was still calculated in accordance with the provisions of the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012 (same as below).

As at 31 March 2024, the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of the Group under the Weighted Approach were 12.01%, 13.92% and 15.01%, respectively.

The Group	As at 31 March 2024	As at 31 December 2023
The capital adequacy ratios under the Weighted Approach[(1)]		
1. Core Tier 1 capital adequacy ratio	12.01%	11.86%
2. Tier 1 capital adequacy ratio	13.92%	13.82%
3. Capital adequacy ratio	15.01%	14.96%

(1) The "Weighted Approach" refers to the Weighted Approach for credit risk, the Standardised Approach for market risk and the Standardised Approach for operational risk in accordance with the relevant provisions of the "Capital Rules for Commercial Banks" issued by NFRA on 1 November 2023.

FUNDING AND CAPITAL ADEQUACY OF THE BANK

FUNDING

As at 31 December 2023, total deposits from customers of the Group amounted to RMB8,155.438 billion, representing an increase of 8.22% as compared with the end of 2022. Deposits from customers, accounting for 82.0% 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			
	2023		2022	
	Amount	Percentage	Amount	Percentage
		(%)		(%)
	(in millions of RMB, except for percentages)			
Corporate customer deposits				
Demand	2,644,685	32.43	2,762,671	36.66
Time	2,015,837	24.72	1,668,882	22.15
Subtotal	**4,660,522**	**57.15**	**4,431,553**	**58.81**
Deposits from retail customers				
Demand	1,829,612	22.43	1,983,364	26.32
Time	1,665,304	20.42	1,120,825	14.87
Subtotal	**3,494,916**	**42.85**	**3,104,189**	**41.19**
Total deposits from customers	**8,155,438**	**100.00**	**7,535,742**	**100.00**

In 2023, the percentage of daily average balance of the demand deposits to that of the deposits from customers of the Group was 57.08%, representing a decrease of 4.55 percentage points as compared with 2022. Among which, the daily average balance of demand deposits from corporate customers accounted for 57.31% of that of the corporate customer deposits, representing a decrease of 2.67 percentage points as compared with that of 2022, and the daily average balance of demand deposits from retail customers accounted for 56.74% of that of the deposits from retail customers, representing a decrease of 7.69 percentage points as compared with that of 2022. Factors such as decrease in risk appetite of customers and insufficient liquidity activities of enterprises along with the increased customers' demand for investment in time deposit products contributed to a decrease in proportion of demand deposits.

The following table sets out a breakdown of the Group's customer deposits by remaining maturity for the periods indicated:

	As at 31 December			
	2023		2022	
	Amount	Percentage	Amount	Percentage
		(%)		(%)
	(in millions of RMB, except for percentages)			
Repayable on demand	4,474,297	54.86	4,746,035	62.98
Within 1 month	432,094	5.30	384,557	5.10
1 to 3 months	542,828	6.66	393,284	5.22
3 months to 1 year	1,301,368	15.96	861,631	11.43
1 to 5 years	1,375,860	16.87	1,115,153	14.80
Over 5 years	28,991	0.36	35,082	0.47
Total	**8,155,438**	**100.00**	**7,535,742**	**100.00**

CAPITAL ADEQUACY

The Bank kept on optimising its business structure and strengthening capital management. For the year ended 31 December 2023, the Bank met various capital requirements of the supervisory and management bodies of the banking industry in China during 2023 with sufficient capital buffer. In September 2023, the list of domestic systemically important banks in 2023 was released. The Bank was still in the third group of the list and still 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 2023, 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 2023, 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 13.73%, 16.01% and 17.88% respectively, representing an increase of 0.05, 0.26 and 0.11 percentage point respectively, as compared with the end of 2022.

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	
	2023	2022
	(in millions of RMB, except for percentages)	
The Group		
Capital adequacy ratios under the Advanced Measurement Approach[1]		
Net core Tier 1 capital	907,308	799,352
Net Tier 1 capital	1,057,754	919,798
Net capital	1,181,487	1,037,942
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	5,919,504	5,491,072
Of which: Credit risk weighted assets	5,226,757	4,823,836
Market risk weighted assets	86,751	89,200
Operational risk weighted assets	605,996	578,036
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period))	6,608,021	5,841,685
Core Tier 1 capital adequacy ratio	13.73%	13.68%
Tier 1 capital adequacy ratio	16.01%	15.75%
Capital adequacy ratio	17.88%	17.77%
Information on leverage ratio[2]		
Balance of adjusted on- and off-balance sheet assets	12,806,260	11,569,842
Leverage ratio	8.26%	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 December 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 & CMAM 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 7.93%, 7.70% and 7.96% respectively as at the end of the third quarter, the end of the half year and the end of the first quarter of 2023.

As at 31 December 2023, 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 13.32%, 15.70% and 17.62% respectively, representing an increase of 0.09, 0.28 and 0.11 percentage points respectively, as compared with the end of 2022.

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	
	2023	2022
	(in millions of RMB, except for percentages)	
The Bank		
Capital adequacy ratios under the Advanced Measurement Approach		
Net core Tier 1 capital	801,565	701,033
Net Tier 1 capital	944,349	817,387
Net capital	1,059,697	927,881
Risk weighted assets (without taking into consideration the floor requirements during the parallel run period)	5,295,085	4,925,532
Of which: Credit risk weighted assets	4,673,703	4,330,955
Market risk weighted assets	67,143	69,000
Operational risk weighted assets	554,239	525,577
Risk weighted assets (taking into consideration the floor requirements during the parallel run period)	6,015,774	5,299,237
Core Tier 1 capital adequacy ratio	13.32%	13.23%
Tier 1 capital adequacy ratio	15.70%	15.42%
Capital adequacy ratio	**17.62%**	**17.51%**

RISK MANAGEMENT OF THE BANK

OVERVIEW

The Bank adhered to a solid and prudent risk culture and risk appetite and was dedicated to building a fortress-style overall risk and compliance management system. The Risk and Compliance Management Committee of the Head Office is responsible for reviewing and determining the most significant bank-wide risk management policies under the framework of risk appetite, strategies, policies and authorisations approved by the Board of Directors.

In 2023, the Bank maintained strategic determination, and continued to increase its support to the real economy. The Bank prevented and mitigated risks, consolidated management foundation, improved digital risk control capabilities, and continued to promote the construction of a fortress-style risk and compliance management system.

Credit risk management

Credit risk refers to the risk arising from a bank's borrowers or counterparties failing to perform their obligations as agreed. The Bank adhered to the concept of balanced returns and risks and the prudent business strategy in which risks can be ultimately covered by capital, pursued the dynamically balanced development of "Quality, Profitability and Scale", implemented a unified credit risk preference, optimised the full-life cycle credit risk management process, continuously upgraded credit risk management tools, reinforced the construction of three lines of defence and strengthened risk management capability, so as to prevent and reduce credit risk loss.

In 2023, the Bank closely monitored the macroeconomic situation, actively responded to the changes, rigorously upheld the bottom line and took a number of initiatives to ensure stable asset quality. Firstly, the Bank has strengthened the risk management of domestic and overseas branches and subsidiaries, established a branch-based risk profile rating system, put in place the framework and principles for risk management in subsidiaries, and further consolidated the risk management foundation. Secondly, the Bank improved the risk management system, tightened risk management for its off-balance sheet business in strict accordance with regulatory requirements, optimised administrative measures such as the centralised system of credit granting and credit facility management over group customers, and consolidated the foundation of the risk management system for extensive wealth management. Thirdly, the Bank carried out strict management in key risk areas, especially strengthening the closed-loop management in the real estate sector. The Bank conducted risk screening targeting key industries and key customer groups and enhanced differentiated and refined risk management capabilities. Fourthly, based on the current situation with a long-term perspective, and revolving around the strategy of "dynamic rebalancing" of industries, regions and customer bases, the Bank strengthened research on key industries relying on industry self-organisation, built on its professional capabilities, improved policy adaptability and promoted the implementation of "one branch, one policy" principle of list-based customer management for assets business, so as to optimise the asset origination and support the high-quality development of the real economy. Fifthly, the Bank enhanced its efforts in disposal of non-performing loans, focused on key risk items, implemented different measures based on different categories, expanded the channels for disposal of non-performing assets, and improved the quality and efficiency of settlement, collection and disposal. Sixthly, the Bank enhanced the application of Fintech, optimised the risk management system, enhanced the risk measurement capability and promoted the digital transformation of risk management.

Management of large-scale risk exposure

In accordance with the Rules on Large Exposure of Commercial Banks (《商業銀行大額風險暴露管理辦法》), large 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 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 risk exposures by way of Fintech, and reported regularly on large risk exposure indicators and related management work to regulatory authorities, so as to effectively control customer concentration risks. As at 31 December 2023, 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 risk exposure were all in compliance with the regulatory requirements.

Country risk management

Country risks represent the risks of political, economic, social changes and incidents in a country or region that may cause debtors in that country or region to be unable or unwilling to fulfil their obligations to banks, or incur losses 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 relatively-low-risk countries or regions. Major matters involving country risk management strategies and policies were submitted to the Board of Directors for consideration and approval.

In 2023, the global geopolitical conflict continued. 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, tightened the monitoring and limit control of country risk and strictly restricted the growth of business in high-risk countries. As at 31 December 2023, the Bank's country risk exposure was mainly concentrated in relatively-low-risk countries or regions. 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 unfavourable 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 unfavourable 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 routine 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 routine monitoring and continuous reporting.

- In 2023, the Sino-US interest rate spread inverted under the weight of continued interest rate hikes by the US Federal Reserve, with the RMB interest rate demonstrating an overall downward trend, while the U.S. dollar interest rate fluctuated with an upward trend and remained at high levels. The scope of investment in the Bank's trading books mainly covered RMB bonds. The Bank generally adopted a prudent trading strategy and prudent risk control measures to ensure that all interest rate risk indicators of the trading book remained within the target range.

Banking book

- In accordance with external regulatory requirements and internal banking book interest rate risk management policies, the Bank has established and continuously improved the banking book interest rate risk management system, clarified the interest rate risk governance structure and established the management process of interest rate risk identification, measurement, monitoring, control and reporting. 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 Bank as a whole; 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 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).

- 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, prospectively deploys active interest rate risk management strategies and adjusts them flexibly. In 2023, 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 hedged interest rate derivatives off the balance sheet to manage risks. As at 31 December 2023, 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 routine 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 routine monitoring and on-going reporting.

- In 2023, RMB generally demonstrated a trend of "initially appreciation followed by a depreciation", with an accumulated depreciation once by as much as over 5.5% against the U.S. dollar. The depreciation of RMB narrowed to approximately 2.0% towards the end of 2023 as the US Federal Reserve suspended interest rate hikes resulting in decline of foreign exchange rate. The Bank's trading book mainly obtained the spread income through the foreign exchange business on behalf of customers, and implemented rigorous internal control and management through a well-established and efficient management system, and closely monitored changes of limit indicators such as sensitivity index and stop-loss indicator. All exchange rate risk indicators of the Bank's trading book were within the target range as of the end of the 31 December 2023.

  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 its banking book. 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, covering the

standard scenario, historical scenario, forward scenario and stress scenario, which include scenarios 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 scenario simulation on the profit and loss and its percentage to net capital as a limit indicator are taken as reference in the routine 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 auditing of our exchange rate risk.

- In 2023, 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 2023, 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. The Bank was prudent about the exchange rate risk. As at 31 December 2023, the scale of foreign exchange exposure of the Bank's banking book was at a relatively low level. The exchange rate risk of the Bank was 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 problematic 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 in-depth risk monitoring and pre-warning, improving assessment and evaluation mechanism, and cultivating operational risk prevention culture, further improve operational risk management capabilities and effectiveness, and prevent and reduce operational risk losses.

In 2023, by striving for the goal of preventing losses arising from systematic operational risk and major operational risk, the Bank continued to improve its operational risk management system. Firstly, the Bank carried out the implementation of the new Basel III operational risk standards at the group level, took the contents of the Basel III reform plan as a benchmark, and further improved the level of operational risk management. Secondly, the Bank strengthened risk prevention and control in key areas, carried out special investigation on agency clearing and settlement and other businesses and put forward management measures and suggestions. Thirdly, the Bank kept improving the operational risk management system, carried out system platform reconstruction and development and data migration, launched the new operational risk portal system within the Group in a comprehensive manner, continued to strengthen the construction and application of system tools and accelerated the digitalisation process of the operational

risk management. Fourthly, the Bank strengthened the second line of defence of information technology risk and business continuity management, and carried out informational technology process inspection, external events analysis and organised business continuity risk assessment. Fifthly, the Bank arranged for the Head Office, branches and subsidiaries to carry out centralised training for operational risk management and organising corresponding examination for the personnel holding relevant positions of operational risk management throughout the Bank, and issuing newsletters on operational risk management, so as to enhance the awareness of operational risk prevention at the Head Office, branches and subsidiaries.

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 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 has established a liquidity risk management governance structure 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, special committees and relevant departments are segregated to ensure the effectiveness of liquidity risk management.

In 2023, 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 yield. Firstly, the Bank constantly promoted the steady growth of customer deposits with multiple measures adopted to enhance the origination and support of assets, constantly optimised the asset-liability structure, realising the smooth operation of assets and liabilities. Secondly, the Bank strengthened forward-looking forecasts of liquidity indicators, flexibly carried out active liability management of treasury based on the operation of deposit and loan business and indicators, expanded diversified financing channels, stabilised the sources of long-term liabilities through bond issuance and other means. Thirdly, the Bank strengthened the management of monetary market trading strategies to maintain sufficient liquidity reserves, actively conducted open market transactions and played the role of a primary dealer. Fourthly, the Bank strengthened liquidity risk monitoring and management for business lines, overseas branches and subsidiaries with reasonable control of maturity mismatches. Fifthly, the Bank continued to carry out emergency management, tested and improved the liquidity emergency plan and effectively improved the ability to respond to liquidity risk events through regular liquidity risk emergency drills.

As at 31 December 2023, all liquidity indicators of the Bank met the regulatory requirements and the Bank had sufficient funding sources to meet the needs of sustainable and healthy development of its business. In accordance with the requirements of the PBOC, the Bank's RMB statutory deposit reserve ratio was 7%, and the foreign exchange statutory deposit reserve ratio was 4%. The Bank's liquidity indicators operated well. Deposits maintained steady growth. Liquidity reserves were sufficient and overall liquidity was at a safe level.

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, which is detrimental to the brand value and normal operation of the Bank, or, to the extent, be exposed to the risks involving market 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 has established and formulated the reputational risk management rules and system by taking the initiatives to effectively prevent the reputational risk and coping with any incidents in relation to reputation, so as to reduce loss and negative impact to the greatest extent.

In 2023, the Bank strictly fulfilled the requirements of the Rules on Reputational Risk Management of Banking and Insurance Institutions, further developed the reputational risk management system following the management principles of forward-looking, full-coverage, matching and effectiveness, and enhanced its capability of managing reputational risk. Firstly, by implementing the requirements of "stability", the Bank adhered to the reputational risk management concept of prevention comes first and strengthened inspection, early warning and prompting to reduce potential reputational risks at source. Secondly, the Bank enhanced the precision and frequency of public opinion events, aiming to realise early intervention in public opinion and to stop the fermentation of reputational risk events. Thirdly, the Bank established a mechanism to analyse the causes of problems at source on the basis of proper handling of public opinion, and promoted the improvement of operation and management by virtue of such public opinion. Fourthly, the Bank strengthened empowerment and improved the reputational risk management abilities of branches and subsidiaries through online training, case promotion, emergency drills 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 Bank set up three lines of defence for compliance risk management comprising business lines, compliance management department and auditing department through the establishment of a reticulate management structure comprising the Risk and Capital Management Committee under the Board of Directors, the risk and compliance management committee, heads of compliance, compliance officers as well as compliance supervisors of the Head Office and its branches, thereby forming a compliance management organisational system with sound organisation, clearly defined rights and responsibilities, reasonable work allocation and mutual coordination and collaboration. Meanwhile, through system management, compliance risk assessment and monitoring, construction of compliance culture, management of employees behaviour and system building, the Bank continuously improved compliance risk management techniques and optimised management procedures and established a complete and effective compliance risk management system to achieve effective control of compliance risks. In 2023, the Bank strictly complied with relevant laws and regulations and continued to consolidate its "fortress-style" internal control and compliance management system through various measures. The Bank effectively identified, evaluated and prevented the compliance risk of new products, new businesses and major projects, continued to strengthen the interpretation and conveyance of the new regulations, and carried out the internalisation of external regulations in a timely manner. The Bank further promoted compliance culture, and carried out "Compliance for 2023" culture promotion activity. The Bank tightened up supervision, inspection, rectification and accountability procedures by setting up inspection and supervision teams in the Legal Compliance Department of branches and assigning additional inspectors. The Bank empowered digital transformation of internal control and compliance management with technology, laying a solid foundation for the high-quality development of the Bank.

Money Laundering Risk Management

Money laundering risk refers to the risk that the Bank may be exposed to because of being used by the three types of activities, namely "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 money laundering risk management structure with clear responsibilities assumed by the Board of Directors, the Board of Supervisors, senior management, functional departments, branches and subsidiaries, an anti-money laundering system with comprehensive coverage, an effectively operated risk assessment and dynamic monitoring mechanism, scientific and reasonable anti-money laundering data governance, targeted management of customers and businesses associated with high risks, advanced and efficient IT system support, independent inspection and auditing, as well as continuous anti-money laundering training and promotion, so as to provide compliance guarantee for the Bank's stable operations.

For the year ended 31 December 2023, the Bank proactively fulfilled its anti-money laundering obligations and constantly improved the quality and effectiveness of its money laundering risk management. The Bank optimised the money laundering risk management policies and procedures, and improved the anti-money laundering mechanism in strict compliance with the laws and regulations and regulatory requirements in relation to anti-money laundering. The Bank continued to strengthen the money laundering risk management for customers and products, focusing on the identification, assessment and management of customers and products associated with high risk. The Bank improved the tools for monitoring suspicious transactions and endeavoured to enhance the quality and efficiency of suspicious transaction monitoring and analysis. The Bank continued to increase technology input in key anti-money laundering fields, and continued to promote the implementation of the Group's anti-money laundering system in the overseas branches and subsidiaries, so as to safeguard the unified implementation of the Bank's anti-money laundering policies in the overseas branches and subsidiaries.

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 2022 and 2023, 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 2023, the total assets of the Group amounted to RMB11,028.483 billion, up by 8.77% from the end of 2022, 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.

	As at 31 December			
	2023		2022	
	Amount	Percentage	Amount	Percentage
		(%)		(%)
	(in millions of RMB, except for percentages)			
Total loans and advances to customers	6,508,865	59.02	6,051,459	59.69
Allowances for impairment losses on loans	(266,805)	(2.42)	(254,913)	(2.51)
Net loans and advances to customers	6,242,060	56.60	5,796,546	57.18
Investment securities and other financial assets	3,209,473	29.10	2,787,066	27.49
Cash, precious metals and balances with the central bank	684,821	6.21	605,068	5.97
Inter-bank transactions[(1)]	558,381	5.06	630,302	6.22
Goodwill	9,954	0.09	9,999	0.10
Other assets[(2)]	323,794	2.94	309,931	3.04
Total assets	**11,028,483**	**100.00**	**10,138,912**	**100.00**

(1) Inter-bank transactions include deposits and placements with banks and other financial institutions and amounts held under resale agreements. According to the relevant provisions of the Interim Measures for the Administration of Gold Leasing Business (Yin Ban Fa [2022] No. 88) issued by the General Office of the People's Bank of China in July 2022, since 2023, for the gold leasing business carried out between the Group and financial institutions, the lease-out side was adjusted from "precious metals" to "placements with banks and other financial institutions", and the comparative figures are re-presented accordingly.

(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 2023, total loans and advances to customers of the Group amounted to RMB6,508.865 billion, representing an increase of 7.56% as compared with the end of 2022; total loans and advances to customers accounted for 59.02% of the total assets, representing a decrease of 0.67 percentage point as compared with the end of 2022.

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.

	As at 31 December			
	2023		2022	
	Amount	Percentage	Amount	Percentage
		(%)		(%)
	(in millions of RMB, except for percentages)			
Corporate loans	2,599,855	39.94	2,375,616	39.26
Retail loans	3,437,883	52.82	3,161,789	52.25
Discounted bills	471,127	7.24	514,054	8.49
Total loans and advances to customers	**6,508,865**	**100.00**	**6,051,459**	**100.00**

	As at 31 December			
	2023		2022	
	Amount	Percentage	Amount	Percentage
		(%)		(%)
	(in millions of RMB, except for percentages)			
Corporate loans	2,599,855	39.94	2,375,616	39.26
Working capital loans	1,021,305	15.69	821,269	13.57
Fixed asset loans	838,449	12.88	864,880	14.29
Trade finance	334,150	5.13	289,605	4.79
Others[(2)]	405,951	6.24	399,862	6.61
Discounted bills[(3)]	471,127	7.24	514,054	8.49
Retail loans	3,437,883	52.82	3,161,789	52.25
Micro-finance loans	751,297	11.54	631,038	10.43
Residential mortgage loans	1,385,486	21.29	1,389,208	22.96
Credit card loans	935,910	14.38	884,519	14.62
Consumer loans	301,538	4.63	202,225	3.34
Others[(4)]	63,652	0.98	54,799	0.90
Total loans and advances to customers	**6,508,865**	**100.00**	**6,051,459**	**100.00**

Distribution of non-performing loans by product type

	As at 31 December			
	2023		2022	
	Amount	NPL ratio[1]	Amount	NPL ratio[1]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Corporate loans	30,992	1.19	29,961	1.26
Working capital loans	8,068	0.79	9,562	1.16
Fixed asset loans	14,915	1.78	14,123	1.63
Trade finance	119	0.04	330	0.11
Others[2]	7,890	1.94	5,946	1.49
Discounted bills[3]	–	–	–	–
Retail loans	30,587	0.89	28,043	0.89
Micro-finance loans	4,592	0.61	4,031	0.64
Residential mortgage loans	5,122	0.37	4,904	0.35
Credit card loans	16,383	1.75	15,650	1.77
Consumer loans	3,285	1.09	2,191	1.08
Others[4]	1,205	1.89	1,267	2.31
Total	**61,579**	**0.95**	**58,004**	**0.96**

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) Primarily consists 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 commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

As at 31 December 2023, the balance of the Group's corporate loans amounted to RMB2,599.855 billion, representing an increase of 9.44% as compared to the end of 2022. As affected by significant risk exposure of some high-debt real estate customers and individual corporate customers with poor operation and management, the amount of non-performing corporate loans reached RMB30.992 billion, representing an increase of RMB1.031 billion as compared with the end of 2022; and the non-performing loan ratio of corporate loans was 1.19%, down by 0.07 percentage point as compared with the end of 2022.

As at 31 December 2023, the balance of the Group's retail loans amounted to RMB3,437.883 billion, representing an increase of 8.73% as compared to the end of 2022, of which micro-finance loans amounted to RMB751.297 billion, representing an increase of 19.06% as compared with the end of 2022. As at 31 December 2023, the balance of non-performing retail loans amounted to RMB30.587 billion, representing an increase of RMB2.544 billion as compared with the end of 2022. The non-performing ratio of retail loans was 0.89%, which remained at the same level as compared to the end of 2022, of which the balance of non-performing credit card loans amounted to RMB16.383 billion, representing an increase of RMB733 million as compared with the end of 2022; and the non-performing loan ratio of credit card loans was 1.75%, down by 0.02 percentage point as compared with the end of 2022.

Distribution of non-performing loans by industry

	As at 31 December			
	2023		2022	
	Amount	NPL ratio[1]	Amount	NPL ratio[1]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Corporate loans	30,992	1.19	29,961	1.26
Transportation, storage and postal services	1,739	0.34	948	0.19
Property development	17,183	5.26	15,348	4.08
Manufacturing	3,063	0.53	4,781	1.03
Production and supply of electric power, heat, gas and water	443	0.16	468	0.22
Leasing and commercial services	1,470	0.76	1,784	1.10
Wholesale and retail	1,330	0.67	1,836	1.02
Finance	387	0.29	440	0.39
Construction	333	0.30	435	0.41
Information transmission, software and IT service	760	0.73	406	0.45
Water conservancy, environment and public utilities	101	0.23	100	0.15
Mining	567	1.20	521	1.29
Others[2]	3,616	4.45	2,894	3.96
Discounted bills	–	–	–	–
Retail loans	30,587	0.89	28,043	0.89
Total loans and advances to customers	**61,579**	**0.95**	**58,004**	**0.96**

(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 2023, the balance of the Group's loans extended to the manufacturing industry amounted to RMB577.026 billion, representing an increase of 23.90% as compared with the end of 2022, accounting for 8.87% of the total loans and advances to customers, with the proportion by 1.17 percentage points as compared with the end of 2022. Furthermore, the Group closely tracked changes in internal and external situations, and continuously prevented and defused risks in key areas such as real estate and local government financing platforms. For the year ended 31 December 2023, the non-performing loan ratios of the Group in terms of property development, information transmission, software and IT service as well as transportation, storage and postal services all increased due to the risk exposure of high-debt real estate enterprises and individual corporate customers with poor operation and management.

Distribution of non-performing loans by region

	As at 31 December			
	2023		2022	
	Amount	NPL ratio[1]	Amount	NPL ratio[1]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Head Office[2]	18,011	1.85	17,811	1.89
Yangtze River Delta	10,489	0.73	10,532	0.79
Bohai Rim	5,745	0.62	5,118	0.62
Pearl River Delta and West Side of Taiwan Strait	7,941	0.67	4,673	0.43
North-eastern China	1,862	1.10	2,020	1.19
Central China	6,514	0.95	8,048	1.25
Western China	5,820	0.85	5,468	0.86
Overseas	851	1.06	544	0.69
Subsidiaries	4,346	1.22	3,790	1.14
Total	**61,579**	**0.95**	**58,004**	**0.96**

(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.

In 2023, the Group seized the development opportunities brought by national strategies of coordinated regional development, focused on advantageous industries within the region, strengthened the coordination of branches in key regions, promoted business synergy within the region, and accelerated the development of branches in key regions. Furthermore, the Group closely monitored market changes, conducted continuous research on regional credit policies, and implemented differentiated operational management strategies.

Distribution of non-performing loans by type of guarantees

	As at 31 December			
	2023		2022	
	Amount	NPL ratio[1]	Amount	NPL ratio[1]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Credit loans	24,147	0.93	21,662	0.98
Guaranteed loans	18,728	2.28	16,698	2.00
Collateralised loans	14,091	0.63	14,246	0.67
Pledged loans	4,613	1.22	5,398	1.55
Total	**61,579**	**0.95**	**58,004**	**0.96**

(1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

As at 31 December 2023, the balance of the Group's collateralised and pledged loans increased by 5.74% as compared with the end of 2022; guaranteed loans decreased by 1.73% as compared with the end of 2022, and the credit loans increased by 16.78% as compared with the end of 2022. In addition, the non-performing loan ratios of credit loans as well as collateralised loans and pledged loans all decreased as compared with the end of 2022, while the non-performing loan ratio of guaranteed loans increased as compared with the end of 2022.

LIABILITIES

As at 31 December 2023, the total liabilities of the Group amounted to RMB9,942.754 billion, representing an increase of 8.25% as compared with the end of 2022, which was primarily attributable to the steady growth in deposits from customers.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Group.

	As at 31 December			
	2023		2022	
	Amount	Percentage[(1)]	Amount	Percentage[(1)]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Deposits from customers	8,155,438	82.02	7,535,742	82.05
Inter-bank transactions[(1)]	888,408	8.94	957,657	10.42
Borrowings from the central bank	377,189	3.79	129,438	1.41
Financial liabilities at fair value through profit or loss and derivative financial liabilities	61,401	0.62	67,780	0.74
Debt securities issued	174,764	1.76	222,288	2.42
Others[(2)]	285,554	2.87	271,769	2.96
Total liabilities	**9,942,754**	**100.00**	**9,184,674**	**100.00**

(1) Inter-bank transactions include deposits and placements from banks and other financial institutions and amounts sold under repurchase agreements. According to the relevant provisions of the Interim Measures for the Administration of Gold Leasing Business (Yin Ban Fa [2022] No. 88) issued by the General Office of the People's Bank of China in July 2022, since 2023, for the gold leasing business carried out between the Group and financial institutions, the lease-in side was adjusted from "financial liabilities at fair value through profit or loss" to "placements from banks and other financial institutions", and the comparative figures are re-presented accordingly.

(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 2023, total deposits from customers of the Group amounted to RMB8,155.438 billion, representing an increase of 8.22% as compared with the end of 2022, accounting for 82.02% of the total liabilities of the Group, which was 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			
	2023		2022	
	Amount	Percentage[(1)]	Amount	Percentage[(1)]
		(%)		(%)
	(in millions of RMB, except for percentages)			
Corporate customer deposits				
Demand	2,644,685	32.43	2,762,671	36.66
Time	2,015,837	24.72	1,668,882	22.15
Subtotal	**4,660,522**	**57.15**	**4,431,553**	**58.81**
Deposits from retail customers				
Demand	1,829,612	22.43	1,983,364	26.32
Time	1,665,304	20.42	1,120,825	14.87
Subtotal	**3,494,916**	**42.85**	**3,104,189**	**41.19**
Total deposits from customers	**8,155,438**	**100.00**	**7,535,742**	**100.00**

In 2023, the percentage of daily average balance of the demand deposits to that of the deposits from customers of the Group was 57.08%, representing a year-on-year decrease of 4.55 percentage points. Among these, the daily average balance of demand deposits from corporate customers accounted for 57.31% of that of the corporate customer deposits, representing a year-on-year decrease of 2.67 percentage points; the daily average balance of demand deposits from retail customers accounted for 56.74% of that of the deposits from retail customers, representing a year-on-year decrease of 7.69 percentage points. Affected by the decline in the risk appetite of customers and insufficient liquidity activities of enterprises, customers' demand for investment in time deposit products increased, leading to a decrease in the proportion of demand deposits.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2023, the Bank had a total of 676,450 ordinary shareholders, including 28,569 holders of H Shares and 647,881 holders of A Shares. As at 31 December 2023, the number of A shares and H shares issued by the Bank accounted for 81.80% and 18.20% of the total number of shares in the Bank, respectively. In particular, China Merchants Group Ltd. directly and indirectly held 32.73% of the A shares and 17.57% 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 2023 (based on the register of shareholders as at 31 December 2023).

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 2023 (share)	Number of shares held subject to Trading restrictions on sales (share)	Shares pledged, marked or frozen (share)
1	HKSCC Nominees Ltd.	Overseas legal person	4,554,053,841	18.06	H Shares not subject to trading restrictions on sales	796,918	–	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	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	–	–	–
5	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	–	–	–
6	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	–	–	–

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 2023 (share)	Number of shares held subject to Trading restrictions on sales (share)	Shares pledged, marked or frozen (share)
7	Hong Kong Securities Clearing Company Limited	Overseas legal person	1,060,494,391	4.20	A Shares not subject to trading restrictions on sales	(446,296,795)	–	–
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	–	–	–
9	Dajia Life Insurance Co., Ltd – Universal Products.	Domestic legal person	776,574,735	3.08	A Shares not subject to trading restrictions on sales	(28,333,100)	–	–
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 the 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 the Bank acquired by investors through Northbound Trading.

(2) As at 31 December 2023, among 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
Sun Yunfei (孫雲飛)	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
Zhang Jian (張健)	1964.10	Non-Executive Director
Chen Dong (陳冬)	1974.12	Non-Executive Director
Zhu Jiangtao (朱江濤)	1972.12	Executive Director and Executive Vice President
Wong See Hong (王仕雄)[1]	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
Li Jinming (李金明)	1968.2	Shareholder Supervisor
Luo Sheng (羅勝)	1970.9	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)[3]	1970.7	Employee Supervisor
Cao Jian (曹建)	1970.10	Employee Supervisor
Yang Sheng (楊盛)	1972.8	Employee Supervisor
Zhao Weipeng (趙衛朋)	1972.3	Secretary of the Party Discipline Committee
Zhong Desheng (鍾德勝)	1967.7	Executive Vice President
Wang Xiaoqing (王小青)	1971.10	Executive Vice President
Wang Ying (王穎)	1972.11	Executive Vice President
Peng Jiawen (彭家文)	1969.5	Executive Vice President, Chief Financial Officer and Secretary of the Board of Directors
Lei Caihua (雷財華)	1974.9	Executive Assistant President
Xu Mingjie (徐明傑)	1968.9	Executive Assistant President

(1) Mr. Wong See Hong has tendered his resignation as an Independent Non-Executive Director to the Board of Directors of the Bank due to expiry of his term of office. In accordance with the relevant laws and regulations and the relevant requirements of the Articles of Association of the Bank, the resignation of Mr. Wong See Hong will become effective upon the election of a new Independent Non-Executive Director at the Shareholders' General Meeting of the Bank followed by the approval of the qualifications of the new Independent Non-Executive Director by the NFRA to fill the vacancy.

(2) According to the Management Measures 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. 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.

(3) Ms. Cai Jin has tendered her resignation as an Employee Supervisor to the Board of Supervisors of the Bank due to her age. In accordance with the relevant laws and regulations and the relevant requirements of the Articles of Association of the Bank, the resignation of Ms. Cai Jin will become effective upon the election of a new Employee Supervisor by the Employee Representative Meeting of the Bank to fill the vacancy.

DIRECTORS

Mr. Miao Jianmin is the Chairman and Non-Executive Director of the Bank. Mr. Miao obtained a doctoral 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 an Executive Director and the Deputy General Manager of China Insurance (Group) Limited Company in Hong Kong, the Vice Chairman and President of China Life Insurance (Group) Company, the Chairman of The People's Insurance Company (Group) of China Limited (a company listed on the Hong Kong Stock Exchange) and the Chairman of PICC Property and Casualty Company Limited (a company listed on the Hong Kong Stock Exchange).

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 at 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 of the Bank. Mr. Wang obtained a master's degree in Economics 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 successively served as the Executive Assistant President, Executive Vice President and First Executive Vice President of the Bank since June 2012, and 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 Bank's authorised representative in charge of matters in relation to listing in Hong Kong, the Chairman of CMB International Capital Holdings Corporation Limited, the Chairman of CMB International Capital Corporation Limited, Chairman of CMB Wing Lung Bank, 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, a 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 Financial Accounting Society of China, and a Deputy of the 14th Guangdong Provincial People's Congress. He had served as the Chief Financial Officer, Secretary of the Board of Directors, and Company Secretary of the Bank.

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 National Petroleum Corporation, 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 Group 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), the Chairman of the Board of Supervisors of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (a company listed on Shenzhen Stock Exchange) and the Chairman of China Merchants Innovative Investment Management Co., Ltd.. He was the Deputy General Manager of the Planning and Finance Department of the Head Office of the 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 the 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, the Business Director of the Head Office, and the Chief Accountant of China Merchants Group Ltd..

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, and is a senior economist. He is the Chief Digital Officer of China Merchants Group Ltd. and the Deputy General Manager of China Merchants Financial Holdings Co., Ltd.. He concurrently serves as the Non-Executive Director of China Merchants Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange), the Chairman of China Merchants Financial Leasing Co., Ltd. (招商局融資租賃有限公司) and the Vice Chairman of China Merchants Capital Investment Co., Ltd.. He served as a General Manager of Finance Department of China Merchants Group Ltd., a Deputy General Manager of China Merchants Finance Holdings Company Limited, a Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform, a Director of China Merchants Life Insurance Company Limited, and 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).

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 Deputy General Manager, Chief Account and Chief Financial Officer of China Southern Airlines Company Limited (a company listed on the Shanghai Stock Exchange). He concurrently serves as a Director of COSCO SHIPPING Specialized Carriers Co., Ltd. (a company listed on the Shanghai 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 and General Manager of the Financial Management Division of China COSCO Shipping Corporation Limited, a Director of COSCO SHIPPING International (Hong Kong) Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and a Director of COSCO SHIPPING Ports Limited (a company listed on the Hong Kong Stock Exchange), etc.

Mr. Zhu Jiangtao is an Executive Director and Executive Vice President of the Bank. Mr. Zhu holds a master's degree in Economics. He is a senior economist. He joined the Bank in January 2003. He successively served as Assistant General Manager and Deputy General Manager of Guangzhou Branch, General Manager of Chongqing Branch, General Manager of Credit Risk Management Department of the Bank, General Manager of Risk Management Department of the Bank between December 2007 and July 2020. He served as Chief Risk Officer of the Bank from July 2020 to May 2024. He has been Executive Vice President of the Bank since September 2021.

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), Frasers Property Limited (a company listed on the Singapore Stock Exchange) 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, the 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 doctoral degree 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 the China Centre for Industrial Security Research, 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 of Guanghua Engineering Science and Technology Award Foundation (光華工程科技獎勵基金會). 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), an Independent Director of Hunan Copote Science & Technology Co., Ltd. (a company listed on Shanghai Stock Exchange), an Independent Director of Daqin Railway Co., Ltd. (a company listed on Shanghai Stock Exchange), an Independent Director of Huadian Power International Corporation Limited (a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange), the Deputy Director of the Independent Board Committee of China Association for Public Companies, the Vice President and the Deputy Director of the Expert Committee of China Human Resource Development Association and the Director of the Human Capital Institute.

Mr. Liu Qiao is an Independent Non-Executive Director of the Bank. Mr. Liu obtained a bachelor's degree of science 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 Headquarter (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 doctoral degree in Industrial Economics and a master's degree in Statistics from Renmin University of China, respectively. 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 doctoral degree 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. Li Jinming is a Shareholder Supervisor of the Bank. Mr. Li is a senior accountant with a bachelor's degree. He is currently the Secretary to the Party committee, Director and General Manager of CCCC Finance Company Ltd. (中交财務有限公司). He served as the Director, Chief Accountant and General Counsel of CCCC Investment Co., Ltd. (中交投資有限公司), the deputy general manager (executive) of the financial funding department of China Communications Construction Group Limited, and the General Manager of the financial funding department of China Communications Construction Group Limited.

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 doctoral degree. Mr. Luo is currently the Deputy General Manager of Dajia Insurance Group Co., Ltd. and a Director of Dajia Life Insurance Co., Ltd.. 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., the Deputy Director of the Development and Reform Department of China Insurance Regulatory Commission and a Director of Gemdale Corporation (a company listed on Shanghai Stock Exchange), 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. 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), and concurrently serves as 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 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 serves as an Independent Director of 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), COSCO SHIPPING Development Co., Ltd. (a company listed on Shanghai Stock Exchange and the Hong Kong Stock Exchange) and China Eastern Airlines Corporation Ltd. (a company listed on Shanghai Stock Exchange and 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 doctoral 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 Inspector 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, the Deputy General Manager of the Asset Custody Department of the Head Office and the Director of the Labour Union of the Head Office of the Bank from April 2010 to January 2024.

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 serves as the Supervisor of CMB Wealth Management and a Member of the Professional Committee under the Board of Supervisors of China Association for Public Companies. 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.

Mr. Yang Sheng is an Employee Supervisor of the Bank. Mr. Yang has obtained a master's degree in Economics from Renmin University of China and is a senior economist. He is currently the Director of the General Office of Head Office of the Bank. He joined the Bank in July 1998 and successively served as the Assistant General Manager, the Deputy General Manager and the General Manager of the Human Resources Department of the Head Office of the Bank from September 2016 to November 2022.

SENIOR MANAGEMENT

Mr. Wang Liang, please refer to Mr. Wang Liang's biography under the paragraph headed "*Directors*" above.

Mr. Zhao Weipeng is the Secretary of the Party Discipline Committee of the Bank. Mr. Zhao holds a master's degree in Management and is a senior accountant and a non-practicing member of Chinese Institute of Certified Public Accountants. He successively served as the Manager of Finance Department of China Merchants Shipping and Enterprises Company Limited, the Manager of Planning and Finance Department of Hong Kong Ming Wah Shipping Company Limited, the Chief Financial Officer, Deputy General Manager, Secretary of the Party Discipline Committee, and Deputy Secretary to the Party Committee of China Merchants Zhangzhou Development Zone Company Limited, Secretary of the Party Discipline Committee, Deputy Secretary to the Party Committee and Executive Deputy Director of the Management Committee of Zhangzhou China Merchants Economic and Technological Development Zone, Secretary to the Party Committee and General Manager of China Merchants Taipingwan Development & Investment Company Limited, Deputy General Manager (General Manager Level) of Finance Department (Property Rights Department) of China Merchants Group Ltd., Secretary to the Party committee and General Manager of China Merchants Group Finance Co., Ltd.. He has been the Secretary of the Party Discipline Committee of the Bank since August 2023.

Mr. Zhu Jiangtao, please refer to Mr. Zhu Jiangtao's biography under the heading of "*Directors*" above.

Mr. Zhong Desheng is an Executive Vice 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, the General Manager of the Strategic Customers Department and the Executive Assistant President of the Bank. He has served as an Executive Vice President of the Bank since October 2023, and he concurrently serves as the Chairman of CMB Financial Leasing.

Mr. Wang Xiaoqing is an Executive Vice President of the Bank. He obtained a doctoral 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 successively served as the General Manager and the Chairman of China Merchants Fund Management Co., Ltd. and the Executive Assistant President of the Bank. He has served as an Executive Vice President of the Bank since July 2023, and concurrently serves as the General Manager of Shenzhen Branch, the Chairman of China Merchants Fund Management Co., Ltd., CIGNA & CMB Life Insurance and CIGNA & CMAM.

Ms. Wang Ying is an Executive Vice 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, General Manager of Shenzhen Branch and the Executive Assistant President of the Bank, and has been serving as an Executive Vice President of the Bank since November 2023.

Mr. Peng Jiawen is an Executive Vice President, the Chief Financial Officer and the Secretary of the Board of Directors of the Bank. He obtained a bachelor's degree in National Economic Planning from Zhongnan University of Economics and Law and is a senior economist. He joined the Bank in September 2001, and successively served as an Assistant General Manager and Deputy General Manager of the Planning and Finance Department of the Head Office, Deputy General Manager and General Manager of the Overall Retail Management Department of the Head Office, Deputy General Manager and Vice President of the General Office of Retail Finance of the Head Office and concurrently General Manager of Retail Credit Business Department of the Head Office, General Manager of Zhengzhou Branch, General Manager of Asset and Liabilities Management Department of the Head Office and the Executive Assistant President of the Bank. He has served as an Executive Vice President of the Bank since November 2023, and concurrently serves as the Chief Financial Officer and the Secretary of the Board of Directors of the Bank.

Mr. Lei Caihua is an Executive Assistant President of the Bank. He obtained a bachelor's degree in Investment Economics from Huazhong University of Science and Technology, a master's degree in National Economics from Zhongnan University of Economics and Law, and is an economist. He joined the Bank in July 1995, and successively served as the Deputy General Manager of Corporate Banking Department and concurrently the General Manager of SME Finance Department of the Head Office, General Manager of Corporate Finance Product Department of the Head Office, General Manager of Strategic Customers Department of the Head Office, General Manager of Small Enterprise Finance Department of the Head Office, the General Manager of Chongqing Branch, Head of Topology Bank Preparatory Team, and the General Manager of Shanghai Branch. Since November 2023, he has served as an Executive Assistant President of the Bank, and concurrently serves as the General Manager of Shanghai Branch.

Mr. Xu Mingjie is an Executive Assistant President of the Bank. He obtained a bachelor's degree in Engineering from Xi'an Jiaotong University, a bachelor's degree in Economics from Shanghai University of International Business and Economics, and is a chartered certified accountant. He joined the Bank in September 1995, and successively served as the Assistant General Manager of Corporate Finance Product Department of the Head Office, Assistant General Manager of Investment Banking Department of the Head Office, Deputy General Manager of Investment Banking Department of the Head Office, General Manager of Credit Approval Department of the Head Office and General Manager of Risk Management Department of the Head Office. Since November 2023, he has served as an Executive Assistant President of the Bank, and concurrently serves as the General Manager of Beijing Branch.

BANKING REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with NFRA and PBOC acting as the principal regulatory authorities. NFRA 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) NFRA

Functions and Powers

NFRA, replacing CBIRC in May 2023, is responsible for implementing the policies and decisions of the Central Committee of the Communist Party of China (the "**CPC Central Committee**") regarding financial work, and according to the Provisions on the Functions, Internal Structure and Staffing of the NFRA (《國家金融監督管理總局職能配置、內設機構和人員編制規定》, effective on 29 October 2023) its main responsibilities include to:

(1) conduct unified supervision and regulation of the financial industry (excluding the securities sector) in accordance with laws and regulations, strengthen institutional supervision, conduct supervision, functional supervision, look-through supervision and on-going supervision, and ensure the lawful and stable operation of the financial industry;

(2) conduct systematic research regarding issues concerning the reform and opening up as well as effective supervision of the financial industry; participate in the formulation of strategic plans for reform and development of the financial industry; draft relevant laws and regulations on banking, insurance and financial holding companies, and put forward recommendations for their formulation and revision; and formulate relevant rules and regulations for banking institutions, insurance institutions, and financial holding companies, etc;

(3) coordinate work concerning the protection of financial consumers' rights and interests; formulate development planning, establish a sound system and study major issues concerning the protection of financial consumers' rights and interests, to carry out financial consumer education, and build complaint handling mechanisms as well as diversified dispute resolution mechanisms for financial consumers;

(4) conduct authorisation of banking institutions, insurance institutions, financial holding companies and others in accordance with law, and carry out supervision and regulation of these institutions in respect of their corporate governance, risk management, internal controls, capital adequacy, solvency, business operations, information disclosure, etc;

(5) conduct on-site examination and off-site surveillance of banking institutions, insurance institutions, financial holding companies and others, in accordance with law; and carry out risk and compliance assessment of these institutions, investigate and impose administrative penalties over violations;

(6) prepare regulatory data statements of banking institutions, insurance institutions, financial holding companies and others on a consolidated basis, and release these information in accordance with relevant provisions; fulfil the responsibilities concerning comprehensive statistics of the financial industry;

(7) carry out technology supervision of banking institutions, insurance institutions, financial holding companies, etc.; establish technology supervisory systems and formulate relevant policies; build up a regulatory big data platform, carry out risk monitoring, analysis, assessment and early warning, and make full use of technological means to strengthen supervision and prevent risks;

(8) conduct look-through supervision of the banking institutions, insurance institutions, financial holding companies, etc.; formulate rules on equity supervision, and review and approve shareholders, actual controllers as well as equity changes in accordance with law; and carry out investigation on shareholders, actual controllers, persons acting in concert and ultimate beneficiaries according to law, and take relevant measures or impose penalties on violations of laws and regulations;

(9) set up financial inspection and oversight systems outside of the fields of currency, payment, credit reporting, anti-money laundering, foreign exchange, securities and futures; set up mechanisms connecting the administrative law enforcement with criminal justice, and investigate, collect evidence on and deal with related subjects of violations or illegal financial activities, and transfer those suspected of committing a crime to judicial organs;

(10) establish recovery and resolution mechanisms of banking institutions, insurance institutions, financial holding companies, etc.; study and put forward recommendations on the recovery and resolution of financial institutions in collaboration with relevant departments and organise their implementation;

(11) take the lead in cracking down on illegal financial activities, organise the establishment of monitoring and early warning system on illegal financial activities, coordinate, guide and urge relevant departments and local governments to carry out work to prevent and deal with illegal financial activities according to law; study and put forward relevant suggestions on cross-sector and cross-region illegal financial activities and those involving new products and new types of business, and organise their implementation as required;

(12) establish a local financial supervision system as required which is mainly based on local offices directly under the central financial authorities; guide and oversee the local financial supervisory work, and guide and coordinate local governments to fulfil their respective jurisdictional responsibility in resolving related financial risks;

(13) supervise the outsourcing of information technology, as well as other cooperating activities of banking institutions, insurance institutions, financial holding companies and other supervised entities with information technology service agencies and other intermediaries; conduct investigation over violations of laws and regulations in accordance with law, and take relevant measures against financial institutions;

(14) participate in the regulatory and rule-making work of international financial organisations and international regulatory standard-setting bodies; carry out overseas exchanges and international cooperation work; and

(15) implement other tasks assigned by the CPC Central Committee and the State Council.

(B) EXAMINATION AND SUPERVISION

NFRA, 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. NFRA 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, NFRA 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.

(C) PBOC

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

(D) OTHER REGULATORY AUTHORITIES

In addition to NFRA 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 Ministry of Commerce of the People's Republic of China (the "MOFCOM"), the NDRC and the SAFE.

(E) REGULATIONS REGARDING CAPITAL ADEQUACY

On 26 October 2023, the NFRA promulgated the New Capital Regulation, which became effective on 1 January 2024 and abolished the Capital Regulation issued in June 2012. The New Capital Regulation set out minimum capital adequacy ratio (the "**CAR**") requirements for commercial banks, and provide detailed guidelines on the calculation of "**capital**" and "**risk-weighted assets**". 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 Common Equity Tier 1 CAR of not less than 5%. The CARs are calculated in accordance with the New Capital Regulation as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{(Total Capital − deductions from corresponding capital instruments)}}{\text{(Risk weighted Assets)}} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\textit{(Tier 1 Capital − deductions from corresponding capital instruments)}}{\text{(Risk weighted Assets)}} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{(Core Tier 1 Capital − deductions from corresponding capital instruments)}}{\text{(Risk weighted Assets)}} \times 100\%$$

Further details regarding the basic principles of such calculations can be obtained at the official website of the NFRA.

The contents of this website do not form a part of this Offering Circular.

On 22 November 2019, the former CBIRC 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)》) (the "**New Guiding Opinions**"), which abolished the Guiding Opinions issued on 29 November 2012. 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 former CBIRC; 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.

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税法》) 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税法》) 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 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 realised 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 PRC Enterprise Income Tax Law and the VAT reform detailed above, the Issuer shall withhold enterprise income tax (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 enterprise income tax 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. Based on the definition of "deposit" in the Banking Ordinance (Cap. 155) of Hong Kong and 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 likely 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, with effect from 1 January 2024, pursuant to various foreign-sourced income exemption legislation in Hong Kong (the "**FSIE Amendments**"), certain specified foreign-sourced income (including interest, dividend, disposal gain or intellectual property income, in each case, arising in or derived from a territory outside Hong Kong) accrued to an MNE entity (as defined in the FISE Amendments 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 FISE Amendments also provide 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 Issuer 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 17 November 2023, if stamp duty applies to the transfer of Registered Notes required to be registered in Hong Kong and which are not otherwise exempt it will be payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% 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. In 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, standardises 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 Seventh Amended and Restated Dealer Agreement dated 28 June 2024 (as may be supplemented, amended and/or restated from time to time) (the "**Dealer Agreement**") between the Bank, 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, the Dealer or Dealers (if any) named as Stabilisation Manager(s) (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, 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.

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, the Bank and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time perform various Banking Services or Transactions for the Issuer, the Bank and/or their respective affiliates in the ordinary course of the Issuer's or the Bank'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 Bank, 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 or the Bank, 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 Bank, 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 Bank, 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 or the Bank 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 or the Bank, 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 or the Bank, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer or the Bank.

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 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

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 acknowledgements, 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 acknowledgements, 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 acknowledgements, 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 Bank 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 Bank 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, 13 March 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 Bank or of the Group since 31 December 2023 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2023.

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 2022 and 2023 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 dated 5 June 2023;

(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 2022 and 2023 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 (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.

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.

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(1) The independent auditor's reports on the Bank's consolidated financial statements as at and for the years ended 31 December 2022 and 2023 set out herein are reproduced from the Bank's annual reports as at and for the years ended 31 December 2022 and 2023. Page references contained in such independent auditor's reports refer to pages set out in such annual reports.

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

	Notes	Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
		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:

		1 January 2022		Increase/decrease		31 December 2022	
	Issuance date	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:

		1 January 2022		Increase		31 December 2022	
	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		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:

		Other equity instruments									
	Share capital	Preference shares	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

		Other equity instruments										
	Share capital	Preference shares	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				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
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				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
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	Other	Total
		(in millions of RMB)		
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	Other	Total
		(in millions of RMB)		
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.

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 160 to 303, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 2023, as set out in Note 22(a), the Group reported loans and advances to customers at amortised cost of RMB5,924,766 million and expected credit loss allowances of RMB267,620 million; in Note 23(b), the Group reported debt investments at amortised cost of RMB1,788,806 million and expected credit loss allowances of RMB39,782 million; in Note 42, the Group reported the expected credit loss allowances of financial guarantees and loan commitments of RMB17,404 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

25 March 2024

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2023	2022
Interest income	6	**375,610**	353,380
Interest expense	7	**(160,941)**	(135,145)
Net interest income		**214,669**	218,235
Fee and commission income	8	**92,834**	103,372
Fee and commission expense		**(8,726)**	(9,097)
Net fee and commission income		**84,108**	94,275
Other net income	9	**37,825**	29,705
– Disposal of financial instruments at amortised cost		**967**	170
Operating income		**336,602**	342,215
Operating expenses	10	**(120,991)**	(122,061)
Operating profit before impairment losses and taxation		**215,611**	220,154
Expected credit losses	14	**(41,278)**	(56,751)
Impairment losses on other assets		**(191)**	(815)
Share of profits of joint ventures	25	**1,860**	1,710
Share of profits of associates	26	**616**	815
Profit before taxation		**176,618**	165,113
Income tax	15	**(28,612)**	(25,819)
Profit for the year		**148,006**	139,294
Attributable to:			
Equity holders of the Bank		**146,602**	138,012
Non-controlling interests		**1,404**	1,282
Earnings per share			
Basic and diluted (RMB Yuan)	17	**5.63**	5.26

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 2023

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2023	2022
Profit for the year		**148,006**	139,294
Other comprehensive income for the year after tax			
Items that may be reclassified subsequently to profit or loss		**2,373**	1,285
– Share of other comprehensive income/(expense) from equity-accounted investees		**202**	(1,155)
– Net fair value gain/(loss) on debt instruments measured at fair value through other comprehensive income		**3,337**	(5,617)
– Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		**(2,045)**	3,471
– Net movement in cash flow hedge reserve		**(59)**	112
– Exchange difference on translation of financial statements of foreign operations		**983**	4,429
– Other		**(45)**	45
Items that will not be reclassified to profit or loss		**358**	38
– Net fair value gain on equity instruments designated at fair value through other comprehensive income		**354**	48
– Remeasurement of defined benefit scheme		**4**	(10)
Other comprehensive income for the year, net of tax	16	**2,731**	1,323
Attributable to:			
Equity holders of the Bank		**2,658**	1,053
Non-controlling interests		**73**	270
Total comprehensive income for the year		**150,737**	140,617
Attributable to:			
Equity holders of the Bank		**149,260**	139,065
Non-controlling interests		**1,477**	1,552

The notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2023

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2023	2022
Assets			
Cash		**14,931**	15,209
Precious metals		**2,321**	2,329
Balances with central banks	18	**667,871**	587,818
Balances with banks and other financial institutions	19	**100,769**	91,346
Placements with banks and other financial institutions	20	**287,694**	264,209
Amounts held under resale agreements	21	**172,246**	276,676
Loans and advances to customers	22	**6,252,755**	5,807,154
Financial investments at fair value through profit or loss	23(a)	**526,145**	423,467
Derivative financial assets	60(f)	**18,733**	18,671
Debt investments at amortised cost	23(b)	**1,749,024**	1,555,457
Debt investments at fair value through other comprehensive income	23(c)	**899,102**	780,349
Equity investments designated at fair value through other comprehensive income	23(d)	**19,649**	13,416
Interests in joint ventures	25	**15,707**	14,247
Interests in associates	26	**10,883**	9,597
Investment properties	27	**1,160**	1,268
Property and equipment	28	**115,348**	99,919
Right-of-use assets	29(a)	**17,041**	17,553
Intangible assets	30	**2,709**	3,402
Goodwill	31	**9,954**	9,999
Deferred tax assets	32	**90,557**	90,848
Other assets	33	**53,884**	55,978
Total assets		**11,028,483**	10,138,912

The notes form part of these consolidated financial statements.

	Notes	2023	2022
Liabilities			
Borrowing from central banks		**378,621**	129,745
Deposits from banks and other financial institutions	34	**508,378**	645,674
Placements from banks and other financial institutions	35	**247,299**	207,027
Financial liabilities at fair value through profit or loss	36	**43,958**	49,144
Derivative financial liabilities	60(f)	**17,443**	18,636
Amounts sold under repurchase agreements	37	**135,078**	107,093
Deposits from customers	38	**8,240,498**	7,590,579
Salaries and welfare payable	39(a)	**28,679**	23,866
Tax payable	40	**13,597**	19,458
Contract liabilities	41	**5,486**	6,679
Lease liabilities	29(b)	**12,675**	13,013
Provisions	42	**19,662**	22,491
Debt securities issued	43	**176,578**	223,821
Deferred tax liabilities	32	**1,607**	1,510
Other liabilities	44	**113,195**	125,938
Total liabilities		**9,942,754**	9,184,674
Equity			
Share capital	45	**25,220**	25,220
Other equity instruments	46	**150,446**	120,446
– Preference shares	46(a)	**27,468**	27,468
– Perpetual bonds	46(b)	**122,978**	92,978
Capital reserve	47	**65,432**	65,435
Investment revaluation reserve	48	**13,656**	11,815
Hedging reserve	49	**92**	151
Surplus reserve	50	**108,737**	94,985
General reserve	51	**141,481**	132,471
Retained earnings		**518,638**	449,139
Proposed profit appropriation	52(b)	**49,734**	43,832
Exchange reserve	53	**2,934**	2,009
Total equity attributable to shareholders of the Bank		**1,076,370**	945,503
Non-controlling interests		**9,359**	8,735
– Non-controlling interest		**6,521**	5,948
– Perpetual debt capital	62(a)	**2,838**	2,787
Total equity		**1,085,729**	954,238
Total equity and liabilities		**11,028,483**	10,138,912

The notes form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 25 March 2024.

Miao Jianmin
Director

Wang Liang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

(Expressed in millions of Renminbi unless otherwise stated)

		2023														
		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 2023		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
Changes in equity for the year		–	–	30,000	(3)	1,841	(59)	13,752	9,010	69,499	5,902	925	130,867	573	51	131,491
(a) Net profit for the year		–	–	–	–	–	–	–	–	146,602	–	–	146,602	1,222	182	148,006
(b) Other comprehensive income for the year	16	–	–	–	–	1,792	(59)	–	–	–	–	925	2,658	22	51	2,731
Total comprehensive income for the year		–	–	–	–	1,792	(59)	–	–	146,602	–	925	149,260	1,244	233	150,737
(c) Capital movement from equity holders		–	–	30,000	(3)	–	–	–	–	–	–	–	29,997	(383)	–	29,614
(i) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(383)	–	(383)
(ii) Issue of perpetual bonds	46(b)	–	–	30,000	(3)	–	–	–	–	–	–	–	29,997	–	–	29,997
(d) Profit appropriations		–	–	–	–	–	–	13,752	9,010	(77,054)	5,902	–	(48,390)	(288)	(182)	(48,860)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	–	13,752	–	(13,752)	–	–	–	–	–	–
(ii) Appropriations to general reserve	51	–	–	–	–	–	–	–	9,010	(9,010)	–	–	–	–	–	–
(iii) Dividends paid for the year 2022	52(a)	–	–	–	–	–	–	–	–	–	(43,832)	–	(43,832)	(288)	–	(44,120)
(iv) Distribution to perpetual debt capital	62	–	–	–	–	–	–	–	–	–	–	–	–	–	(182)	(182)
(v) Proposed dividends for the year 2023	52(b)	–	–	–	–	–	–	–	–	(49,734)	49,734	–	–	–	–	–
(vi) Dividends to preference shares		–	–	–	–	–	–	–	–	(996)	–	–	(996)	–	–	(996)
(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		–	–	–	–	49	–	–	–	(49)	–	–	–	–	–	–
At 31 December 2023		25,220	27,468	122,978	65,432	13,656	92	108,737	141,481	518,638	49,734	2,934	1,076,370	6,521	2,838	1,085,729

The notes form part of these consolidated financial statements.

2022

	Notes	Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
		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		–	(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 paid for the year 2021	52(a)	–	–	–	–	–	–	–	–	–	(38,385)	–	(38,385)	(279)	–	(38,664)
(iv) Distribution to perpetual debt capital	62	–	–	–	–	–	–	–	–	–	–	–	–	–	(202)	(202)
(v) Proposed dividends for the year 2022	52(b)	–	–	–	–	–	–	–	–	(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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

(Expressed in millions of Renminbi unless otherwise stated)

	2023	2022
Operating activities		
Profit before taxation	**176,618**	165,113
Adjustments for:		
– Impairment losses on loans and advances	**46,635**	45,157
– Impairment losses on investments and other	**(5,166)**	12,409
– Unwinding of discount on loans and advances	**(257)**	(386)
– Depreciation of property and equipment and investment properties	**11,008**	10,279
– Depreciation of right-of-use assets	**4,205**	4,151
– Amortisation of other assets	**1,170**	1,193
– Net gains on debt securities and equity investments	**(18,149)**	(14,722)
– Interest income on investments	**(80,836)**	(65,808)
– Interest expense on issued debt securities	**7,781**	9,662
– Share of profits of associates	**(616)**	(815)
– Share of profits of joint ventures	**(1,860)**	(1,710)
– Net gains on disposal of properties and equipment and other assets	**(168)**	(282)
– Interest expense on lease liabilities	**480**	510
Changes in:		
Balances with central banks	**(5,004)**	(48,851)
Loans and advances to customers	**(482,711)**	(508,891)
Other assets	**817**	63,611
Deposits from customers	**619,696**	1,188,664
Amounts due to banks and other financial institutions	**(69,249)**	(135,569)
Amounts due from banks and other financial institutions with original maturity over 3 months	**(13,744)**	(46,825)
Borrowing from central banks	**247,751**	(30,073)
Other liabilities	**(45,862)**	(39,251)
Cash generated from operating activities before income tax payment	**392,539**	607,566
Income tax paid	**(34,786)**	(37,423)
Net cash generated from operating activities	**357,753**	570,143
Investing activities		
Proceeds from disposals and redemptions of investments	**1,954,061**	1,334,013
Investment income received	**97,963**	79,122
Proceeds from the disposals of property and equipment and other assets	**4,950**	6,750
Proceeds from the disposals of subsidiaries, associates or joint ventures	**154**	463
Payment for the purchases of investments	**(2,282,035)**	(1,898,898)
Payment for the acquisition of subsidiaries, associates or joint ventures	**(39)**	(484)
Payment for the purchases of property and equipment and other assets	**(30,161)**	(34,892)
Net cash used in investing activities	**(255,107)**	(513,926)

The notes form part of these consolidated financial statements.

	Notes	2023	2022
Financing activities			
Proceeds from the issuance of negotiable interbank certificates of deposit	55(b)	**68,608**	78,666
Proceeds from the issuance of certificates of deposit and other debt securities	55(b)	**66,504**	20,287
Proceeds from the issuance of debt securities	55(b)	**25,201**	21,481
Proceeds from the issuance of perpetual bonds		**29,997**	–
Proceeds from non-controlling interests of subsidiaries		**–**	2,667
Proceeds from other financing activities	55(b)	**17,303**	10,796
Repayment of negotiable interbank certificates of deposit	55(b)	**(112,584)**	(250,996)
Repayment of certificates of deposit and other debt securities	55(b)	**(48,267)**	(16,504)
Repayment of debt securities	55(b)	**(51,146)**	(78,735)
Payment for lease liabilities	55(b)	**(5,053)**	(4,932)
Payment for redemption of preference shares		**–**	(7,196)
Payment for redemption of perpetual debt capital		**–**	(1,104)
Distribution paid on perpetual debt capital	55(b)	**(182)**	(202)
Payment for dividends distribution	55(b)	**(44,120)**	(38,664)
Distribution paid on preference shares	55(b)	**(996)**	(1,675)
Distribution paid on perpetual bonds	55(b)	**(3,562)**	(3,562)
Interest paid on financing activities	55(b)	**(7,482)**	(12,400)
Payment for other financing activities	55(b)	**(7,210)**	(14,959)
Net cash used in financing activities		**(72,989)**	(297,032)
Net increase/(decrease) in cash and cash equivalents		**29,657**	(240,815)
Cash and cash equivalents as at 1 January		**567,198**	801,754
Effect of foreign exchange rate changes		**2,164**	6,259
Cash and cash equivalents as at 31 December	55(a)	**599,019**	567,198
Cash flows from operating activities include:			
Interest received		**293,467**	285,050
Interest paid		**121,178**	108,496

The notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023
(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 2023, 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 consolidated 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(15).

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*.

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;

2. Basis of preparation of consolidated financial statements *(continued)*

(2) Basis of measurement *(continued)*

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

Standards and amendments to IFRSs effective in current year applied by the Group

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules

IFRS 17 Insurance Contracts and its amendments

IFRS 17 Insurance Contracts and its amendments ("New Insurance Contract Standard") establishes the principles of recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts.

The definition of insurance contract has been elaborated in the New Insurance Contract Standard which specified the combination and separation of insurance contract, introduced the concept of insurance contract group and refined the measurement model of insurance contract. It also made an adjustment to the principle of revenue recognition for insurance services and refined the measurement methods of contract service margins. The New Insurance Contract Standard outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees. The adoption of IFRS 17 has had no material impact on the financial position and financial performance of the Group.

3. Application of new and amendments to IFRSs *(continued)*

Standards and amendments to IFRSs effective in current year applied by the Group *(continued)*

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction

The amendments mainly relate to the scope of exemption for the initial recognition of deferred income tax in the International Accounting Standards IAS 12 – Income Taxes, and clarifies that the individual transaction 1) that is not arising from business combination; 2) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction; and 3) that the equivalent taxable temporary differences and deductible temporary differences are generated due to the initially recognised assets and liabilities is not applicable to the regulations on the exemptions from initially recognised deferred tax liabilities and deferred tax assets.With this amendment, the Group has been required to recognise one deferred tax asset (to the extent that taxable income is likely to be obtained to offset the deductible temporary difference) and one deferred tax liability for all deductible and taxable temporary differences relating to right-of-use assets and lease liabilities. The adoption of the amendments to IAS 12 has had no material impact on the financial position and financial performance of the Group.

Amendments to IAS 12 – International Tax Reform-Pillar Two model Rules

IAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023. The adoption of the amendments to IAS 12 has had no material impact on the financial position and financial performance of the Group for the current and prior year.

The adoption of the above other amendments to IFRSs has had no material impact on the financial position and financial performance of the Group for the current and prior year or on the disclosures set out in these consolidated financial statements.

Amendments to IFRSs that are issued but not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
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 IAS 7 and IFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to IAS 21	Lack of Exchangeability	1 January 2025
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 amendments to IFRSs mentioned above are not expected to have material impact on the consolidated financial statements in the foreseeable future.

4. Material accounting policy information

(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. Material accounting policy information *(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(10)).

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. Material accounting policy information *(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(10)).

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(10)).

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. Material accounting policy information *(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").

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.

4. Material accounting policy information *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

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 allowances 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.

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".

4. Material accounting policy information *(continued)*

(5) Financial instruments *(continued)*

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).

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.

4. Material accounting policy information *(continued)*

(5) Financial instruments *(continued)*

Impairment under ECL model *(continued)*

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.

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.

4. Material accounting policy information *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial liabilities *(continued)*

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, along with its risk management objective and its 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. Material accounting policy information *(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 institutions 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 the National Administration of Financial Regulation ("NAFR") and under the supervision of the NAFR 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. Material accounting policy information *(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 and financial institutions that can conduct such business 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.

4. Material accounting policy information *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

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.

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 and liability are recognised to the extent of the Group's continuing involvement in the asset.

When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement at the time of transfer is the lower of (i) the amount of the asset and (ii) the guarantee amount (the maximum amount that the Group could be required to repay in the consideration received). When the Group continues to recognise an asset to the extent of its continuing involvement, the Group also recognises an relevant liability as the sum of the guarantee amount and the fair value of the guarantee contract (usually the consideration received for the provision of security).

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. Material accounting policy information *(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. Material accounting policy information *(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(10)). 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. Material accounting policy information *(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(10).

(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.

4. Material accounting policy information *(continued)*

(9) Leases *(continued)*

As a lessee *(continued)*

(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.

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.

4. Material accounting policy information *(continued)*

(9) Leases *(continued)*

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) 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 CGU 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).

– Impairment losses recognised

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.

(11) 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. Material accounting policy information *(continued)*

(12) 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.

(13) 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.

4. Material accounting policy information *(continued)*

(13) 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. Material accounting policy information *(continued)*

(13) 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.

(14) 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. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. 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.

4. Material accounting policy information *(continued)*

(14) Taxation *(continued)*

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.

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.

(15) 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. Material accounting policy information *(continued)*

(16) 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 shares. 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. Material accounting policy information *(continued)*

(17) 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.

(18) 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.

(19) 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.

(20) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

(21) 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) 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.

5. Significant accounting estimates and judgements *(continued)*

(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

	2023	2022
Loans and advances to customers	**268,240**	265,601
– Corporate loans	**94,526**	86,754
– Retail loans	**166,104**	168,174
– Discounted bills	**7,610**	10,673
Balances with central banks	**9,977**	8,482
Balances with banks and other financial institutions	**2,101**	1,242
Placements with banks and other financial institutions	**10,596**	7,760
Amounts held under resale agreements	**3,860**	4,487
Financial investments	**80,836**	65,808
– Debt investments at FVTOCI	**26,201**	19,654
– Debt investments at amortised cost	**54,635**	46,154
Total	**375,610**	353,380

Note: For the year ended 31 December 2023, included in the above is the interest income of RMB10,577 million accrued on loans and advances to customers at fair value through other comprehensive income (2022: RMB12,668 million).

7. Interest expense

	2023	2022
Deposits from customers	**128,809**	105,836
Borrowing from central banks	**4,005**	2,828
Deposits from banks and other financial institutions	**8,307**	9,782
Placements from banks and other financial institutions	**8,931**	4,567
Amounts sold under repurchase agreements	**2,628**	1,960
Debt securities issued	**7,781**	9,662
Lease liabilities	**480**	510
Total	**160,941**	135,145

8. Fee and commission income

	2023	2022
Commissions from wealth management	**28,466**	30,903
Commissions from asset management	**11,474**	12,457
Bank cards fees	**19,525**	21,399
Clearing and settlement fees	**15,492**	15,051
Commissions from credit commitment and lending business	**4,997**	5,753
Commissions on custodian business	**5,328**	5,791
Other	**7,552**	12,018
Total	**92,834**	103,372

9. Other net income

	2023	2022
Net gain/(loss) from fair value change	**1,846**	(2,675)
– financial instruments at fair value through profit or loss	**1,797**	(2,204)
– derivatives instruments	**104**	(120)
– precious metals	**(55)**	(351)
Net investment income	**19,700**	18,013
– financial instruments at FVTPL	**14,523**	12,443
– gain on disposal of financial assets at amortised cost	**967**	170
– gain on disposal of debt instruments at FVTOCI	**3,661**	5,161
– of which: gain on disposal of bills	**1,551**	3,291
– dividend income from equity investments designated at FVTOCI	**317**	153
– other	**232**	86
Foreign exchange gain	**4,132**	3,600
Other income	**11,418**	9,702
– rental income	**11,352**	9,181
– insurance income	**66**	521
Other	**729**	1,065
Total	**37,825**	29,705

10. Operating expenses

	2023	2022
Staff costs	**70,348**	70,657
– Salaries and bonuses	**55,477**	55,647
– Social insurance and corporate supplemental insurance	**7,349**	8,421
– Other	**7,522**	6,589
Tax and surcharges	**2,963**	3,005
Depreciation of property and equipment and investment properties	**11,008**	10,279
Amortisation of intangible assets	**930**	1,061
Depreciation of right-of-use assets	**4,205**	4,151
Short-term leases expense and leases of low-value assets expense	**216**	229
Charge for insurance claims	**–**	360
Other general and administrative expenses (note)	**31,321**	32,319
Total	**120,991**	122,061

Note: Auditors' remuneration amounting to RMB34 million for the year ended 31 December 2023 (2022: RMB31 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:

	2023				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wang Liang	–	3,453	–	–	3,453
Zhu Jiangtao (ii)	–	2,821	–	–	2,821
Subtotal	–	6,274	–	–	6,274
The executive director's 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	–	–	–	–	–
Hu Jianhua (iii)	–	–	–	–	–
Sun Yunfei	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan (iii)	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Chen Dong	–	–	–	–	–
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
Luo Sheng	–	–	–	–	–
Peng Bihong (iv)	–	–	–	–	–
Wu Heng	–	–	–	–	–
Xu Zhengjun	400	–	–	–	400
Cai Hongping	400	–	–	–	400
Zhang Xiang	400	–	–	–	400
Cai Jin	–	1,627	–	–	1,627
Cao Jian (v)	–	1,294	–	–	1,294
Yang Sheng (vi)	–	967	–	–	967
Subtotal	4,200	3,888	–	–	8,088
The independent non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Former executive, non-executive directors and supervisors					
Su Min (vii)	–	–	–	–	–
Xiong Liangjun (vi)	–	1,870	–	–	1,870
Wang Wanqing (v)	–	593	–	–	593
Subtotal	–	2,463	–	–	2,463
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	12,625	–	–	16,825

11. Directors' and supervisors' emoluments *(continued)*

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 2023, according to the relevant resolution passed at the 2022 Annual General Meeting of the Bank, Mr. Zhu Jiangtao was elected as the Executive Director of the Bank, whose qualification as the Director was approved by the NAFR in August 2023. The emolument of Mr. Zhu Jiangtao shown above included the portion for his services before his qualification as the Director was approved by the NAFR during the year.

(iii) In January 2024, Mr. Hu Jianhua and Mr. Hong Xiaoyuan ceased to be Non-Executive Directors of the Bank due to their age.

(iv) In January 2024, Mr. Peng Bihong ceased to be the Shareholder Supervisor of the Bank due to change of work arrangement.

(v) In March 2023, Mr. Cao Jian was elected as the Employee Supervisor of the Bank at the employee representative meeting of the Bank. Mr. Wang Wanqing ceased to be the Employee Supervisor of the Bank due to his age.

(vi) In June 2023, Mr. Yang Sheng was elected as the Employee Supervisor of the Bank at the employee representative meeting of the Bank. At the same time, Mr. Xiong Liangjun ceased to be the Chairman of the Board of Supervisors and Employee Supervisor of the Bank due to his age.

(vii) In March 2023, Ms. Su Min retired and resigned as the Non-Executive Director of the Bank.

(viii) As of 31 December 2023, 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)*

	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	2,580	220	6,425
Subtotal	–	3,625	2,580	220	6,425
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	2,098	211	5,626
Luo Sheng (iii)	–	–	–	–	–
Peng Bihong	–	–	–	–	–
Wu Heng	–	–	–	–	–
Xu Zhengjun	400	–	–	–	400
Cai Hongping (iii)	202	–	–	–	202
Zhang Xiang (iii)	202	–	–	–	202
Wang Wanqing	–	2,650	–	–	2,650
Cai Jin	–	1,548	–	–	1,548
Subtotal	3,804	7,515	2,098	211	13,628
The independent non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Former executive, non-executive directors and supervisors					
Fu Gangfeng (iv)	–	–	–	–	–
Tian Huiyu (v)	–	–	–	–	–
Wang Daxiong (v)	–	–	–	–	–
Luo Sheng (v)	–	–	–	–	–
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	4,678	431	20,387

11. Directors' and supervisors' emoluments *(continued)*

Notes:

(i) On 27 September 2023, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2022.

(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 former China Banking and Insurance Regulatory Commission (the "former CBIRC") in October 2022.

(iii) 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.

(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, 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.

(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).

During the years of 2023 and 2022, 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 years of 2023 and 2022, 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 2023, the five highest paid individuals included five persons in total. 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. Of these highest paid individuals, two (2022: two) were directors or supervisors of the Bank whose emoluments were included in Note 11 above. The aggregate emolument of the remaining three (2022: four) highest paid individuals who were neither directors nor supervisors of the Bank is as follows:

	2023 RMB'000	2022 RMB'000
Salaries and other emoluments	**8,263**	11,764
Discretionary bonuses	**–**	7,455
Contributions to defined contribution retirement schemes	**–**	842
Total	**8,263**	20,061

These highest paid individuals who were neither directors nor supervisors of the Bank whose emoluments fell within the following bands is set out below:

	2023	2022
HKD		
2,500,001 – 3,000,000	**1**	–
3,000,001 – 3,500,000	**2**	4
3,500,001 – 4,000,000	**–**	–
4,000,001 – 4,500,000	**–**	–
4,500,001 – 5,000,000	**–**	–

During the years of 2023 and 2022, no emoluments were paid by the Group to any of the persons who are five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2023	2022
Aggregate amount of relevant loans made by the Group outstanding at year end	**35**	34
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	**50**	47

14. Expected credit losses

	2023	2022
Loans and advances to customers	**46,635**	45,157
– Loans and advances at amortised cost (Note 22(c)(i))	**50,470**	40,175
– Loans and advances at FVTOCI (Note 22(c)(ii))	**(3,835)**	4,982
Amounts due from banks and other financial institutions	**(2,935)**	(3,284)
Financial investments	**(218)**	3,879
– Debt investments at amortised cost (Note 23(b)(iii))	**(1,227)**	4,234
– Debt investments at FVTOCI (Note 23(c)(ii))	**1,009**	(355)
Financial guarantees and loan commitments	**(2,761)**	7,112
Other	**557**	3,887
Total	**41,278**	56,751

15. Income tax

(a) Income tax in the consolidated statement of profit or loss represents:

	2023	2022
Current income tax expense	**28,695**	34,276
– Chinese mainland	**27,366**	33,133
– Hong Kong	**1,155**	973
– Overseas	**174**	170
Deferred taxation	**(83)**	(8,457)
Total	**28,612**	25,819

(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:

	2023	2022
Profit before taxation	**176,618**	165,113
Tax at the PRC statutory income tax rate of 25% (2022: 25%)	**44,154**	41,278
Tax effects of the following items:	**(15,542)**	(15,459)
– Effects of non-taxable income	**(18,872)**	(17,114)
– Effects of costs, expenses and losses not deductible for tax purpose	**4,551**	2,548
– Effects of different applicable rates in other jurisdictions	**(260)**	(215)
– Tax effect of perpetual bond/perpetual debt capital interest expense	**(937)**	(942)
– Other	**(24)**	264
Income tax expense	**28,612**	25,819

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

	2023			2022		
	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 subsequently to profit or loss	2,766	(393)	2,373	732	553	1,285
– Net fair value gain/(loss) on debt instruments measured at FVTOCI	4,470	(1,133)	3,337	(7,353)	1,736	(5,617)
– Net changes in expected credit losses of debt instruments measured at FVTOCI	(2,775)	730	(2,045)	4,631	(1,160)	3,471
– Net movement in cash flow hedge reserve	(69)	10	(59)	135	(23)	112
– Share of other comprehensive income/(expense) from equity-accounted investees	202	–	202	(1,155)	–	(1,155)
– Exchange difference on translation of financial statements of foreign operations	983	–	983	4,429	–	4,429
– Other	(45)	–	(45)	45	–	45
Items that will not be reclassified to profit or loss	440	(82)	358	40	(2)	38
– Net fair value gain on equity instruments designated at FVTOCI	435	(81)	354	52	(4)	48
– Remeasurement of defined benefit scheme	5	(1)	4	(12)	2	(10)
Other comprehensive income	3,206	(475)	2,731	772	551	1,323

(b) Movements relating to components of other comprehensive income are as follows:

	2023	2022
Net fair value gain/(loss) on debt instruments measured at FVTOCI		
Changes in fair value recognised during the year	6,083	(1,746)
Reclassification adjustments for amounts transferred to profit or loss upon disposal	(2,746)	(3,871)
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	3,337	(5,617)
Net changes in expected credit losses of debt instruments measured at FVTOCI		
Changes in expected credit losses recognised during the year	(2,045)	3,471
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	(2,045)	3,471
Net fair value gain on equity instruments designated at FVTOCI		
Changes in fair value recognised during the year	354	48
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	354	48
Net movement in cash flow hedge reserve		
Effective portion of changes in fair value of hedging instruments	(58)	112
Reclassification adjustment for realised gain to profit or loss	(1)	–
Net movement in hedging reserve during the year recognised in other comprehensive income	(59)	112

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.

	2023	2022
Net profit attributable to equity holders of the Bank	**146,602**	138,012
Less: Net profit attributable to preference shareholders of the Bank	**(996)**	(1,675)
Net profit attributable to holders of perpetual bonds	**(3,562)**	(3,562)
Net profit attributable to ordinary shareholders of the Bank	**142,044**	132,775
Weighted average number of shares in issue (in million shares)	**25,220**	25,220
Basic and diluted earnings per share (in RMB Yuan)	**5.63**	5.26

Note:

The Bank issued non-cumulative preference shares in 2017 and non-cumulative perpetual bonds in 2020, 2021 and 2023. 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 2023 and 2022. 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

	2023	2022
Statutory deposit reserve (note (i))	**536,637**	534,232
Surplus deposit reserve (note (ii))	**125,878**	50,846
Other deposits with central banks (note (iii))	**5,054**	2,455
Interest receivable	**302**	285
Total	**667,871**	587,818

Notes:

(i) The Group places statutory deposit reserves with the 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% and 4% of eligible RMB deposits and foreign currency deposits respectively as at 31 December 2023 (31 December 2022: 7.5% and 6% 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

	2023	2022
Principal (a)	**100,757**	91,587
Impairment allowances (a)(b)	**(223)**	(509)
Subtotal	**100,534**	91,078
Interest receivable	**235**	268
Total	**100,769**	91,346

(a) Analysed by nature of counterparties

	2023	2022
In the Chinese mainland	**62,381**	57,809
– Banks	**57,387**	54,808
– Other financial institutions	**4,994**	3,001
Outside the Chinese mainland	**38,376**	33,778
– Banks	**37,872**	33,390
– Other financial institutions	**504**	388
Total	**100,757**	91,587
Less: Impairment allowances	**(223)**	(509)
– Banks	**(196)**	(490)
– Other financial institutions	**(27)**	(19)
Net carrying amount	**100,534**	91,078

(b) Movements of allowances for impairment losses are as follows:

	2023	2022
Balance as at the beginning of the year	**509**	378
(Release)/charge for the year (note 14)	**(287)**	120
Exchange difference	**1**	11
Balance as at the end of the year	**223**	509

20. Placements with banks and other financial institutions

	2023	2022
Principal (a)	**286,247**	265,415
Impairment allowances (a)(c)	**(519)**	(2,658)
Subtotal	**285,728**	262,757
Interest receivable	**1,966**	1,452
Total	**287,694**	264,209

Note: Pursuant to the relevant provisions in the "Interim Measures for the Administration of Gold Leasing Business" (Yin Ban Fa [2022] No. 88) issued by the General Office of the PBOC in July 2022, with respect to the gold leasing business of the Group with financial institutions since 2023, gold leased out by the Group to other financial institutions is presented under "placements with banks and other financial institutions", a change from "precious metal" in prior years. The comparative figures are re-presented accordingly.

(a) Analysed by nature of counterparties

	2023	2022
In the Chinese mainland	**214,881**	203,014
– Banks	**42,041**	65,651
– Other financial institutions	**172,840**	137,363
Outside the Chinese mainland	**71,366**	62,401
– Banks	**70,625**	61,880
– Other financial institutions	**741**	521
Total	**286,247**	265,415
Less: Impairment allowances	**(519)**	(2,658)
– Banks	**(92)**	(163)
– Other financial institutions	**(427)**	(2,495)
Net carrying amount	**285,728**	262,757

(b) Analysed by remaining maturity

	2023	2022
Maturing		
– Within one month (inclusive)	**107,390**	90,001
– Between one month and one year (inclusive)	**175,523**	158,086
– Over one year	**2,815**	14,670
Total	**285,728**	262,757

(c) Movements of allowances for impairment losses are as follows:

	2023	2022
Balance as at the beginning of the year	**2,658**	2,860
Release for the year (note 14)	**(2,143)**	(235)
Exchange difference	**4**	33
Balance as at the end of the year	**519**	2,658

21. Amounts held under resale agreements

	2023	2022
Principal (a)	**172,708**	277,561
Impairment allowances (a)(d)	**(589)**	(1,094)
Subtotal	**172,119**	276,467
Interest receivable	**127**	209
Total	**172,246**	276,676

(a) Analysed by nature of counterparties

	2023	2022
In the Chinese mainland	**172,334**	277,382
– Banks	**9,961**	42,077
– Other financial institutions	**162,373**	235,305
Outside the Chinese mainland	**374**	179
– Banks	**88**	–
– Other financial institutions	**286**	179
Total	**172,708**	277,561
Less: Impairment allowances	**(589)**	(1,094)
– Banks	**(148)**	(216)
– Other financial institutions	**(441)**	(878)
Net carrying amount	**172,119**	276,467

(b) Analysed by remaining maturity

	2023	2022
Maturing		
– Within one month (inclusive)	**172,119**	268,890
– Between one month and one year (inclusive)	**–**	7,577
Total	**172,119**	276,467

(c) Analysed by underlying assets

	2023	2022
Bonds	**164,702**	256,129
Bills	**7,417**	20,338
Total	**172,119**	276,467

(d) Movements of allowances for impairment losses are as follows:

	2023	2022
Balance as at the beginning of the year	**1,094**	4,263
Release for the year (note 14)	**(505)**	(3,169)
Balance as at the end of the year	**589**	1,094

22. Loans and advances to customers

(a) Loans and advances to customers

	2023	2022
Gross amount of loans and advances to customers at amortised cost (i)	**5,913,324**	5,432,112
Interest receivable	**11,442**	11,326
Subtotal	**5,924,766**	5,443,438
Less: Loss allowances of loans and advances to customers at amortised cost (i)	**(266,805)**	(254,913)
Loss allowances of interest receivable	**(815)**	(846)
Subtotal	**(267,620)**	(255,759)
Loans and advances to customers at amortised cost	**5,657,146**	5,187,679
Loans and advances to customers at FVTOCI (ii)	**525,179**	614,481
Loans and advances to customers at FVTPL (iii)	**70,430**	4,994
Total	**6,252,755**	5,807,154

(i) Loans and advances to customers at amortised cost

	2023	2022
Corporate loans and advances	**2,475,432**	2,270,323
Retail loans and advances	**3,437,883**	3,161,789
Discounted bills	**9**	–
Gross amount of loans and advances to customers at amortised cost	**5,913,324**	5,432,112
Less: Loss allowances	**(266,805)**	(254,913)
– Stage 1 (12-month ECL)	**(165,866)**	(159,932)
– Stage 2 (Lifetime ECL – not credit-impaired)	**(47,729)**	(44,898)
– Stage 3 (Lifetime ECL – credit-impaired)	**(53,210)**	(50,083)
Net amount of loans and advances to customers at amortised cost	**5,646,519**	5,177,199

(ii) Loans and advances to customers at FVTOCI

	2023	2022
Corporate loans and advances	**120,762**	100,430
Discounted bills	**404,417**	514,051
Loans and advances to customers at FVTOCI	**525,179**	614,481
Loss allowances	**(2,729)**	(6,563)
– Stage 1 (12-month ECL)	**(2,726)**	(6,311)
– Stage 2 (Lifetime ECL – not credit-impaired)	**(3)**	(252)
– 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

	2023	2022
Corporate loans and advances	**3,661**	4,863
Discounted bills	**66,701**	3
Interest receivable	**68**	128
Total	**70,430**	4,994

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

	2023	2022
Manufacturing	**557,691**	445,218
Transportation, storage and postal services	**477,016**	461,434
Property development	**303,707**	349,682
Production and supply of electric power, heating power, gas and water	**259,864**	203,870
Wholesale and retail	**187,737**	171,786
Leasing and commercial services	**186,463**	158,320
Construction	**110,577**	103,998
Telecommunications, software and IT services	**95,394**	78,950
Finance	**88,296**	75,593
Water, environment and public utilities management	**42,813**	64,886
Mining	**42,326**	34,421
Other	**76,400**	67,677
Subtotal of corporate loans and advances	**2,428,284**	2,215,835
Discounted bills	**471,127**	514,054
Residential mortgage	**1,376,815**	1,379,825
Credit cards	**935,777**	884,395
Micro-finance loans	**750,019**	629,857
Consumer loans	**301,538**	202,225
Other	**7,806**	11,374
Subtotal of retail loans and advances	**3,371,955**	3,107,676
Gross amount of loans and advances to customers	**6,271,366**	5,837,565

Operations outside the Chinese mainland

	2023	2022
Finance	**45,368**	36,521
Transportation, storage and postal services	**36,248**	30,814
Property development	**22,960**	26,298
Manufacturing	**19,335**	20,494
Production and supply of electric power, heating power, gas and water	**12,359**	9,023
Wholesale and retail	**10,002**	8,923
Telecommunications, software and IT services	**8,323**	10,908
Leasing and commercial services	**6,207**	3,430
Mining	**4,945**	6,074
Construction	**623**	1,772
Water, environment and public utilities management	**419**	110
Other	**4,782**	5,414
Subtotal of corporate loans and advances	**171,571**	159,781
Residential mortgage	**8,671**	9,383
Credit cards	**133**	124
Micro-finance loans	**1,278**	1,181
Other	**55,846**	43,425
Subtotal of retail loans and advances	**65,928**	54,113
Gross amount of loans and advances to customers	**237,499**	213,894

As at 31 December 2023, over 90% of the Group's loans and advances to customers were conducted in the Chinese mainland (31 December 2022: over 90%).

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by type of guarantees:

	2023	2022
Credit loans	**2,592,093**	2,219,635
Guaranteed loans	**822,059**	836,550
Collateralised loans	**2,244,129**	2,132,337
Pledged loans	**379,457**	348,883
Subtotal	**6,037,738**	5,537,405
Discounted bills	**471,127**	514,054
Gross amount of loans and advances to customers	**6,508,865**	6,051,459

(iii) Analysed by overdue term:

	2023				
	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	**20,486**	**13,310**	**3,905**	**1,661**	**39,362**
Guaranteed loans	**6,971**	**4,360**	**7,053**	**618**	**19,002**
Collateralised loans	**6,133**	**4,638**	**5,157**	**1,549**	**17,477**
Pledged loans	**2,571**	**766**	**1,556**	**1,249**	**6,142**
Gross amount of loans and advances to customers	**36,161**	**23,074**	**17,671**	**5,077**	**81,983**

	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

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:

	2023	2022
Collateralised loans that are overdue but not impaired	**5,448**	4,198
Pledged loans that are overdue but not impaired	**2,565**	1,819
Total	**8,013**	6,017

22. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(iv) Analysed by ECL

	2023			
	– 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	**5,686,659**	**165,105**	**61,560**	**5,913,324**
Less: Loss allowances of loans and advances to customers at amortised cost	**(165,866)**	**(47,729)**	**(53,210)**	**(266,805)**
Net amount of loans and advances to customers at amortised cost	**5,520,793**	**117,376**	**8,350**	**5,646,519**
Loans and advances to customers at FVTOCI	**524,624**	**555**	**–**	**525,179**
Loss allowances of loans and advances to customers at FVTOCI	**(2,726)**	**(3)**	**–**	**(2,729)**

	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)

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:

	2023			
	– 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	**159,932**	**44,898**	**50,083**	**254,913**
Transfer to				
– Stage 1	**7,480**	**(7,309)**	**(171)**	**–**
– Stage 2	**(5,807)**	**6,382**	**(575)**	**–**
– Stage 3	**(1,625)**	**(14,547)**	**16,172**	**–**
Charge for the year (note 14)	**5,274**	**18,214**	**26,982**	**50,470**
Write-offs/disposals	**–**	**–**	**(47,922)**	**(47,922)**
Recovery of loans and advances written off	**–**	**–**	**8,819**	**8,819**
Exchange and other differences	**612**	**91**	**(178)**	**525**
Balance as at the end of the year	**165,866**	**47,729**	**53,210**	**266,805**

	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)
Recovery of loans and advances written off	–	–	8,972	8,972
Exchange and other differences	632	76	(378)	330
Balance as at the end of the year	159,932	44,898	50,083	254,913

(ii) Reconciliation of allowance for expected credit loss for loans and advances to customers measured at FVTOCI:

	2023	2022
Balance as at the beginning of the year	**6,563**	1,581
(Release)/charge for the year (note 14)	**(3,835)**	4,982
Exchange difference	**1**	–
Balance as at the end of the year	**2,729**	6,563

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:

	2023	2022
Total minimum leases receivable		
Within 1 year (inclusive)	**15,305**	13,323
Over 1 year but within 2 years (inclusive)	**8,010**	11,035
Over 2 years but within 3 years (inclusive)	**7,573**	6,074
Over 3 years but within 4 years (inclusive)	**4,755**	6,089
Over 4 years but within 5 years (inclusive)	**3,729**	3,860
Over 5 years	**19,145**	17,448
Subtotal	**58,517**	57,829
Unearned finance income	**(10,491)**	(9,665)
Present value of minimum leases receivable	**48,026**	48,164
Less: Impairment allowances	**(2,629)**	(3,671)
– Stage 1 (12-month ECL)	**(661)**	(1,308)
– Stage 2 (Lifetime ECL – not credit-impaired)	**(1,368)**	(1,646)
– Stage 3 (Lifetime ECL – credit-impaired)	**(600)**	(717)
Net carrying amount of finance leases receivable	**45,397**	44,493

23. Financial investments

	Notes	2023	2022
Financial investments at fair value through profit or loss	23(a)	**526,145**	423,467
Debt investments at amortised cost	23(b)	**1,749,024**	1,555,457
Debt investments at FVTOCI	23(c)	**899,102**	780,349
Equity investments designated at FVTOCI	23(d)	**19,649**	13,416
Total		**3,193,920**	2,772,689

(a) Financial investments at fair value through profit or loss

	Notes	2023	2022
Financial investments measured at FVTPL	(i)	**513,266**	411,591
Financial assets designated at fair value through profit or loss	(ii)	**12,879**	11,876
Total		**526,145**	423,467

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

	2023	2022
Bonds:		
Classified by issuer	**251,189**	182,416
– Government bonds	**128,894**	81,781
– Bonds issued by policy banks	**20,502**	21,871
– Bonds issued by commercial banks and other financial institutions	**40,591**	35,999
– Other debt securities	**61,202**	42,765
Classified by listing	**251,189**	182,416
– Listed in the Chinese mainland	**236,106**	167,998
– Listed outside the Chinese mainland	**12,787**	12,215
– Unlisted	**2,296**	2,203
Other investments:		
Classified by underlying assets	**4,347**	1,971
– Equity investments	**257**	17
– Fund investments	**1,440**	814
– Wealth management products	**1,046**	1,032
– Long position in precious metal contracts	**1,604**	108
Classified by listing	**4,347**	1,971
– Listed outside the Chinese mainland	**1,604**	134
– Unlisted	**2,743**	1,837
Total financial investments held for trading	**255,536**	184,387

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

	2023	2022
Bonds:		
Classified by issuer	**10,619**	20,789
– Bonds issued by policy banks	**740**	–
– Bonds issued by commercial banks and other financial institutions	**3,781**	14,039
– Other debt securities	**6,098**	6,750
Classified by listing	**10,619**	20,789
– Listed in the Chinese mainland	**7,483**	18,216
– Listed outside the Chinese mainland	**2,777**	1,872
– Unlisted	**359**	701
Other investments:		
Classified by underlying assets	**247,111**	206,415
– Equity investments	**4,228**	4,362
– Fund investments	**240,864**	199,725
– Wealth management products	**1,683**	1,511
– Other	**336**	817
Classified by listing	**247,111**	206,415
– Listed in the Chinese mainland	**990**	330
– Listed outside the Chinese mainland	**972**	653
– Unlisted	**245,149**	205,432
Total other financial investments measured at FVTPL	**257,730**	227,204
Total financial investments measured at FVTPL	**513,266**	411,591

(ii) Financial investments designated at fair value through profit or loss

	2023	2022
Bonds:		
Classified by issuer	**12,879**	11,876
– Government bonds	**228**	218
– Bonds issued by policy banks	**4,492**	4,559
– Bonds issued by commercial banks and other financial institutions	**7,327**	6,370
– Other debt securities	**832**	729
Classified by listing	**12,879**	11,876
– Listed in the Chinese mainland	**12,637**	11,656
– Listed outside the Chinese mainland	**242**	220

23. Financial investments *(continued)*

(b) Debt investments at amortised cost

	2023	2022
Debt investments at amortised cost (i)(ii)	**1,768,010**	1,579,845
Interest receivable	**20,796**	19,294
Subtotal	**1,788,806**	1,599,139
Impairment losses of principal (i)(ii)(iii)	**(39,390)**	(43,448)
Impairment losses of interest receivable	**(392)**	(234)
Subtotal	**(39,782)**	(43,682)
Total	**1,749,024**	1,555,457

(i) Debt investments at amortised cost:

	2023	2022
Bonds:		
Classified by issuer	**1,680,262**	1,452,499
– Government bonds	**1,179,073**	993,624
– Bonds issued by policy banks	**442,206**	394,126
– Bonds issued by commercial banks and other financial institutions	**51,732**	56,913
– Other debt securities	**7,251**	7,836
Classified by listing	**1,680,262**	1,452,499
– Listed in the Chinese mainland	**1,607,814**	1,395,184
– Listed outside the Chinese mainland	**41,533**	33,319
– Unlisted	**30,915**	23,996
Fair value for the listed bonds	**1,708,448**	1,457,373
Other investments:		
Classified by underlying assets	**87,748**	127,346
– Non-standard assets – Loans and advances to customers	**73,709**	108,616
– Non-standard assets – Creditor's beneficiary rights to other commercial banks	**3,738**	5,500
– Non-standard assets – Other	**9,622**	12,582
– Other	**679**	648
Classified by listing	**87,748**	127,346
– Unlisted	**87,748**	127,346
Total	**1,768,010**	1,579,845
Less: Loss allowances	**(39,390)**	(43,448)
Stage 1 (12-month ECL)	**(13,193)**	(10,120)
Stage 2 (Lifetime ECL – not credit-impaired)	**(486)**	(960)
Stage 3 (Lifetime ECL – credit-impaired)	**(25,711)**	(32,368)
Net debt investments at amortised cost	**1,728,620**	1,536,397

23. Financial investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(ii) Analysed by stage of ECL:

	2023			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Debt investments at amortised cost	1,738,945	1,517	27,548	1,768,010
Less: Loss allowances of debt investments at amortised cost	(13,193)	(486)	(25,711)	(39,390)
Net debt investments at amortised cost	1,725,752	1,031	1,837	1,728,620

	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

(iii) Movements of allowances for expected credit loss

	2023			
	– 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	10,120	960	32,368	43,448
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	(37)	37	–	–
– Stage 3	–	(484)	484	–
Charge/(release) for the year (note 14)	3,111	(25)	(4,313)	(1,227)
Write-offs/disposals	(5)	(1)	(2,904)	(2,910)
Recovery of debt previously written off	–	–	66	66
Exchange difference	4	(1)	10	13
Balance as at the end of the year	13,193	486	25,711	39,390

23. Financial investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(iii) Movements of allowances for expected credit loss *(continued)*

	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

(c) Debt investments at FVTOCI

	2023	2022
Debt investments at FVTOCI (i)	**889,736**	771,271
Interest receivable	**9,366**	9,078
Total	**899,102**	780,349
Impairment losses of debt investments at FVTOCI (ii)	**(6,812)**	(6,540)
Impairment losses of interest receivable	**(148)**	(80)
Total	**(6,960)**	(6,620)

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:

	2023	2022
Bonds:		
Classified by issuer	**889,736**	771,271
– Government bonds	**636,625**	524,651
– Bonds issued by policy banks	**35,519**	74,072
– Bonds issued by commercial banks and other financial institutions	**149,397**	119,602
– Other debt securities	**68,195**	52,946
Classified by listing	**889,736**	771,271
– Listed in the Chinese mainland	**676,653**	611,110
– Listed outside the Chinese mainland	**105,084**	90,148
– Unlisted	**107,999**	70,013

23. Financial investments *(continued)*

(c) Debt investments at FVTOCI *(continued)*

(ii) Movements of allowances for expected credit loss

	2023	2022
Balance as at the beginning of the year	**6,540**	6,622
Charge/(release) for the year (note 14)	**1,009**	(355)
Write-offs/disposals	**(807)**	–
Exchange difference	**70**	273
Balance as at the end of the year	**6,812**	6,540

(d) Equity investments designated at FVTOCI

	2023	2022
Repossessed equity instruments	**2,857**	3,266
Other	**16,792**	10,150
Total	**19,649**	13,416
Classified by listing		
– Listed in the Chinese mainland	**926**	1,412
– Listed outside the Chinese mainland	**9,515**	2,744
– Unlisted	**9,208**	9,260
Total	**19,649**	13,416

During the year ended 31 December 2023, 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 RMB1,226 million (2022: RMB2,879 million). The cumulative net of tax loss of RMB49 million (2022: cumulative net of tax gain of RMB20 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 affect 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	Zhong Desheng
CMB Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited liability	Wang Liang
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	EUR100	100%	Banking	Limited liability	Xue Fei
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 CMBIC 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 former 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 remained 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.

(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 former CBIRC with Yin Bao Jian Fu [2019] No. 981. It was formally established on 1 November 2019. In accordance with the approval of former 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. The legal representative of CMBWM was changed from Chen Yisong to Wu Jianbing on 22 January 2024.

(vi) China Merchants Europe S.A. ("CMB Europe S.A.") is a wholly-owned subsidiary of the Bank approved by the former 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. In June 2023, the Bank made an additional capital contribution of EUR 50 million in CMB Europe S.A. The capital of CMB Europe S.A. increased to EUR 100 million, and the Bank's shareholding percentage remained unchanged.

(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 former 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

	2023	2022
Share of net assets	**15,707**	14,247
Share of profits for the year	**1,860**	1,710
Share of other comprehensive income/(expense) for the year	**31**	(997)

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))	Joint stock limited company	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"). Former 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 RMB3,869 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.

In July 2023, MUCFC completed the registration of the change of its Chinese name from "招聯消費金融有限公司" to "招聯消費金融股份有限公司".

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/ (expense)	Total comprehensive income/ (expense)	Cash and cash equivalents	Depreciation and amortisation	Income tax
2023										
CIGNA & CMB Life	**165,340**	**155,485**	**9,855**	**40,661**	**429**	**63**	**492**	**2,590**	**149**	**(944)**
Group's effective interest	**82,359**	**77,743**	**4,616**	**20,331**	**167**	**31**	**198**	**1,295**	**75**	**(472)**
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)

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Net profit	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2023									
MUCFC	**176,421**	**156,054**	**20,367**	**19,602**	**3,600**	**3,600**	**4,170**	**44**	**533**
Group's effective interest	**88,211**	**78,027**	**10,184**	**9,801**	**1,800**	**1,800**	**2,085**	**22**	**267**
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

Summarised financial information of the joint ventures that are not individually material to the Group is as follows:

	Net loss	Other comprehensive expense	Total comprehensive expense
2023			
Other joint ventures	**(1,197)**	**–**	**(1,197)**
Group's effective interest	**(107)**	**–**	**(107)**
2022			
Other joint ventures	(2,874)	–	(2,874)
Group's effective interest	(291)	–	(291)

26. Interests in associates

	2023	2022
Share of net assets	**10,883**	9,597
Share of profits for the year	**616**	815
Share of other comprehensive income/(expense) for the year	**171**	(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)	Joint stock limited company	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 included in 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
2023										
Bank of Taizhou Co., Ltd.	**402,413**	**369,702**	**32,711**	**12,552**	**4,639**	**184**	**4,823**	**9,561**	**522**	**1,099**
Group's effective interest	**98,881**	**91,893**	**6,988**	**3,120**	**1,052**	**46**	**1,098**	**2,376**	**130**	**273**
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

Summarised financial information of the associates that are not individually material to the Group is as follows:

	Net loss	Other comprehensive income/(expense)	Total comprehensive expense
2023			
Other associates	**(5,308)**	**781**	**(4,527)**
Group's effective interest	**(436)**	**125**	**(311)**
2022			
Other associates	(11,527)	(737)	(12,264)
Group's effective interest	(189)	(123)	(312)

27. Investment properties

	2023	2022
Cost:		
At 1 January	**3,301**	3,135
Transfers (out)/in	**(159)**	13
Disposals	**(79)**	–
Exchange difference	**34**	153
At 31 December	**3,097**	3,301
Accumulated depreciation:		
At 1 January	**2,033**	1,763
Depreciation	**140**	132
Transfers (out)/in	**(204)**	33
Disposals	**(57)**	–
Exchange difference	**25**	105
At 31 December	**1,937**	2,033
Net carrying amount:		
At 31 December	**1,160**	1,268
At 1 January	**1,268**	1,372

As at 31 December 2023, no impairment allowance was considered necessary for investment properties by the Group (31 December 2022: 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 2023, the fair value of these properties was RMB4,432 million (31 December 2022: RMB5,534 million).

The Group's total future minimum leases receivable under non-cancellable operating leases are as follows:

	2023	2022
Within 1 year (inclusive)	**227**	289
1 year to 2 years (inclusive)	**196**	240
2 year to 3 years (inclusive)	**165**	184
3 year to 4 years (inclusive)	**136**	153
4 year to 5 years (inclusive)	**79**	102
Over 5 years	**225**	275
Total	**1,028**	1,243

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 2023
Located in the Chinese mainland	–	**2,036**	–	**2,036**
Located overseas	–	–	**2,396**	**2,396**
Total	–	**2,036**	**2,396**	**4,432**

	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

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 2023	30,501	3,787	18,516	11,678	85,741	5,478	155,701
Additions	40	2,879	1,145	775	24,689	360	29,888
Reclassification and transfers	2,445	(2,686)	28	380	–	(8)	159
Disposals	(15)	–	(2,374)	(82)	(6,983)	(625)	(10,079)
Exchange difference	55	–	23	16	1,356	5	1,455
At 31 December 2023	33,026	3,980	17,338	12,767	104,803	5,210	177,124
Accumulated depreciation:							
At 1 January 2023	14,339	–	14,791	8,045	13,111	4,344	54,630
Depreciation	1,408	–	2,064	934	5,921	541	10,868
Reclassification and transfers	204	–	24	–	–	(24)	204
Disposals	(10)	–	(2,319)	(40)	(2,400)	(595)	(5,364)
Exchange difference	43	–	22	7	183	4	259
At 31 December 2023	15,984	–	14,582	8,946	16,815	4,270	60,597
Impairment loss:							
At 1 January 2023	20	–	–	–	1,132	–	1,152
Charge	–	–	–	–	183	–	183
Disposals	–	–	–	–	(175)	–	(175)
Exchange difference	–	–	–	–	19	–	19
At 31 December 2023	20	–	–	–	1,159	–	1,179
Net carrying amount:							
At 31 December 2023	17,022	3,980	2,756	3,821	86,829	940	115,348
At 1 January 2023	16,142	3,787	3,725	3,633	71,498	1,134	99,919

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 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

(a) As at 31 December 2023, the process of obtaining the registration certificate for the Group's properties with an aggregate net carrying value of RMB2,476 million (31 December 2022: RMB1,108 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 2023, the Group had no significant unused property and equipment (31 December 2022: None).

(c) As at 31 December 2023, the carrying value of mortgaged aircraft and vessels for placements from banks and other financial institutions of the CMBFL was RMB24,508 million (31 December 2022: RMB24,512 million).

(d) The Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	2023	2022
Within 1 year (inclusive)	**10,711**	11,306
1 year to 2 years (inclusive)	**8,993**	9,601
2 year to 3 years (inclusive)	**7,906**	8,134
3 year to 4 years (inclusive)	**6,808**	7,087
4 year to 5 years (inclusive)	**6,363**	6,151
Over 5 years	**21,954**	19,876
Total	**62,735**	62,155

29. Lease contracts

(a) Right-of-use assets

	Land use rights	Buildings	Computer equipment	Motor vehicles and other	Total
Cost:					
At 1 January 2023	6,000	23,926	10	11	29,947
Additions	–	4,161	–	2	4,163
Decrease	–	(3,055)	–	(2)	(3,057)
Exchange difference	2	12	–	–	14
At 31 December 2023	6,002	25,044	10	11	31,067
Accumulated depreciation:					
At 1 January 2023	1,375	10,953	5	2	12,335
Depreciation (note 10)	182	4,018	3	2	4,205
Decrease	–	(2,584)	–	(1)	(2,585)
Exchange difference	–	12	–	–	12
At 31 December 2023	1,557	12,399	8	3	13,967
Impairment loss:					
At 1 January 2023	59	–	–	–	59
At 31 December 2023	59	–	–	–	59
Net carrying amount:					
At 31 December 2023	4,386	12,645	2	8	17,041
At 1 January 2023	4,566	12,973	5	9	17,553

	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

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:

	2023	2022
Within 1 month (inclusive)	**454**	503
1 month to 3 months (inclusive)	**578**	591
3 months to 1 year (inclusive)	**2,804**	3,091
1 year to 2 years (inclusive)	**3,085**	3,038
2 years to 5 years (inclusive)	**4,672**	4,612
Over 5 years	**1,082**	1,178
Total	**12,675**	13,013

Interest expense on lease liabilities is 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 2023, total cash outflow of the Group's leases amounted to RMB5,053 million (2022: RMB4,932 million).

(e)

As at 31 December 2023 and 2022, 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 2023	**10,393**	**1,181**	**11,574**
Additions	**253**	**–**	**253**
Disposals	**(73)**	**–**	**(73)**
Exchange difference	**4**	**22**	**26**
At 31 December 2023	**10,577**	**1,203**	**11,780**
Accumulated amortisation:			
At 1 January 2023	**7,572**	**600**	**8,172**
Charge for the year (note 10)	**888**	**42**	**930**
Disposals	**(46)**	**–**	**(46)**
Exchange difference	**4**	**11**	**15**
At 31 December 2023	**8,418**	**653**	**9,071**
Net carrying amount:			
At 31 December 2023	**2,159**	**550**	**2,709**
At 1 January 2023	**2,821**	**581**	**3,402**

	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

31. Goodwill

	As at 31 December 2022	Addition during the year	Decrease during the year	As at 31 December 2023
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	10,578	–	(45)	10,533
Less: Impairment allowances – CMB WLB	(579)	–	–	(579)
Net carrying amount	9,999	–	(45)	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 30 December 2022, CMB Wing Lung Insurance Company Limited ("CMB WLI"), 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. On 29 June 2023, CMI injected capital into CMB WLI. The Group's shareholding of CMB WLI changed to 45% and lost control of CMB WLI. The Group converted it into an associate and derecognised the goodwill of RMB45 million.

(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.

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. The discount rate adopted by the Group is the before-tax rate and reflects the specific risk associated with the CGU. A pre-tax discount rates of CMB WLB and CMFM adopted by the Group are 10% and 9% (2022: 11% 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

	2023	2022
Deferred tax assets	**90,557**	90,848
Deferred tax liabilities	**(1,607)**	(1,510)
Net amount	**88,950**	89,338

(a) Deferred tax assets/(liabilities) and related temporary differences are attributable to the following items:

	2023		2022	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets before offsetting qualifying amounts				
Impairment allowances on loans and advances to customers and other assets at amortised cost	**297,564**	**74,251**	302,062	75,278
Financial assets at FVTOCI	**1,605**	**264**	2,170	359
Financial instruments at FVTPL	**451**	**113**	1,839	461
Lease liabilities	**12,543**	**3,135**	12,624	3,156
Salaries and welfare payable and other	**84,873**	**20,538**	75,077	18,146
Total	**397,036**	**98,301**	393,772	97,400
Deferred tax liabilities before offsetting qualifying amounts				
Financial assets at FVTOCI	**(9,985)**	**(2,496)**	(5,487)	(1,371)
Financial instruments at FVTPL	**(1,904)**	**(476)**	(894)	(224)
Right-of-use assets	**(12,317)**	**(3,133)**	(12,641)	(3,160)
Other	**(19,476)**	**(3,246)**	(19,669)	(3,307)
Total	**(43,682)**	**(9,351)**	(38,691)	(8,062)

	2023	2022
Deferred tax assets before offsetting qualifying amounts	**98,301**	97,400
Offsetting amounts	**(7,744)**	(6,552)
Deferred tax assets after offsetting qualifying amounts	**90,557**	90,848
Deferred tax liabilities before offsetting qualifying amounts	**(9,351)**	(8,062)
Offsetting amounts	**7,744**	6,552
Deferred tax liabilities after offsetting qualifying amounts	**(1,607)**	(1,510)

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	Other	Total
At 1 January 2023	**75,278**	**(1,012)**	**237**	**14,835**	**89,338**
Recognised in profit or loss	**(1,045)**	**(730)**	**(592)**	**2,450**	**83**
Recognised in other comprehensive income	**–**	**(493)**	**–**	**9**	**(484)**
Exchange difference	**18**	**3**	**(8)**	**–**	**13**
At 31 December 2023	**74,251**	**(2,232)**	**(363)**	**17,294**	**88,950**

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	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

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

	2023	2022
Amounts pending for settlement	**13,842**	15,387
Continuing involvement assets	**5,274**	5,274
Interest receivable	**4,526**	4,154
Prepaid lease payments	**203**	209
Repossessed assets (a)	**417**	456
Guarantee deposits	**563**	465
Receivable from reinsurers	**–**	329
Prepayment for leasehold improvement and other miscellaneous items	**7,436**	7,569
Premium receivables	**–**	196
Post-employment benefits: defined benefit plan (note 39(b))	**50**	50
Other	**21,573**	21,889
Total	**53,884**	55,978

(a) Repossessed assets

	2023	2022
Land and buildings	**551**	606
Other repossessed assets	**5**	6
Total	**556**	612
Less: Impairment allowances	**(139)**	(156)
Net repossessed assets	**417**	456

Note: In 2023, the Group disposed of repossessed assets with a total carrying value of RMB56 million (2022: RMB44 million).

34. Deposits from banks and other financial institutions

	2023	2022
Principal (a)	**507,460**	644,618
Interest payable	**918**	1,056
Total	**508,378**	645,674

(a) Analysed by nature of counterparties

	2023	2022
In the Chinese mainland	**496,795**	633,178
– Banks	**32,286**	103,250
– Other financial institutions	**464,509**	529,928
Outside the Chinese mainland	**10,665**	11,440
– Banks	**9,884**	10,779
– Other financial institutions	**781**	661
Total	**507,460**	644,618

35. Placements from banks and other financial institutions

	2023	2022
Principal (a)	**246,085**	206,015
Interest payable	**1,214**	1,012
Total	**247,299**	207,027

Note: Pursuant to the relevant provisions in the "Interim Measures for the Administration of Gold Leasing Business" (Yin Ban Fa [2022] No. 88) issued by the General Office of the PBOC in July 2022, with respect to the gold leasing business of the Group with financial institutions since 2023, gold leased in by the Group from other financial institutions is presented under "placements from banks and other financial institutions", a change from "financial liabilities at fair value through profit or loss" in prior years. The comparative figures are re-presented accordingly.

(a) Analysed by nature of counterparties

	2023	2022
In the Chinese mainland	**157,360**	136,235
– Banks	**155,595**	135,636
– Other financial institutions	**1,765**	599
Outside the Chinese mainland	**88,725**	69,780
– Banks	**88,512**	69,571
– Other financial institutions	**213**	209
Total	**246,085**	206,015

36. Financial liabilities at fair value through profit or loss

	2023	2022
Financial liabilities held for trading (a)	**16,128**	18,247
Financial liabilities designated at fair value through profit or loss (b)	**27,830**	30,897
Total	**43,958**	49,144

(a) Financial liabilities held for trading

	2023	2022
Financial liabilities related to precious metal	**15,748**	17,634
Short position on bonds	**380**	613
Total	**16,128**	18,247

(b) Financial liabilities designated at fair value through profit or loss

	2023	2022
In the Chinese mainland	**21,865**	22,047
– Other	**21,865**	22,047
Outside the Chinese mainland	**5,965**	8,850
– Certificates of deposit issued	**212**	383
– Debt securities issued	**5,179**	7,709
– Other	**574**	758
Total	**27,830**	30,897

As at 31 December 2023 and 2022, 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 2023 and 2022 and as at 31 December 2023 and 2022.

37. Amounts sold under repurchase agreements

	2023	2022
Principal (a)(b)	**134,863**	107,024
Interest payable	**215**	69
Total	**135,078**	107,093

(a) Analysed by nature of counterparties

	2023	2022
In the Chinese mainland	**117,668**	103,452
– Banks	**108,366**	103,446
– Other financial institutions	**9,302**	6
Outside the Chinese mainland	**17,195**	3,572
– Banks	**10,316**	2,801
– Other financial institutions	**6,879**	771
Total	**134,863**	107,024

(b) Analysed by underlying assets

	2023	2022
Debt securities	**117,032**	95,999
– Government bonds	**84,438**	73,335
– Bonds issued by policy banks	**17,266**	15,330
– Bonds issued by commercial banks and other financial institutions	**6,592**	3,476
– Other debt securities	**8,736**	3,858
Discounted bills	**17,831**	11,025
Total	**134,863**	107,024

38. Deposits From Customers

	2023	2022
Principal (a)	**8,155,438**	7,535,742
Interest payable	**85,060**	54,837
Total	**8,240,498**	7,590,579

(a) Analysed by nature of counterparties

	2023	2022
Corporate customers	**4,660,522**	4,431,553
– Demand deposits	**2,644,685**	2,762,671
– Time deposits	**2,015,837**	1,668,882
Retail customers	**3,494,916**	3,104,189
– Demand deposits	**1,829,612**	1,983,364
– Time deposits	**1,665,304**	1,120,825
Total	**8,155,438**	7,535,742

(b) The deposits taken from customers as collateral or for the purpose of guarantees are as follows:

	2023	2022
Guarantee for acceptance bills	**240,613**	199,384
Guarantee for loans	**10,792**	6,888
Guarantee for issuing letters of credit	**23,843**	29,366
Deposit for letters of guarantee	**47,694**	44,732
Other	**27,788**	42,490
Total	**350,730**	322,860

39. Staff welfare scheme

(a) Salaries and welfare payable

	2023				
	Beginning balance	Charge/ (Decrease) for the year	Payment/ transfers in the year	Decrease for the year arising from disposal of subsidiaries	Ending balance
Short-term employee benefits (i)	23,075	61,371	(56,099)	(33)	28,314
Post-employment benefits – defined contribution plans (ii)	765	5,540	(5,944)	–	361
Other long-term employee benefits (iii) – cash settled share-based transactions	26	(18)	(4)	–	4
Total	23,866	66,893	(62,047)	(33)	28,679

	2022				
	Beginning balance	Charge for the year arising from combination	Charge/ (Decrease) 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) – cash settled share-based transactions	67	–	(41)	–	26
Total	19,761	151	63,652	(59,698)	23,866

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(i) Short-term employee benefits

	2023				
	Beginning balance	Charge for the year	Payment/ transfers in the year	Decrease for the year arising from disposal of subsidiaries	Ending balance
Salaries and bonus	**18,888**	**52,040**	**(47,303)**	**(33)**	**23,592**
Welfare expense	**17**	**2,883**	**(2,885)**	**–**	**15**
Social insurance	**371**	**1,809**	**(1,818)**	**–**	**362**
– Medical insurance	**353**	**1,679**	**(1,687)**	**–**	**345**
– Injury insurance	**6**	**41**	**(41)**	**–**	**6**
– Maternity insurance	**12**	**89**	**(90)**	**–**	**11**
Housing reserve	**157**	**2,602**	**(2,618)**	**–**	**141**
Labour union and employee education expenses	**3,642**	**2,037**	**(1,475)**	**–**	**4,204**
Total	**23,075**	**61,371**	**(56,099)**	**(33)**	**28,314**

	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

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plans

	2023			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Basic retirement insurance	**151**	**3,465**	**(3,437)**	**179**
Supplementary pension	**591**	**1,996**	**(2,426)**	**161**
Unemployment insurance	**23**	**79**	**(81)**	**21**
Total	**765**	**5,540**	**(5,944)**	**361**

	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

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 2023, the Group's contributions to these pension schemes are determined by local governments and vary at a range of 14% to 16% (2022: 14% to 16%) of the staff salaries and bonuses.

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 2023, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2022: 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.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits

The Group has offered 10 phases of H share appreciation rights under the Scheme, the remaining ninth to tenth phases have not been exercised as of 31 December 2023. 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.

(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 2023 (in millions)	Exercise conditions	Contract period of share appreciation rights
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:

	2023		2022	
	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	**15.91**	**0.61**	16.21	1.76
Exercised during the year	**12.81**	**(0.16)**	–	–
Forfeited during the year	–	–	13.65	(1.15)
Outstanding at the end of the year	**15.11**	**0.45**	15.91	0.61
Exercisable at the end of the year	**15.11**	**0.45**	15.25	0.55

The share appreciation rights outstanding at 31 December 2023 had a weighted average exercise price of HKD15.11 (2022: HKD15.91) and a weighted average remaining contractual life of 3.12 years (2022: 3.70 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 is used as an input to the model.

	2023	
	Phase IX	**Phase X**
Fair value at measurement date (in RMB Yuan)	**12.74**	**6.34**
Share price (in HKD)	**25.80**	**25.80**
Exercise price (in HKD)	**9.49**	**20.03**
Expected volatility	**35.40%**	**35.40%**
Share appreciation rights remaining life (year)	**2.58**	**3.58**
Expected dividends yield	**4.45%**	**4.45%**
Risk-free interest rate	**1.43%**	**1.43%**

	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%

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:

	2023			
	Phase IX (in thousands)	**Phase X (in thousands)**	**Total (in thousands)**	**Accumulated Exercised/ Forfeited (in thousands)**
Wang Liang	**210**	**240**	**450**	**360**
Total	**210**	**240**	**450**	**360**

	2022				
	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Accumulated Exercised/ Forfeited (in thousands)
Tian Huiyu	–	–	–	–	1,230
Wang Liang	157	210	240	607	203
Total	157	210	240	607	1,433

Note: In 2023, senior management had exercised 0.16 million shares of appreciation rights (2022: None) and the weighted average exercise price was HKD12.81 (2022: None).

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 2023 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% (2022: 121%).

The amounts recognised in the consolidated statement of financial position as at 31 December 2023 and 2022 are analysed as follows:

	2023	2022
Fair value of the plan assets	**267**	285
Present value of the funded defined benefit obligation	**(217)**	(235)
Net asset recognised in the consolidated statement of financial position	**50**	50

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 2024.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2023 and 2022.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2023	2022
Current service cost	**(8)**	(9)
Net interest income	**1**	1
Net expense for the year included in retirement benefit costs	**(7)**	(8)

The actual gain on the plan assets for the year ended 31 December 2023 was RMB9 million (2022: loss of RMB42 million).

The movements in the defined benefit obligation during the year are as follows:

	2023	2022
Present value of obligation at 1 January	**235**	284
Current service cost	**8**	9
Interest cost	**8**	4
Actual benefits paid	**(33)**	(49)
Actuarial gains or losses due to liability experience	**(1)**	(4)
Actuarial gains or losses due to financial assumption changes	**(4)**	(31)
Actuarial gains or losses due to demographic assumption changes	**–**	–
Exchange difference	**4**	22
Actual obligation at 31 December	**217**	235

The movements in the fair value of the plan assets during the year are as follows:

	2023	2022
Fair value of the plan assets at 1 January	**285**	349
Interest income	**9**	5
Expected return on plan assets	**–**	(47)
Actual benefits paid	**(33)**	(49)
Exchange difference	**6**	27
Fair value of the plan assets at 31 December	**267**	285

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The major categories of the plan assets are as follows:

	2023		2022	
	Amount	%	Amount	%
Equities	145	54.3	153	53.7
Bonds	52	19.5	50	17.5
Cash	70	26.2	82	28.8
Total	267	100.0	285	100.0

As at 31 December 2023, deposit with the Bank included in the amount of the plan assets was RMB61 million (2022: RMB58 million).

The principal actuarial assumptions adopted in the valuation are as follows:

	2023	2022
	%	%
Discount rate		
– Defined benefit scheme	3.1	3.3
– Defined benefit pension scheme	4.1	4.6
Long-term average rate of salary increase for the plan	4.5	5.0
Pension increase rate for the defined benefit pension plan	–	–

In 2023 and 2022, 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

	2023	2022
Corporate income tax	7,301	13,392
Value added tax	4,035	4,141
Other	2,261	1,925
Total	13,597	19,458

41. Contract liabilities

	2023	2022
Credit card points	4,132	5,319
Other deferred fee and commission income	1,354	1,360
Total	5,486	6,679

42. Provisions

	2023	2022
Expected credit loss on provisions	17,404	20,217
Other	2,258	2,274
Total	19,662	22,491

The expected credit loss for loan commitments and financial guarantee contracts by stages are as follows:

	2023	2022
Expected credit loss provisions	17,404	20,217
Stage 1 (12-month ECL)	15,200	12,082
Stage 2 (Lifetime ECL – not credit-impaired)	1,341	7,569
Stage 3 (Lifetime ECL – credit-impaired)	863	566

43. Debt securities issued

	Notes	2023	2022
Subordinated bonds issued	(a)	–	19,994
Debt securities issued	(b)	119,193	120,971
Negotiable interbank certificates of deposit issued		21,443	65,719
Certificates of deposit and other debt securities issued (note)		34,128	15,604
Interest payable		1,814	1,533
Total		176,578	223,821

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	120 months	15 Nov 2018	4.65	RMB20,000	19,994	–	6	(20,000)	–
Total					19,994	–	6	(20,000)	–

(b) Debt securities issued

As at the end of the 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)
Medium term note	36 months	25 Sep 2020	3M LIBOR+0.85	USD400	2,780	–	2	142	(2,924)	–
Medium term note	36 months	25 Sep 2020	0.95	USD300	2,087	–	3	103	(2,193)	–
Fixed rate bond	36 months	6 Nov 2020	3.48	RMB10,000	9,999	–	1	–	(10,000)	–
Fixed rate bond	36 months	11 Mar 2021	3.40	RMB10,000	9,998	–	1	–	–	9,999
Fixed rate bond	36 months	3 Jun 2021	3.18	RMB20,000	19,995	–	2	–	–	19,997
Fixed rate bond	36 months	24 Aug 2021	2.90	RMB10,000	9,998	–	–	–	–	9,998
Medium term note	60 months	1 Sep 2021	1.25	USD300	2,089	–	(1)	42	–	2,130
Medium term note	24 months	1 Sep 2021	SOFR+0.50	USD300	2,087	–	5	87	(2,179)	–
Medium term note	36 months	2 Mar 2022	2.00	USD400	2,798	–	4	45	–	2,847
Fixed rate bond	36 months	11 May 2022	2.65	RMB5,000	4,999	–	–	–	–	4,999
Fixed rate bond	36 months	1 Sep 2022	2.40	RMB10,000	9,997	–	1	–	–	9,998
Fixed rate bond	36 months	27 Mar 2023	2.77	RMB5,000	–	5,000	(1)	–	–	4,999
Medium term note	36 months	13 Jun 2023	SOFR+0.65	USD400	–	2,850	–	(4)	–	2,846
Total					76,827	7,850	17	415	(17,296)	67,813

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 354 million RMB equivalent as of 31 December 2023 (31 December 2022: 555 million RMB equivalent).

43. Debt securities issued *(continued)*

(b) Debt securities issued *(continued)*

As at the end of the reporting period, debt securities issued by CMBFL and its subsidiary 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	13 Mar 2019	4.00	RMB500	500	–	–	–	–	500
Fixed rate bond	60 months	3 Jul 2019	3.00	USD900	6,265	–	11	106	–	6,382
Fixed rate bond	120 months	3 Jul 2019	3.63	USD100	694	–	1	11	–	706
Fixed rate bond	120 months	14 Jul 2020	4.25	RMB2,000	1,994	–	1	–	–	1,995
Fixed rate bond	60 months	12 Aug 2020	1.88	USD800	5,571	–	5	94	–	5,670
Fixed rate bond	120 months	12 Aug 2020	2.75	USD400	2,771	–	3	47	–	2,821
Fixed rate bond	36 months	17 Nov 2020	3.85	RMB4,000	3,997	–	3	–	(4,000)	–
Fixed rate bond	36 months	26 Jan 2021	3.60	RMB4,000	3,996	–	4	–	–	4,000
Fixed rate bond	60 months	4 Feb 2021	2.00	USD400	2,785	–	2	47	–	2,834
Fixed rate bond	120 months	4 Feb 2021	2.88	USD400	2,765	–	3	47	–	2,815
Fixed rate bond	36 months	22 Mar 2021	3.58	RMB2,000	1,998	–	2	–	–	2,000
Fixed rate bond	60 months	24 Mar 2021	2.00	USD20	138	–	–	3	–	141
Fixed rate bond	36 months	16 Sep 2021	1.25	USD600	4,179	–	5	71	–	4,255
Fixed rate bond	60 months	16 Sep 2021	1.75	USD300	2,081	–	4	35	–	2,120
Fixed rate bond	36 months	16 Sep 2021	0.50	EUR100	741	–	1	47	–	789
Fixed rate bond	24 months	22 Dec 2021	0.50	EUR30	222	–	–	14	(236)	–
Floating rate bond	12 months	2 Mar 2022	SOFR+0.80	USD115	802	–	–	(10)	(792)	–
Floating rate bond	12 months	6 May 2022	SOFR+0.85	USD45	314	–	–	(3)	(311)	–
Floating rate bond	12 months	6 May 2022	SOFR+1.00	USD75	523	–	–	(5)	(518)	–
Floating rate bond	12 months	13 Jun 2022	SOFR+0.95	USD120	837	–	–	20	(857)	–
Fixed rate bond	12 months	14 Sep 2022	1.95	EUR80	592	–	1	31	(624)	–
Floating rate bond	6 months	20 Oct 2022	SOFR+0.75	USD50	349	–	–	(5)	(344)	–
Fixed rate bond	12 months	25 Nov 2022	3.21	RMB300	300	–	–	–	(300)	–
Floating rate bond	12 months	14 Dec 2022	SOFR+0.83	USD45	314	–	–	9	(323)	–
Floating rate bond	60 months	16 Dec 2022	SOFR+1.40	USD100	698	–	–	11	–	709
Fixed rate bond	12 months	16 Dec 2022	2.90	EUR57	421	–	1	21	(443)	–
Fixed rate bond	24 months	17 Feb 2023	3.50	RMB500	–	500	(1)	–	–	499
Floating rate bond	12 months	28 Feb 2023	SOFR+0.75	USD60	–	416	–	10	–	426
Floating rate bond	6 months	28 Feb 2023	SOFR+0.75	USD145	–	1,006	–	51	(1,057)	–
Floating rate bond	6 months	2 Mar 2023	SOFR+0.75	USD200	–	1,382	–	71	(1,453)	–
Floating rate bond	6 months	15 Mar 2023	SOFR+0.75	USD80	–	552	–	31	(583)	–
Fixed rate bond	6 months	16 May 2023	4.40	HKD750	–	667	–	30	(697)	–
Floating rate bond	24 months	31 May 2023	SOFR+1.00	USD75	–	533	–	(1)	–	532
Floating rate bond	36 months	13 Jun 2023	SOFR+1.05	USD103	–	737	(2)	(6)	–	729
Floating rate bond	6 months	27 Jun 2023	SOFR+0.70	USD50	–	361	–	(4)	(357)	–
Fixed rate bond	18 months	10 Jul 2023	3.05	RMB700	–	700	–	–	–	700
Floating rate bond	24 months	16 Aug 2023	SOFR+0.95	USD100	–	729	(1)	(20)	–	708
Floating rate bond	60 months	18 Aug 2023	SOFR+1.30	USD50	–	364	(2)	(9)	–	353
Floating rate bond	36 months	23 Aug 2023	SOFR+1.00	USD300	–	2,188	(7)	(59)	–	2,122
Floating rate bond	24 months	25 Aug 2023	SOFR+0.95	USD100	–	729	(1)	(19)	–	709
Floating rate bond	6 months	27 Oct 2023	SOFR+0.70	USD20	–	146	–	(4)	–	142
Floating rate bond	12 months	27 Oct 2023	SOFR+0.75	USD22	–	161	–	(5)	–	156
Fixed rate bond	36 months	16 Nov 2023	2.80	RMB2,500	–	2,500	(6)	–	–	2,494
Fixed rate bond	36 months	27 Nov 2023	3.35	RMB350	–	350	(2)	–	–	348
Floating rate bond	36 months	30 Nov 2023	SOFR+1.10	USD50	–	357	–	(2)	–	355
Fixed rate bond	36 months	5 Dec 2023	2.90	RMB4,000	–	4,000	(10)	–	–	3,990
Total					45,847	18,378	15	655	(12,895)	52,000

Note: Financial bonds issued by CMBFL that were held by the Bank amounted to a total of 600 million RMB equivalent as of 31 December 2023 (31 December 2022: 1,370 million RMB equivalent). Financial bonds issued by CMB International Leasing Management Limited (CMBILM), a wholly-owned subsidiary of CMBFL, that were separately held by the Bank, CMB WLB and CMBIC amounted to a total of 3,212 million RMB equivalent, 563 million RMB equivalent and 70 million RMB equivalent as of 31 December 2023 (31 December 2022: 2,268 million RMB equivalent, 1,602 million RMB equivalent and Nil).

43. Debt securities issued *(continued)*

(b) Debt securities issued *(continued)*

As at the end of the reporting period, debt securities issued by CMBIC's subsidiary 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)
Fixed rate bond	36 months	2 June 2021	1.38	USD600	4,166	–	19	69	–	4,254
Total					4,166	–	19	69	–	4,254

Note: Financial bond issued by Legend Fortune Limited, a wholly-owned subsidiary of CMBIC, that was held by CMB WLB amounted to a total of 75 million RMB equivalent as of 31 December 2023 (31 December 2022: 74 million RMB equivalent).

44. Other liabilities

	2023	2022
Clearing and settlement accounts	**20,845**	31,534
Salary risk allowances (note)	**48,950**	45,500
Continuing involvement liability	**5,274**	5,274
Insurance liabilities	**–**	2,902
Collecting on behalf of customers	**665**	827
Cheques and remittances returned	**7**	39
Other payable	**37,454**	39,862
Total	**113,195**	125,938

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:

	2023 and 2022 No. of shares (in million)
– 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 31 December 2023 and 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	Con-version
Domestic Preference Shares (note (i))	22 Dec 2017	Equity instruments	3.62%	RMB100/Share	275	27,468	Perpetual existence	Note (ii)	None
Total					275	27,468			

The changes of Preference Shares issued were as follows:

		1 January 2023		Increase/decrease		31 December 2023	
	Issuance date	No. (millions of shares)	Amount (RMB in million)	No. (millions of shares)	Amount (RMB in million)	**No. (millions of shares)**	**Amount (RMB in million)**
Domestic Preference Shares (note (i))	22 Dec 2017	275	27,468	–	–	**275**	**27,468**
Total		275	27,468	–	–	**275**	**27,468**

Notes:

(i) 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%. On 18 December 2022, five years after the issuance of the Domestic Preference Shares, the Bank adjusted the dividend rate per annum to 3.62% in accordance with market rules.

(ii) Domestic 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 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 based on the total nominal value of the Preference Shares. A Tier-2 Capital Trigger Event refers the earlier of the following events: 1) NAFR 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 NAFR 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 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 Domestic Preference Shares are non-cumulative, the Bank will not distribute the dividends that were cancelled in prior years to Preference Shares holders.

The 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 NAFR, the 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 the 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 of RMB27,468 million have 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
Domestic Perpetual Bonds (note (iii))	1 Dec 2023	Equity instruments	3.41%	RMB100/Unit	300	30,000	Perpetual existence	None	None
Total					1,230	122,978			

The changes of Perpetual Bonds issued were as follows:

		1 January 2023		Increase		31 December 2023	
	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**
Domestic Perpetual Bonds (note (iii))	1 Dec 2023	–	–	300	30,000	**300**	**30,000**
Total		930	92,978	300	30,000	**1,230**	**122,978**

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") 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.

(iii) With the approval of the relevant regulatory authorities in China, the Bank issued RMB30,000 million of 2023 China Merchants Bank Co., Ltd. Undated Additional Tier-1 Capital Bonds (the "Perpetual Bonds 2023, together with Perpetual Bonds 2020 and Perpetual Bonds 2021, Perpetual Bonds") in the national inter-bank bond market on 1 December 2023. The unit face value is RMB100. The coupon rate adjusted period is every 5 years from the issuance of the Perpetual Bonds 2023. In any coupon rate adjusted period, the coupon rate of the Perpetual Bonds will remain at a prescribed fixed rate. The Perpetual Bonds 2023 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 NAFR 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.

46. Other equity instruments *(continued)*

(b) Perpetual Bonds *(continued)*

Notes: *(continued)*

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) NAFR 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 issuances 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

	2023	2022
Equity attributed to shareholders of the Bank	**1,076,370**	945,503
– Equity attributed to ordinary shareholders of the Bank	**925,924**	825,057
– Equity attributed to other equity instrument holders of the Bank	**150,446**	120,446
Including: Net profit	**4,558**	5,237
Total comprehensive income	**4,558**	5,237
Distributions in current year	**(4,558)**	(5,237)
Cumulative undistributed dividends	**–**	–
Equity attributed to non-controlling interests	**9,359**	8,735
– Equity attributed to non-controlling holders of ordinary shares	**6,521**	5,948
– Equity attributed to non-controlling holders of perpetual debt capital (note 62(a))	**2,838**	2,787

47. Capital reserve

Capital reserve primarily represents share premium of the Bank.

	2023	2022
At 1 January	**65,435**	67,523
Decrease	**(3)**	(2,088)
At 31 December	**65,432**	65,435

48. Investment revaluation reserve

	2023	2022
Debt instruments measured at FVTOCI: investment revaluation reserve	**10,596**	9,319
Fair value gain on equity instruments designated at FVTOCI	**3,009**	2,606
Remeasurement of defined benefit scheme	**82**	78
Share of other comprehensive expense of equity-accounted investees	**(31)**	(233)
Other	**–**	45
Total	**13,656**	11,815

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.

	2023	2022
At 1 January	**94,985**	82,137
Appropriation for the year	**13,752**	12,848
At 31 December	**108,737**	94,985

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.

	2023	2022
At 1 January	**132,471**	115,288
Appropriation for the year	**9,010**	17,183
At 31 December	**141,481**	132,471

52. Profit appropriations

(a) Dividends approved/declared by shareholders

	2023	2022
Ordinary share dividends in 2022, approved and declared:		
RMB1.738 per share	**43,832**	–
Ordinary share dividends in 2021, approved and declared:		
RMB1.522 per share	–	38,385

(b) Proposed profit appropriations

	2023	2022
Statutory surplus reserve	**13,752**	12,848
General reserve	**9,010**	17,183
Dividends		
– cash dividend: RMB1.972 per share (2022: RMB1.738 per share)	**49,734**	43,832
Total	**72,496**	73,863

2023 final dividends is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 25 March 2024 and will be submitted to the 2023 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

	2023	2022
Assets		
Cash	**14,499**	14,787
Precious metals	**2,245**	2,251
Balances with central banks	**666,550**	585,338
Balances with banks and other financial institutions	**55,168**	47,791
Placements with banks and other financial institutions	**261,190**	247,973
Amounts held under resale agreements	**169,450**	276,292
Loans and advances to customers	**5,916,313**	5,482,692
Financial assets at fair value through profit or loss	**465,708**	369,391
Derivative financial assets	**18,014**	17,859
Debt investments at amortised cost	**1,707,032**	1,533,546
Debt investments at fair value through other comprehensive income	**783,051**	675,484
Equity investments designated at fair value through other comprehensive income	**10,956**	10,724
Investments in subsidiaries	**54,731**	50,767
Interests in joint ventures	**15,111**	13,341
Interests in associates	**6,991**	6,190
Investment properties	**836**	907
Property and equipment	**26,690**	26,541
Right-of-use assets	**16,321**	16,764
Intangible assets	**1,720**	2,422
Deferred tax assets	**87,177**	88,056
Other assets	**37,470**	41,440
Total assets	**10,317,223**	9,510,556
Liabilities		
Borrowing from central banks	**378,504**	129,745
Deposits from banks and other financial institutions	**484,620**	621,621
Placements from banks and other financial institutions	**71,077**	57,489
Financial liabilities at fair value through profit or loss	**21,281**	25,865
Derivative financial liabilities	**16,653**	18,207
Amounts sold under repurchase agreements	**114,008**	95,970
Deposits from customers	**7,953,958**	7,327,974
Salaries and welfare payable	**23,911**	19,136
Tax payable	**11,904**	17,221
Contract liabilities	**5,466**	6,653
Lease liabilities	**12,039**	12,285
Provisions	**19,530**	22,410
Debt securities issued	**107,858**	172,402
Other liabilities	**89,220**	96,680
Total liabilities	**9,310,029**	8,623,658
Equity		
Share capital	**25,220**	25,220
Other equity instruments	**150,446**	120,446
Capital reserve	**76,079**	76,082
Investment revaluation reserve	**14,354**	13,144
Hedging reserve	**11**	–
Surplus reserve	**108,737**	94,985
General reserve	**129,085**	121,230
Retained earnings	**453,168**	391,579
Proposed profit appropriation	**49,734**	43,832
Exchange reserve	**360**	380
Total equity	**1,007,194**	886,898
Total equity and liabilities	**10,317,223**	9,510,556

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 2023	25,220	27,468	92,978	76,082	13,144	–	94,985	121,230	391,579	43,832	380	886,898
Changes in equity for the year	–	–	30,000	(3)	1,210	11	13,752	7,855	61,589	5,902	(20)	120,296
Net profit for the year	–	–	–	–	–	–	–	–	137,521	–	–	137,521
Other comprehensive income for the year	–	–	–	–	1,177	11	–	–	–	–	(20)	1,168
Total comprehensive income for the year	–	–	–	–	1,177	11	–	–	137,521	–	(20)	138,689
Issue of perpetual bonds	–	–	30,000	(3)	–	–	–	–	–	–	–	29,997
Profit appropriations	–	–	–	–	–	–	13,752	7,855	(75,899)	5,902	–	(48,390)
Appropriation to statutory surplus reserve	–	–	–	–	–	–	13,752	–	(13,752)	–	–	–
Appropriation to general reserve	–	–	–	–	–	–	–	7,855	(7,855)	–	–	–
Dividends paid for the year 2022	–	–	–	–	–	–	–	–	–	(43,832)	–	(43,832)
Proposed dividends for the year 2023	–	–	–	–	–	–	–	–	(49,734)	49,734	–	–
Dividends to preference shares	–	–	–	–	–	–	–	–	(996)	–	–	(996)
Distribution to perpetual bonds	–	–	–	–	–	–	–	–	(3,562)	–	–	(3,562)
Transfers within equity upon disposal of equity instruments designated at FVTOCI	–	–	–	–	33	–	–	–	(33)	–	–	–
At 31 December 2023	25,220	27,468	122,978	76,079	14,354	11	108,737	129,085	453,168	49,734	360	1,007,194

	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

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):

	2023	2022
Cash and Balances with central banks	**140,809**	66,055
Balance with banks and other financial institutions	**84,593**	81,928
Placements with banks and other financial institutions	**105,953**	93,704
Amounts held under resale agreements	**171,542**	275,051
Debt securities investments and discounted bills	**96,122**	50,460
Total	**599,019**	567,198

(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 2023	65,719	15,987	148,674	1,533	26	22,719	13,013	267,671
Cash changes:								
Proceeds from the issue	68,608	66,504	25,201	–	–	17,303	–	177,616
Repayment	(112,584)	(48,267)	(51,146)	–	–	(7,210)	(5,053)	(224,260)
Interest/dividend paid	(2,086)	–	–	(5,396)	(48,860)	–	–	(56,342)
Non-cash changes:								
Additions of lease liabilities	–	–	–	–	–	–	4,235	4,235
Accrued interest	–	–	–	5,677	–	–	480	6,157
Dividend declared	–	–	–	–	48,860	–	–	48,860
Discount or premium amortisation	1,786	265	53	–	–	–	–	2,104
Fair value adjustments	–	3	191	–	–	(236)	–	(42)
Exchange difference	–	(152)	1,399	–	–	40	–	1,287
At 31 December 2023	21,443	34,340	124,372	1,814	26	32,616	12,675	227,286

	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

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 2023 and 2022.

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.

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 2023 and 2022. 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	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
External net interest income	**23,074**	28,165	**129,075**	140,443	**62,520**	49,627	**214,669**	218,235
Internal net interest income/(expense)	**60,952**	62,294	**7,679**	(9,054)	**(68,631)**	(53,240)	**–**	–
Net interest income	**84,026**	90,459	**136,754**	131,389	**(6,111)**	(3,613)	**214,669**	218,235
Net fee and commission income	**16,710**	25,540	**56,419**	57,279	**10,979**	11,456	**84,108**	94,275
Other net income	**33,889**	26,095	**1,142**	2,747	**2,794**	863	**37,825**	29,705
Operating income	**134,625**	142,094	**194,315**	191,415	**7,662**	8,706	**336,602**	342,215
Operating expenses								
– Property and equipment and investment properties depreciation	**(7,798)**	(7,103)	**(2,771)**	(2,942)	**(439)**	(234)	**(11,008)**	(10,279)
– Right-of-use assets depreciation	**(1,610)**	(1,676)	**(2,312)**	(2,250)	**(283)**	(225)	**(4,205)**	(4,151)
– Other	**(41,812)**	(43,495)	**(58,860)**	(58,079)	**(5,106)**	(6,057)	**(105,778)**	(107,631)
Reportable segment profit before impairment losses	**83,405**	89,820	**130,372**	128,144	**1,834**	2,190	**215,611**	220,154
Expected credit losses and impairment losses on other assets	**(10,640)**	(22,671)	**(30,459)**	(33,966)	**(370)**	(929)	**(41,469)**	(57,566)
Share of profits of associates and joint ventures	**–**	–	**–**	–	**2,476**	2,525	**2,476**	2,525
Reportable segment profit before taxation	**72,765**	67,149	**99,913**	94,178	**3,940**	3,786	**176,618**	165,113
Capital expenditure (note)	**26,630**	28,884	**2,809**	2,660	**702**	513	**30,141**	32,057

	Wholesale finance business		Retail finance business		Other business		Total	
	31 December 2023	31 December 2022	**31 December 2023**	31 December 2022	**31 December 2023**	31 December 2022	**31 December 2023**	31 December 2022
Reportable segment assets	**6,236,513**	5,633,640	**3,358,721**	3,081,290	**1,325,116**	1,314,820	**10,920,350**	10,029,750
Of which: Interest in associates and joint ventures	**–**	–	**–**	–	**26,590**	23,844	**26,590**	23,844
Reportable segment liabilities	**5,671,256**	5,495,463	**3,562,087**	3,157,321	**628,708**	446,949	**9,862,051**	9,099,733

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

	2023	2022
Operating income for reportable segments	**336,602**	342,215
Total profit before income tax for reportable segments	**176,618**	165,113

	31 December 2023	31 December 2022
Assets		
Total assets for reportable segments	**10,920,350**	10,029,750
Goodwill	**9,954**	9,999
Intangible assets	**550**	581
Deferred tax assets	**90,557**	90,848
Other unallocated assets	**7,072**	7,734
Consolidated total assets	**11,028,483**	10,138,912
Liabilities		
Total liabilities for reportable segments	**9,862,051**	9,099,733
Tax payable	**13,597**	19,458
Deferred tax liabilities	**1,607**	1,510
Other unallocated liabilities	**65,499**	63,973
Consolidated total liabilities	**9,942,754**	9,184,674

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 2023**	31 December 2022	**31 December 2023**	31 December 2022	**31 December 2023**	31 December 2022	**2023**	2022	**2023**	2022
Headquarter	**4,985,615**	4,580,315	**4,107,566**	3,841,548	**54,625**	52,166	**77,737**	51,396	**135,401**	140,083
Yangtze River Delta region	**1,417,890**	1,304,806	**1,404,463**	1,283,400	**5,995**	5,774	**21,578**	22,939	**45,485**	45,768
Bohai Rim region	**916,860**	827,394	**902,114**	811,449	**4,187**	4,354	**18,801**	19,759	**33,583**	34,105
Pearl River Delta and West Coast region	**1,166,744**	1,083,521	**1,156,219**	1,063,334	**4,125**	4,232	**18,491**	26,479	**34,947**	37,583
Northeast region	**168,687**	170,632	**166,551**	166,486	**1,440**	1,505	**2,808**	4,075	**6,444**	6,485
Central region	**676,618**	636,801	**670,811**	628,361	**3,299**	3,602	**9,358**	10,740	**19,953**	20,989
Western region	**681,255**	632,766	**674,635**	623,631	**3,051**	3,497	**8,554**	11,755	**20,579**	20,931
Overseas	**213,303**	194,412	**217,502**	193,651	**618**	707	**2,438**	2,046	**4,474**	3,557
Subsidiaries	**801,511**	708,265	**642,893**	572,814	**95,462**	80,148	**16,853**	15,924	**35,736**	32,714
Total	**11,028,483**	10,138,912	**9,942,754**	9,184,674	**172,802**	155,985	**176,618**	165,113	**336,602**	342,215

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:

	2023	2022
Borrowing from central banks	**377,189**	129,438
Placements from banks and other financial institutions	**9,099**	8,620
Amounts sold under repurchase agreements	**134,863**	107,024
Total	**521,151**	245,082
Assets pledged		
– Financial assets at fair value through profit or loss	**98,223**	24,093
– Debt investments at amortised cost	**333,718**	99,199
– Debt investments at fair value through other comprehensive income	**41,743**	25,267
– Loans and advances to customers	**130,616**	105,531
Total	**604,300**	254,090

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.

	2023			
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit-impaired)	– Stage 3 (Lifetime ECL – credit-impaired)	Total
Irrevocable guarantees	**320,170**	**3,940**	**278**	**324,388**
Of which: Financial guarantees	**44,570**	**1,104**	**3**	**45,677**
Non-financing letters of guarantees	**275,600**	**2,836**	**275**	**278,711**
Irrevocable letters of credit	**227,114**	**1,505**	**–**	**228,619**
Bills of acceptances	**485,393**	**2,294**	**500**	**488,187**
Irrevocable loan commitments	**171,198**	**2,285**	**95**	**173,578**
– with an original maturity within 1 year (inclusive)	**23,559**	**1**	**–**	**23,560**
– with an original maturity over 1 year	**147,639**	**2,284**	**95**	**150,018**
Credit card unused commitments	**1,509,253**	**6,400**	**21**	**1,515,674**
Other	**87,367**	**156**	**–**	**87,523**
Total	**2,800,495**	**16,580**	**894**	**2,817,969**

58. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

	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

As at 31 December 2023, the Group's irrevocable letters of credit included sight letters of credit of RMB22,254 million (31 December 2022: RMB22,525 million), usance letters of credit of RMB9,361 million (31 December 2022: RMB6,965 million), and other commitments of RMB197,004 million (31 December 2021: RMB203,703 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 RMB5,878,801 million at 31 December 2023 (31 December 2022: RMB5,159,127 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.

	2023	2022
Credit risk weighted amounts of contingent liabilities and commitments	**650,343**	595,977

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 former CBIRC. The amount within the scope approved by the former CBIRC in April 2014 is calculated using the Internal Ratings-Based Approach, and the Weighted Approach is used for those items 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:

	2023	2022
Contracted for	**219**	370
Authorised but not contracted for	**191**	189
Total	**410**	559

The lease commitments of the Group as a lessor are detailed in note 58(e).

(c) Outstanding litigations

At 31 December 2023, the Bank or other group entities was a defendant in certain outstanding litigations with total gross claims of RMB3,205 million (2022: RMB1,910 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:

	2023	2022
Redemption obligations	**29,144**	27,401

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:

	2023	2022
Operating lease commitments	**25,816**	30,519
Financial lease commitments	**12,859**	8,025
Total	**38,675**	38,544

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:

	2023	2022
Entrusted loans	**221,292**	231,266
Entrusted funds	**(221,292)**	(231,266)

(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 wealth management services were RMB2,403,038 million as at 31 December 2023 (31 December 2022: RMB2,552,408 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 balances of entrusted funds were as follows:

	2023	2022
Entrusted management of insurance funds	**144,963**	108,868

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. The Group has also further optimised the foundation related to the implementation of ECL measures during the year in accordance with the Implementation Rules on Expected Credit Loss Approach of Commercial Banks (Yin Bao Jian Gui [2022] No. 10).

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 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 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 and classified as stage 3 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 and Broad Money Supply, 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 sets the forecasts issued by external authoritative institutions as the forecasts of economic indicators under the baseline scenario, with reference to 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 for the next year adopted by the Group for 2024 under the baseline scenario are 4.80% (2023: 4.80%) and 1.50% (2023: 2.80%) 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 2023 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 2023 will decrease by approximately 2.8% compared to the current result (at 31 December 2022: will decrease by approximately 3.1%). 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 2023 will increase by approximately 5.6% compared to the current result (at 31 December 2022: will increase by approximately 5.2%).

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 any collateral held or other credit enhancements is the carrying amount of the relevant financial instruments 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 2023, the amount of the Group's maximum credit risk exposure was RMB13,537,727 million (31 December 2022: RMB12,440,947 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 RMB13,007 million as at 31 December 2023 (31 December 2022: RMB12,076 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 2023, the Group had balance of non-performing loans of RMB61,579 million (31 December 2022: RMB58,004 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:

	2023	2022
Impaired gross amount of debt investments	**808**	398
Impairment allowances	**(499)**	(243)
Subtotal	**309**	155
Neither overdue nor impaired		
AAA	**2,577,388**	2,187,978
AA+ to AA-	**65,894**	53,526
A+ to A-	**132,191**	124,554
Lower than A-	**27,220**	33,429
Unrated	**41,184**	38,966
Impairment allowances	**(10,661)**	(5,958)
Subtotal	**2,833,216**	2,432,495
Total	**2,833,525**	2,432,650

Notes:

(i) Bonds issued by the governments and policy banks held by the Group amounted to RMB2,448,279 million as at 31 December 2023 (31 December 2022: RMB2,094,902 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:

	2023	2022
Estimate of the fair value of collateral and other credit enhancements held against following financial assets		
– Loans and advances to customers	**20,797**	25,148

(xi) Movements of loans and advances and debt investments measured at amortised cost

Loans and advances measured at amortised cost:

	2023			
	– 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	**5,217,868**	**156,240**	**58,004**	**5,432,112**
Net changes for the year	**557,973**	**(27,551)**	**(1,288)**	**529,134**
Transfer to				
– Stage 1	**30,084**	**(29,822)**	**(262)**	**–**
– Stage 2	**(94,405)**	**95,148**	**(743)**	**–**
– Stage 3	**(24,861)**	**(28,910)**	**53,771**	**–**
Write-offs	**–**	**–**	**(47,922)**	**(47,922)**
Balance as at the end of the year	**5,686,659**	**165,105**	**61,560**	**5,913,324**

	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

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:

	2023			
	– 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	1,543,652	2,073	34,120	1,579,845
Net changes for the year	195,645	(238)	(4,323)	191,084
Transfer to				
– Stage 1	1	(1)	–	–
– Stage 2	(339)	339	–	–
– Stage 3	–	(655)	655	–
Write-offs	(14)	(1)	(2,904)	(2,919)
Balance as at the end of the year	1,738,945	1,517	27,548	1,768,010

	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

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 note 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:

	2023							
	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	667,569	–	–	667,569	–	–	–	–
Balances with banks and other financial institutions	100,745	1	11	100,757	(211)	(1)	(11)	(223)
Placements with banks and other financial institutions	286,046	201	–	286,247	(518)	(1)	–	(519)
Amounts held under resale agreements	172,568	–	140	172,708	(449)	–	(140)	(589)
Debt investments at FVTOCI	889,105	390	241	889,736	(5,586)	(132)	(1,094)	(6,812)

	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	265,415	–	–	265,415	(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)

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:

	2023						
	In RMB Equivalent					Main original currency	
	RMB	USD	HKD	Other	Total	USD	HKD
Assets							
Cash and balances with central banks	632,195	45,869	1,373	3,063	682,500	6,468	1,512
Amounts due from banks and other financial institutions	425,397	116,308	3,919	12,757	558,381	16,400	4,316
Loans and advances to customers	5,938,668	133,774	147,467	22,151	6,242,060	18,862	162,431
Financial investments (including derivative financial assets)	2,883,787	244,690	40,754	13,652	3,182,883	34,502	44,888
Other assets (note (i))	216,402	117,867	16,161	12,229	362,659	16,620	17,802
Total	10,096,449	658,508	209,674	63,852	11,028,483	92,852	230,949
Liabilities							
Borrowing from central banks and amounts due to banks and other financial institutions	1,132,441	117,899	5,676	9,581	1,265,597	16,624	6,252
Deposits from customers	7,562,175	384,719	154,568	53,976	8,155,438	54,247	170,253
Financial liabilities at FVTPL (including derivative financial liabilities)	52,624	8,368	206	203	61,401	1,180	227
Debt securities issued	101,849	67,474	3,366	2,075	174,764	9,514	3,708
Other liabilities (note (i))	258,062	18,858	7,103	1,531	285,554	2,658	7,824
Total	9,107,151	597,318	170,919	67,366	9,942,754	84,223	188,264
Net position	989,298	61,190	38,755	(3,514)	1,085,729	8,629	42,685
Off-balance sheet position:							
Credit commitments (note (ii))	2,689,139	83,364	25,385	20,081	2,817,969	11,755	27,961
Derivatives (nominal amounts):							
– forward purchased	418,103	431,449	34,270	34,929	918,751	60,836	37,747
– forward sold	(386,228)	(440,704)	(13,642)	(22,002)	(862,576)	(62,141)	(15,026)
– net currency option position	(76,687)	67,549	357	(4,250)	(13,031)	9,525	393
Total	(44,812)	58,294	20,985	8,677	43,144	8,220	23,114

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)

	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	100,870	22,244	16,000	630,302	14,511	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	94,908	3,313	3,544	346,100	13,653	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	982,369	95,258	3,961	5,507	1,087,095	13,704	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)	52,044	15,280	421	35	67,780	2,197	473
Debt securities issued	162,146	58,447	790	905	222,288	8,408	886
Other liabilities (note (i))	247,669	11,239	11,944	917	271,769	1,619	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
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 (nominal amounts):							
– 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

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 2023 and 31 December 2022.

	2023		2022	
Change in foreign currency exchange rate	Down by 1%	Up by 1%	Down by 1%	Up by 1%
(Decrease)/increase in net profit	**(101)**	**101**	(64)	64
(Decrease)/increase in equity	**(334)**	**334**	(284)	284

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 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.

	2023					
	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	682,500	658,781	–	–	–	23,719
Amounts due from banks and other financial institutions	558,381	418,055	133,899	6,414	13	–
Loans and advances to customers (note (i))	6,242,060	2,497,757	3,076,798	605,016	62,489	–
Financial investments (including derivative financial assets)	3,182,883	351,796	358,289	1,104,825	1,307,233	60,740
Other assets (note (ii))	362,659	–	–	–	–	362,659
Total assets	11,028,483	3,926,389	3,568,986	1,716,255	1,369,735	447,118
Liabilities						
Borrowing from central banks and amounts due to banks and other financial institutions	1,265,597	1,013,853	231,786	19,670	288	–
Deposits from customers	8,155,438	5,450,058	1,300,112	1,373,425	28,172	3,671
Financial liabilities at FVTPL (including derivative financial liabilities)	61,401	588	–	5,321	–	55,492
Lease liabilities	12,675	1,032	2,804	7,757	1,082	–
Debt securities issued	174,764	44,549	78,880	43,959	7,376	–
Other liabilities (note (ii))	272,879	187	–	2,889	–	269,803
Total liabilities	9,942,754	6,510,267	1,613,582	1,453,021	36,918	328,966
Asset-liability gap	1,085,729	(2,583,878)	1,955,404	263,234	1,332,817	118,152

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)

	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	630,302	516,942	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))	346,100	–	–	–	–	346,100
Total assets	10,138,912	3,545,205	3,484,110	1,463,404	1,223,398	422,795
Liabilities						
Borrowing from central banks and amounts due to banks and other financial institutions	1,087,095	931,481	143,285	10,501	1,828	–
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)	67,780	–	3,006	5,231	73	59,470
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))	258,756	203	–	2,752	–	255,801
Total liabilities	9,184,674	6,496,614	1,079,745	1,227,282	61,963	319,070
Asset-liability gap	954,238	(2,951,409)	2,404,365	236,122	1,161,435	103,725

Notes: (i) For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2023 and 31 December 2022 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 2023 and 31 December 2022.

	2023		2022	
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	**(4,118)**	**4,118**	(4,412)	4,412
(Decrease)/increase in equity	**(9,319)**	**9,477**	(8,462)	8,586

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 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 suit 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:

	2023								
	Repayable on demand	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite	Overdue	Total
Cash and balances with central banks (note (i))	140,809	255	223	1,863	–	–	539,350	–	682,500
Amounts due from banks and other financial institutions	64,142	301,382	51,889	133,647	7,308	13	–	–	558,381
Loans and advances to customers	38,971	583,687	497,465	1,520,502	1,843,531	1,734,232	–	23,672	6,242,060
Financial investments and derivative financial assets (note (ii))	2,756	182,087	149,778	360,604	1,158,573	1,298,096	28,673	2,316	3,182,883
– Financial investments at FVTPL (including derivative financial assets)	2,756	138,053	59,690	140,317	159,012	36,026	9,024	–	544,878
– Debt investments at amortised cost	–	29,336	41,940	96,841	554,608	1,003,589	–	2,306	1,728,620
– Debt investments at FVTOCI	–	14,698	48,148	123,446	444,953	258,481	–	10	889,736
– Equity investments designated at FVTOCI	–	–	–	–	–	–	19,649	–	19,649
Other assets (note (iii))	33,120	11,473	15,382	21,518	15,266	5,155	256,260	4,485	362,659
Total assets	279,798	1,078,884	714,737	2,038,134	3,024,678	3,037,496	824,283	30,473	11,028,483
Borrowing from central banks and amounts due to banks and other financial institutions	449,682	366,937	157,079	243,626	41,428	6,845	–	–	1,265,597
Deposits from customers	4,474,297	432,094	542,828	1,301,368	1,375,860	28,991	–	–	8,155,438
Financial liabilities at FVTPL (including derivative financial liabilities)	8,577	7,753	4,731	8,601	12,077	19,662	–	–	61,401
Lease liabilities	–	454	578	2,804	7,757	1,082	–	–	12,675
Debt securities issued	–	9,901	25,288	82,023	50,176	7,376	–	–	174,764
Other liabilities (note (iii))	145,327	31,190	18,236	45,907	31,803	416	–	–	272,879
Total liabilities	5,077,883	848,329	748,740	1,684,329	1,519,101	64,372	–	–	9,942,754
(Short)/long position	(4,798,085)	230,555	(34,003)	353,805	1,505,577	2,973,124	824,283	30,473	1,085,729

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2022								
	Repayable on demand	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 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	368,901	84,572	99,288	15,072	13	–	–	630,302
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	238,895	4,154	346,100
Total assets	195,193	978,829	604,684	2,005,314	2,653,312	2,878,854	793,520	29,206	10,138,912
Borrowing from central banks and amounts due to banks and other financial institutions	515,446	269,349	125,671	149,389	20,817	6,423	–	–	1,087,095
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	7,416	4,271	11,555	11,457	20,131	–	–	67,780
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	23,694	28,868	242	–	–	258,756
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)	286,291	33,623	882,575	1,379,802	2,788,279	793,520	29,206	954,238

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, non-derivative financial liabilities, and loan commitments of the Group as at the end of the reporting period. The Group's actual cash flows on these instruments may vary significantly from this analysis.

	2023									
	Carrying amount	Total	Repayable on demand	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite	Overdue
Non-derivative financial assets										
Cash and balances with central banks	682,500	682,500	140,809	255	223	1,863	–	–	539,350	–
Amounts due from banks and other financial institutions	558,381	562,870	64,150	301,674	52,393	136,751	7,889	13	–	–
Loans and advances to customers	6,242,060	7,530,562	38,971	602,390	539,585	1,708,061	2,267,026	2,350,857	–	23,672
Financial investments	3,164,150	3,758,609	2,676	184,830	159,063	408,936	1,373,493	1,598,622	28,673	2,316
– Financial investments at FVTPL	526,145	530,575	2,676	134,391	56,151	134,875	156,588	36,870	9,024	–
– Debt investments at amortised cost	1,728,620	2,155,149	–	33,629	50,472	133,924	712,112	1,222,706	–	2,306
– Debt investments at FVTOCI	889,736	1,053,236	–	16,810	52,440	140,137	504,793	339,046	–	10
– Equity investments designated at FVTOCI	19,649	19,649	–	–	–	–	–	–	19,649	–
Other assets	90,873	90,873	31,314	11,445	15,314	20,884	1,975	427	5,029	4,485
Total	10,737,964	12,625,414	277,920	1,100,594	766,578	2,276,495	3,650,383	3,949,919	573,052	30,473

	2023									
	Carrying amount	Total	Repayable on demand	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite	Overdue
Non-derivative financial liabilities and lease liabilities										
Borrowing from central banks and amounts due to banks and other financial institutions	1,265,597	1,300,017	449,843	375,736	168,105	251,248	47,192	7,893	–	–
Deposits from customers	8,155,438	8,434,777	4,559,684	434,432	554,142	1,360,396	1,496,187	29,936	–	–
Financial liabilities at FVTPL	43,958	44,074	8,566	4,696	1,053	2,996	7,146	19,617	–	–
Lease liabilities	12,675	13,664	–	457	586	2,880	8,461	1,280	–	–
Debt securities issued	174,764	182,443	–	10,401	26,108	84,324	53,672	7,938	–	–
Other liabilities	175,135	175,135	50,536	30,287	18,080	44,377	31,439	416	–	–
Total	9,827,567	10,150,110	5,068,629	856,009	768,074	1,746,221	1,644,097	67,080	–	–
Gross loan commitments	–	1,689,252	1,689,252	–	–	–	–	–	–	–

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2022									
	Carrying amount	Total	Repayable on demand	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 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	630,302	631,756	62,467	369,164	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	88,792	88,792	35,078	10,381	15,434	17,310	1,534	605	4,296	4,154
Total	9,862,933	11,707,905	193,726	997,800	646,262	2,229,211	3,272,600	3,780,018	558,921	29,367

	2022									
	Carrying amount	Total	Repayable on demand	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Indefinite	Overdue
Non-derivative financial liabilities and lease liabilities										
Borrowing from central banks and amounts due to banks and other financial institutions	1,087,095	1,098,720	515,448	270,368	127,266	152,122	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	49,144	49,336	12,085	4,390	227	4,626	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	162,436	162,436	62,796	27,724	11,623	28,897	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	–	–	–	–	–	–	–

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 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 the approaches stipulated by regulators. The Group and the Bank submit required information to the NAFR 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 2023, 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 former CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional) and other relevant regulations. On 18 April 2014, former 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, former 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. In fair value hedge, the Group uses interest rate swaps as hedging instruments to hedge the interest rate risks arising from bond investments measured at fair value through other comprehensive income.

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.

	2023						
	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	323,413	805,040	676,727	1,791	1,806,971	5,328	(5,314)
Interest rate swaps	323,239	805,030	676,727	1,791	1,806,787	5,327	(5,314)
Bond futures	174	–	–	–	174	1	–
Interest rate options	–	10	–	–	10	–	–
Currency derivatives	664,819	717,287	39,675	1,199	1,422,980	11,692	(10,372)
Forwards	35,148	17,293	257	1,199	53,897	375	(480)
Foreign exchange swaps	426,525	394,675	30,310	–	851,510	8,853	(7,824)
Futures	1,949	3,503	–	–	5,452	–	–
Options	201,197	301,816	9,108	–	512,121	2,464	(2,068)
Other derivatives	135,119	1,553	52	35	136,759	1,485	(1,300)
Equity options purchased	63,675	293	–	35	64,003	1,110	–
Equity options written	63,675	293	–	–	63,968	–	(876)
Commodity trading swaps	7,769	327	52	–	8,148	375	(354)
Credit default swaps	–	640	–	–	640	–	(70)
Fair value hedge derivatives							
Interest rate derivatives	–	–	513	2,838	3,351	–	(123)
Interest rate swaps	–	–	513	2,838	3,351	–	(123)
Currency derivatives	–	753	7,529	–	8,282	123	(295)
Foreign exchange swaps	–	753	7,529	–	8,282	123	(295)
Cash flow hedge derivatives							
Interest rate derivatives	1,752	3,685	2,890	369	8,696	105	(38)
Interest rate swaps	1,752	3,685	2,890	369	8,696	105	(38)
Derivatives managed in conjunction with financial instruments designated at FVTPL							
Interest rate derivatives	213	–	–	–	213	–	(1)
Interest rate swaps	213	–	–	–	213	–	(1)
Total	1,125,316	1,528,318	727,386	6,232	3,387,252	18,733	(17,443)

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	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)

There was no ineffective portion of cash flow hedges during the years ended 31 December 2023 and 2022.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

The credit risk weighted amounts in respect of these derivatives are as follows:

	2023	2022
Default risk weighted assets of counterparties	**2,586**	1,500
Interest rate derivatives	**88**	137
Currency derivatives	**2,375**	1,242
Other derivatives	**123**	121
Credit valuation adjustment risk weighted assets	**2,410**	2,187
Total	**4,996**	3,687

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 former 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). The amounts within the scope approved by the former CBIRC in April 2014 are calculated using the Internal Ratings-Based Approach, and the Weighted Approach is adopted to calculate those amounts that are not eligible for the Internal Ratings-Based approach.

(g) Fair value information

(i) Methods of determining fair value of financial instruments

Several 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 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;
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group recognises transfers among levels of the fair value hierarchy at the end of the reporting period during which the transfer takes place.

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:

	2023			
	Level 1	Level 2	Level 3	Total
Assets				
Financial investments measured at FVTPL	18,311	490,795	4,160	513,266
– Debt securities	14,923	246,526	359	261,808
– Long position in precious metal contracts	1,604	–	–	1,604
– Equity investments	1,752	341	2,392	4,485
– Fund investments	32	241,091	1,181	242,304
– Wealth management products	–	2,729	–	2,729
– Other	–	108	228	336
Financial investments designated at FVTPL	756	12,123	–	12,879
– Debt securities	756	12,123	–	12,879
Derivative financial assets	–	18,733	–	18,733
Loans and advances to customers at FVTPL	–	66,701	3,729	70,430
Debt investments at FVTOCI	140,869	758,233	–	899,102
Loans and advances to customers at FVTOCI	–	404,417	120,762	525,179
Equity investments designated at FVTOCI	10,006	2,305	7,338	19,649
Total	169,942	1,753,307	135,989	2,059,238
Liabilities				
Financial liabilities held for trading	15,748	380	–	16,128
– Financial liabilities related to precious metal	15,748	–	–	15,748
– Short position on bonds	–	380	–	380
Financial liabilities designated at FVTPL	5,179	20,826	1,825	27,830
– Certificates of deposit issued	–	212	–	212
– Debt securities issued	5,179	–	–	5,179
– Other	–	20,614	1,825	22,439
Derivative financial liabilities	–	17,443	–	17,443
Total	20,927	38,649	1,825	61,401

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)*

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: (continued)

	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	7,709	20,541	2,647	30,897
– 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	25,626	39,507	2,647	67,780

During the years ended 31 December 2023 and 2022, 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 provided 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 are 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 by using the comprehensive valuations on Bloomberg or discounted cash flow approach using the relevant yield curve of China Bond at the end of the reporting period.

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 2023	Valuation techniques	Unobservable inputs
Equity investments designated at FVTOCI	2,742	Market approach	Liquidity discount
Equity investments designated at FVTOCI	71	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Equity investments designated at FVTOCI	4,525	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	3,729	Discounted cash flow approach	Risk-adjusted discount rate
Loans and advances to customers at FVTOCI	120,762	Discounted cash flow approach	Risk-adjusted discount rate
Financial investments measured at FVTPL			
– Equity investments	1,520	Market approach	Liquidity discount
– Equity investments	642	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	230	Net asset value approach	Net assets, liquidity discount
– Debt securities	359	Discounted cash flow approach	Risk-adjusted discount rate
– Fund investments	1,180	Net fund value approach	Net assets
– Fund investments	1	Market approach	Liquidity discount
– Other	184	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Other	44	Net fund value approach	Net assets
Financial liabilities designated at FVTPL	1,825	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 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)

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 2023	**4,714**	**4,991**	**100,430**	**7,390**	**117,525**
Profit or loss					
– In profit or loss	**(14)**	**117**	**(103)**	**–**	**–**
– In other comprehensive income	**–**	**–**	**(145)**	**(131)**	**(276)**
Addition for the year	**553**	**70**	**325,509**	**77**	**326,209**
Disposals or settlement on maturity	**(596)**	**(1,451)**	**(304,929)**	**(1)**	**(306,977)**
Transfer out of level 3	**(560)**	**–**	**–**	**–**	**(560)**
Exchange difference	**63**	**2**	**–**	**3**	**68**
At 31 December 2023	**4,160**	**3,729**	**120,762**	**7,338**	**135,989**
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	**(98)**	**14**	**–**	**–**	**(84)**

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	(49)	(191)	–	–	(240)

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)

Valuation of financial instruments with significant unobservable inputs (continued)

Financial liabilities at fair value through profit or loss	2023	2022
Balance as at 1 January	**2,647**	8,147
In loss	**(122)**	(142)
Addition for the year	**–**	96
Disposals and settlement on maturity	**(739)**	(5,695)
Exchange difference	**39**	241
Balance as at 31 December	**1,825**	2,647
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	**(122)**	148

During the years ended 31 December 2023 and 2022, 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 2023 and 2022, 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 not measured at fair value 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 bonds 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.

	2023					2022				
	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	1,728,620	1,791,963	61,918	1,659,705	70,340	1,536,397	1,569,775	41,700	1,434,070	94,005

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:

	2023					2022				
	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	–
Debt securities issued	119,193	118,924	–	118,924	–	120,971	118,416	–	118,416	–
Total	119,193	118,924	–	118,924	–	140,965	138,708	–	138,708	–

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. (CMSN)	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	Sun Xian
– 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	Sun Xian
– China Merchants Financial 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	USD 1	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.	Shanghai	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	Liu Chong
– 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	Lin Rui
China Insurance Security Fund Co., Ltd	Beijing	RMB100 million	776,574,735	3.08% (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	776,574,735	3.08% (note(iv))	–	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 contractor 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 contractor 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	Zhong Desheng
CMB Wing Lung Bank Limited (CMB WLB)	Hong Kong	HKD1,161 million	–	–	100%	Banking	Subsidiary	Limited liability	Wang Liang
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	EUR100 million	–	–	100%	Banking	Subsidiary	Limited liability	Xue Fei
Cigna & CMB Asset Management Company Limited (CIGNA & CMAM)	Beijing	RMB500 million	–	–	Note 24 (vii)	Asset management	Subsidiary	Limited liability	Wang Xiaoqing

Notes:

(i) CMG held 29.97% of the Bank indirectly (31 December 2022: 29.97%) through its subsidiaries as at 31 December 2023.

(ii) As the largest direct shareholder, CMSN, a subsidiary of CMG, holds 13.04% of the Bank as at 31 December 2023 (2022: 13.04%).

(iii) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (2022: 9.97%) through its subsidiaries.

(iv) China Insurance Security Fund Co., Ltd ("China Insurance Security Fund") holds 3.08% of the Bank (2022: 3.19%) 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 (2022: 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) (2022: 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 2023 and 2022 are as follows:

Name of related party	2023		2022	
CMG	RMB	16,900,000,000	RMB	16,900,000,000
CMSN	RMB	17,000,000,000	RMB	17,000,000,000
Shenzhen Yan Qing Investment and Development Co., Ltd.	RMB	600,000,000	RMB	600,000,000
Shenzhen Chu Yuan Investment and Development Co., Ltd.	RMB	600,000,000	RMB	600,000,000
China Merchants Financial Holdings Co., Ltd.	RMB	7,778,000,000	RMB	7,778,000,000
Best Winner Investment Ltd.	USD	1	USD	1
China Merchants Union (BVI) Limited	USD	60,000	USD	60,000
China Merchants Industry Development (Shenzhen) Ltd.	USD	10,000,000	USD	10,000,000
China Insurance Security Fund	RMB	100,000,000	RMB	100,000,000
Dajia Life Insurance Co., Ltd	RMB	30,790,000,000	RMB	30,790,000,000
China COSCO Shipping Corporation Limited	RMB	11,000,000,000	RMB	11,000,000,000
China Ocean Shipping Co., Ltd.	RMB	16,191,351,300	RMB	16,191,351,300
COSCO Shipping (Guangzhou) Co., Ltd.	RMB	3,191,200,000	RMB	3,191,200,000
Guangzhou Haining Maritime Technology Consulting Co., Ltd.	RMB	52,000,000	RMB	52,000,000
COSCO Shipping (Shanghai) Co., Ltd.	RMB	1,398,941,000	RMB	1,398,941,000
COSCO Shipping Investment Holdings Co., Ltd.	HKD	500,000,000	HKD	500,000,000
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	RMB	299,020,000	RMB	299,020,000
China Communications Construction Group Limited	RMB	7,274,023,830	RMB	7,274,023,830
China Communications Construction Company Limited	RMB	16,165,711,425	RMB	16,165,711,425
Shanghai Automotive Industry Corporation (Group)	RMB	21,749,175,737	RMB	21,749,175,737
SAIC Motor Corporation Limited	RMB	11,683,461,365	RMB	11,683,461,365
CMBIC	HKD	4,129,000,000	HKD	4,129,000,000
CMBFL	RMB	12,000,000,000	RMB	12,000,000,000
CMB WLB	HKD	1,160,950,575	HKD	1,160,950,575
CMFM	RMB	1,310,000,000	RMB	1,310,000,000
CMBWM	RMB	5,555,555,555	RMB	5,555,555,555
CMB Europe S.A.	EUR	100,000,000	EUR	50,000,000
CIGNA & CMAM	RMB	500,000,000	RMB	500,000,000

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													
	CMSN		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 2023	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
At 31 December 2023	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	100,000,000	100.00	500,000,000	note

	The Bank held by the largest shareholder		The subsidiaries held by the Bank													
	CMSN		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

Note: This information is detailed in note 24.

As of 31 December 2023, other than those disclosed above, there were 92 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 2022: 142).

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 strictly set in accordance with the deposit and loan interest rate management regulations published by the PBOC, and such banking transactions are priced based on the market prices at the time of transactions:

	2023	2022
Short-term loans	**3.55% to 3.65%**	3.65% to 3.80%
Medium to long-term loans	**3.55% to 4.30%**	3.65% 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 (2022: None).

(c) Shareholders and their related companies

The Bank's largest shareholder CMG and its related companies held 29.97% (2022: 29.97%) of the Bank's shares as at 31 December 2023 (among them 13.04 % of the shares were directly held by CMSN (2022: 13.04%)).

The Group's transactions and balances with CMSN and its related companies are disclosed as follows:

	2023	2022
On-balance sheet:		
– Placements with banks and other financial institutions	**–**	2,000
– Amounts held under resale agreements	**2,942**	2,589
– Loans and advances to customers	**46,466**	40,772
– Financial investments	**12,159**	7,626
– Deposits from banks and other financial institutions	**26,119**	29,726
– Deposits from customers	**59,227**	45,342
– Lease liabilities	**170**	210
Off-balance sheet:		
– Irrevocable guarantees	**3,510**	5,087
– Irrevocable letters of credit	**971**	318
– Bills of acceptances	**289**	285
Interest income	**2,364**	1,848
Interest expense	**(1,475)**	(1,376)
Net fee and commission income	**1,282**	1,027
Operating expenses	**(211)**	(177)
Other net expenses	**–**	(10)

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

	2023	2022
On-balance sheet:		
– Placements with banks and other financial institutions	–	2,277
– Amounts held under resale agreements	–	3,770
– Loans and advances to customers	9,360	28,103
– Financial investments	2,116	770
– Deposits from banks and other financial institutions	1,683	4,346
– Placements from banks and other financial institutions	300	6,047
– Deposits from customers	12,304	13,447
– Lease liabilities	–	65
Off-balance sheet:		
– Irrevocable guarantees	310	580
– Irrevocable letters of credit	–	6
Interest income	601	1,035
Interest expense	(460)	(475)
Net fee and commission income	9	133
Operating expenses	(283)	(274)
Other net expenses	–	(129)

(e) Associates and joint ventures other than those disclosed in Note 61(c)

	2023	2022
On-balance sheet:		
– Placements with banks and other financial institutions	17,500	14,675
– Loans and advances to customers	5,771	6,848
– Deposits from banks and other financial institutions	894	896
– Deposits from customers	731	331
Interest income	432	306
Interest expense	(26)	(19)
Net fee and commission income	2,307	2,498
Operating expenses	(1)	(8)

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

	2023	2022
On-balance sheet:		
– Placements with banks and other financial institutions	**600**	–
– Loans and advances to customers	**38,949**	27,070
– Financial investments	**995**	4,302
– Deposits from banks and other financial institutions	**3,908**	2,929
– Deposits from customers	**20,537**	14,872
– Lease liabilities	**27**	40
Off-balance sheet:		
– Irrevocable guarantees	**12,146**	8,511
– Irrevocable letters of credit	**3,530**	1,835
– Bills of acceptances	**6,325**	5,125
Interest income	**1,616**	913
Interest expense	**(510)**	(633)
Net fee and commission income	**114**	2,242
Operating expenses	**(291)**	(138)
Other net expense	**–**	(1)

(g) Subsidiaries

	2023	2022
On-balance sheet		
– Balances with banks and other financial institutions	**2,204**	958
– Placements with banks and other financial institutions	**26,404**	32,438
– Loans and advances to customers	**12,442**	1,396
– Financial investments	**3,711**	3,415
– Deposits from banks and other financial institutions	**3,578**	4,630
– Deposits from customers	**6,056**	5,206
Off-balance sheet		
– Irrevocable guarantees	**–**	38
– Irrevocable letters of credit	**1,289**	4,599
– Bills of acceptances	**1,009**	222
Interest income	**1,360**	943
Interest expense	**(115)**	(129)
Net fee and commission income/(expenses)	**254**	(93)
Operating expenses	**(1,455)**	(1,797)
Other net income	**232**	150

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.

	2023 RMB'000	2022 RMB'000
Salaries and other emoluments	**37,228**	38,249
Discretionary bonuses	**–**	18,583
Share-based payment	**(18,121)**	(41,066)
Contributions to defined contribution retirement schemes	**–**	2,100
Total	**19,107**	17,866

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(16); 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 2023 and 2022.

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$400 million on 24 January 2019. Movements of these perpetual debt capital are as follows:

	Principal	**Distributions/Paid**	**Total**
At 1 January 2023	**2,787**	**–**	**2,787**
Distributions in 2023	**–**	**182**	**182**
Paid in 2023	**–**	**(182)**	**(182)**
Exchange difference	**51**	**–**	**51**
At 31 December 2023	**2,838**	**–**	**2,838**

	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

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 2023 and 2022, 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 of 2023, the Group transferred loans amounting to RMB22,589 million (2022: RMB17,362 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 2023, there were no new securitised credit assets in which the Group retained the continuing involvement (2022: None). 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 2023 (31 December 2022: RMB5,274 million).

Transfers of credit assets to third parties

During the year of 2023, in addition to securitisation transactions, the Group transferred credit assets amounting to RMB1,107 million (2022: RMB995 million) to independent third parties directly. 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 interests in 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 2023 and 31 December 2022:

	2023				
	Balance				
	Financial investments at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	–	35,275	–	35,275	35,275
Trust beneficiary rights	184	25,020	–	25,204	25,204
Asset-backed securities	320	1,073	17,983	19,376	19,376
Fund investments	227,477	–	–	227,477	227,477
Wealth management products	580	–	–	580	580
Total	228,561	61,368	17,983	307,912	307,912

	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

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 2023, the amount of unconsolidated non-principal-guaranteed wealth management products sponsored by the Group was RMB2,548,929 million (31 December 2022: RMB2,667,663 million).

As at 31 December 2023, the amount of unconsolidated funds sponsored by the Group was RMB1,237,828 million (31 December 2022: RMB1,147,030 million).

As at 31 December 2023, the amount of unconsolidated asset management schemes sponsored by the Group was RMB289,215 million (31 December 2022: RMB262,095 million).

As at 31 December 2023, amounts held under resale agreements transacted between the Group and the non-principal-guaranteed wealth management products sponsored by the Group were RMB25,701 million (31 December 2022: RMB17,252 million). The above transactions were conducted in accordance with normal business terms and conditions.

As at 31 December 2023, the amount of unconsolidated non-principal-guaranteed wealth management products held by the Group was RMB2,149 million (31 December 2022: RMB2,433 million).

As at 31 December 2023, the amount of unconsolidated funds held by the Group was RMB14,827 million (31 December 2022: RMB14,228 million).

During the year ended 31 December 2023, 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 Nil (2022: RMB11,143 million).

During the year ended 31 December 2023, the amount of fee and commission income the Group received from such non-principal-guaranteed wealth management products was RMB10,394 million (2022: RMB17,037 million).

During the year ended 31 December 2023, the amount of fee and commission income the Group received from such unconsolidated funds was RMB5,041 million (2022: RMB5,470 million).

During the year ended 31 December 2023, the amount of fee and commission income the Group received from such unconsolidated asset management schemes was RMB653 million (2022: RMB683 million).

The total amount of non-principal-guaranteed wealth management products sponsored by the Group after 1 January 2023 with a maturity date before 31 December 2023 was RMB502,145 million (2022: RMB620,318 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 former 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 former CBIRC in April 2014, the Group calculates core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	2023	2022
Core tier-1 capital adequacy ratio	**13.73%**	13.68%
Tier-1 capital adequacy ratio	**16.01%**	15.75%
Capital adequacy ratio	**17.88%**	17.77%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**65,547**	65,397
Surplus reserve	**108,700**	94,948
General reserve	**141,184**	132,451
Retained earnings	**563,114**	488,970
Qualifying portion of non-controlling interests	**–**	–
Other (note (i))	**16,994**	14,480
Total core tier-1 capital	**920,759**	821,466
Regulatory deductions from core tier-1 capital	**13,451**	22,114
Net core tier-1 capital	**907,308**	799,352
Additional tier-1 capital (note (ii))	**150,446**	120,446
Net tier-1 capital	**1,057,754**	919,798
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**–**	20,000
Surplus provision for loans impairment	**122,175**	96,579
Qualifying portion of non-controlling interests	**1,558**	1,565
Total tier-2 capital	**123,733**	118,144
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**123,733**	118,144
Net capital	**1,181,487**	1,037,942
Total risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**6,608,021**	5,841,685

Notes:

(i) : Under former 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 2023, in accordance with the Advanced Measurement Approach approved by former CBIRC in April 2014, the Bank's core tier-1 capital adequacy ratio is 13.32%, tier-1 capital adequacy ratio is 15.70%, capital adequacy ratio is 17.62%, net capital is RMB1,059,697 million and total risk-weighted assets is RMB6,015,774 million.

In 2023, 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 11.86%, tier-1 capital adequacy ratio is 13.82%, capital adequacy ratio is 14.96%, net capital is RMB1,144,901 million and total risk-weighted assets is RMB7,652,723 million.

In 2023, 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 11.38%, tier-1 capital adequacy ratio is 13.40%, capital adequacy ratio is 14.52%, net capital is RMB1,023,111 million and total risk-weighted assets is RMB7,046,274 million.

(B) Leverage ratio

In accordance with the former 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:

	2023	2022
Total consolidated assets as per published financial statements	**11,028,483**	10,138,912
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(55,771)**	(47,666)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**(1,913)**	(7,911)
Adjustment for securities financing transactions	**106,847**	12,444
Adjustment for off-balance sheet items	**1,742,065**	1,496,177
Other adjustments	**(13,451)**	(22,114)
Balance of adjusted on-balance sheet and off-balance sheet assets	**12,806,260**	11,569,842

Leverage ratio, net tier-1 capital, adjusted on-balance sheet and off-balance sheet exposures and other information:

		31 December 2023	31 December 2022
1.	**Net tier-1 capital**	**1,057,754**	919,798
2.	**Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)**	**10,769,181**	9,773,998
	On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	**10,782,632**	9,796,112
	Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(13,451)**	(22,114)
3.	**Total derivative exposures**	**16,819**	10,726
	Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	**4,639**	5,551
	Add-on amounts for potential future exposure associated with all derivatives transactions	**12,180**	5,175
	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	**–**	–
4.	**Total securities financing transaction exposures**	**278,195**	288,941
	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**171,348**	276,497
	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
	Counterparty credit risk exposure for SFT assets	**106,847**	12,444
	Agent transaction exposures	**–**	–
5.	**Balance of adjusted off-balance sheet assets**	**1,742,065**	1,496,177
	Off-balance sheet exposure at gross notional amount	**3,524,325**	3,093,836
	Less: Adjustments for conversion to credit equivalent amounts	**(1,782,260)**	(1,597,659)
6.	**Balance of adjusted on-balance sheet and off-balance sheet assets**	**12,806,260**	11,569,842
7.	**Leverage ratio**	**8.26%**	7.95%

(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 159.82% in the fourth quarter of 2023, an increase of 0.17 percentage points from the previous quarter, which was maintained basically stable. The liquidity coverage ratio of the Group at the end of the fourth quarter of 2023 was 173.36%, which met the regulatory requirements in 2023. The breakdown of the Group's average value of each item of liquidity coverage ratio in the fourth quarter of 2023 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**		**2,017,296**
Cash outflows			
2	Retail and small business customers deposits, of which:	3,698,130	328,336
3	Stable deposits	829,526	41,476
4	Less stable deposits	2,868,604	286,860
5	Unsecured wholesale funding, of which:	4,379,860	1,458,116
6	Operational deposits (excluding correspondent banks)	2,650,733	655,476
7	Non-operational deposits (including all counterparties)	1,703,035	776,548
8	Unsecured debt issuance	26,092	26,092
9	Secured funding		13,664
10	Additional requirements, of which:	1,973,700	385,580
11	Cash outflows arising from derivative contract and other transactions arising from related collateral requirements	276,651	276,651
12	Cash outflows arising from secured debt instruments funding	–	–
13	Undrawn committed credit and liquidity facilities	1,697,049	108,929
14	Other contractual obligations to extend funds	103,364	103,364
15	Other contingent funding obligations	3,643,112	109,469
16	**Total cash outflows**		**2,398,529**
Cash inflows			
17	Secured lending (including reverse repo and securities borrowing)	180,353	179,816
18	Contractual inflows from fully performing loans	1,072,229	682,265
19	Other cash inflows	274,843	274,223
20	**Total cash inflows**	**1,527,425**	**1,136,304**

		Adjusted value
21	**Total stock of high quality liquid assets**	**2,017,296**
22	**Net cash outflows**	**1,262,225**
23	**Liquidity coverage ratio (%)**	**159.82%**

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 former CBIRC 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 2023 was 130.72%, representing an increase of 0.58 percentage points as compared with the previous quarter, which was maintained basically stable. The breakdown of the Group's Net Stable Fund Ratio in the last two quarters is set out below:

31 December 2023

(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	1,071,254	–	–	–	1,071,254
2	Regulatory capital	1,071,254	–	–	–	1,071,254
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from					
	Small business customer	2,282,575	1,617,013	57,445	5,038	3,610,469
5	Stable deposits	875,774	5,726	525	1,121	839,045
6	Less stable deposits	1,406,801	1,611,287	56,920	3,917	2,771,424
7	Wholesale funding	2,644,103	2,423,633	251,230	289,042	2,601,237
8	Operational deposits	2,602,120	–	–	–	1,301,060
9	Other wholesale funding	41,983	2,423,633	251,230	289,042	1,300,177
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	2,657	169,456	64,195	118,015	126,648
12	NSFR derivative liabilities				23,464	
13	All other liabilities and equity not included in the above categories	2,657	169,456	64,195	94,551	126,648
14	Total ASF					7,409,608
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					399,307
16	Deposits held at other financial institutions for operational purposes	44,614	7,289	–	–	26,166
17	Performing loans and securities	122,075	2,398,056	1,197,720	3,851,064	4,820,184
18	Performing loans to financial institutions secured by Level 1 HQLA	–	148,674	–	–	22,301
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	659,621	91,109	29,240	173,769
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:	–	1,383,699	1,026,194	2,303,658	3,130,694
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	189,595	124,083	161,811	262,016
22	Performing residential mortgages, of which:	–	25,840	26,102	1,328,961	1,154,132
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	122,075	180,222	54,315	189,205	339,288
25	Assets with matching interdependent liabilities	–	–	–	–	–

(D) Net stable funding ratio *(continued)*

31 December 2023 *(continued)*

Serial No.		Unweighted amount				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
Required stable funding (RSF) item *(continued)*						
26	Other assets	10,761	73,396	34,039	101,462	200,668
27	Physical traded commodities, including gold	2,321				1,973
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				333	283
29	NSFR derivative assets				25,650	2,186
30	NSFR derivative liabilities before deduction of variation margin posted				4,889	4,889
31	All other assets not included in the above categories	8,440	73,396	34,039	75,479	191,337
32	Off-balance sheet items				5,947,508	221,955
33	Total RSF					5,668,280
34	Net Stable Funding Ratio (%)					130.72%

30 September 2023

(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	1,026,779	–	–	–	1,026,779
2	Regulatory capital	1,026,779	–	–	–	1,026,779
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from Small business customer	2,222,423	1,472,506	86,263	6,152	3,451,677
5	Stable deposits	842,850	5,750	464	1,198	807,808
6	Less stable deposits	1,379,573	1,466,756	85,799	4,954	2,643,869
7	Wholesale funding	2,603,626	2,377,268	170,233	294,570	2,554,246
8	Operational deposits	2,581,665	–	–	–	1,290,833
9	Other wholesale funding	21,961	2,377,268	170,233	294,570	1,263,413
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	7,430	151,468	76,397	134,792	140,838
12	NSFR derivative liabilities				32,152	
13	All other liabilities and equity not included in the above categories	7,430	151,468	76,397	102,640	140,838
14	Total ASF					7,173,540
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					344,456
16	Deposits held at other financial institutions for operational purposes	44,005	7,691	–	4,699	30,547
17	Performing loans and securities	101,255	2,352,104	1,092,143	3,838,101	4,708,965
18	Performing loans to financial institutions secured by Level 1 HQLA	–	58,340	–	–	8,751
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	750,105	71,249	27,211	175,363
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:	–	1,340,029	940,280	2,295,491	3,045,537
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	225,553	135,598	228,926	329,378

(D) Net stable funding ratio *(continued)*

30 September 2023 *(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:	–	25,454	25,505	1,313,046	1,140,044
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	101,255	178,176	55,109	202,353	339,270
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	6,936	80,370	38,577	108,846	208,457
27	Physical traded commodities, including gold	2,792				2,373
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				277	235
29	NSFR derivative assets				33,071	919
30	NSFR derivative liabilities before deduction of variation margin posted				6,692	6,692
31	All other assets not included in the above categories	4,144	80,370	38,577	75,498	198,238
32	Off-balance sheet items				5,803,725	219,747
33	**Total RSF**					5,512,172
34	**Net Stable Funding Ratio (%)**					130.14%

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

	2023			
	USD	HKD	Other	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	**601,745**	**31,474**	**47,462**	**680,681**
Spot liabilities	**553,972**	**18,032**	**90,942**	**662,946**
Forward purchased	**417,752**	**6,195**	**76,916**	**500,863**
Forward written	**476,337**	**7,311**	**38,999**	**522,647**
Net option position	**12,236**	**(79)**	**3,562**	**15,719**
Net long position	**1,424**	**12,247**	**(2,001)**	**11,670**
Net structural position	**8,481**	**41,314**	**1,552**	**51,347**

	2022			
	USD	HKD	Other	Total
		(in millions of RMB)		
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

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.

	2023			
	Banks and other financial institutions	Public sector entities	Other	Total
Foreign currencies transactions in the Chinese mainland	**105,171**	**2,079**	**132,845**	**240,095**
Asia Pacific excluding the Chinese mainland	**49,161**	**19,653**	**199,166**	**267,980**
– of which attributed to Hong Kong	**24,986**	**17,202**	**181,581**	**223,769**
Europe	**19,866**	**1,598**	**21,029**	**42,493**
North and South America	**68,925**	**119,692**	**17,584**	**206,201**
Total	**243,123**	**143,022**	**370,624**	**756,769**

	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

(G) Further analysis on loans and advances to customers analysed by industry sector

Operation in the Chinese mainland

	2023		2022	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Manufacturing	**557,691**	**28**	445,218	32
Transportation, storage and postal services	**477,016**	**40**	461,434	37
Property development	**303,707**	**52**	349,682	48
Production and supply of electric power, heating power, gas and water	**259,864**	**32**	203,870	38
Wholesale and retail	**187,737**	**35**	171,786	32
Leasing and commercial services	**186,463**	**17**	158,320	14
Construction	**110,577**	**22**	103,998	24
Telecommunications, software and IT services	**95,394**	**49**	78,950	48
Finance	**88,296**	**17**	75,593	23
Water, environment and public utilities management	**42,813**	**45**	64,886	30
Mining	**42,326**	**34**	34,421	33
Others	**76,400**	**31**	67,677	30
Corporate loans and advances subtotal	**2,428,284**	**34**	2,215,835	35
Discounted bills	**471,127**	**100**	514,054	100
Residential mortgage	**1,376,815**	**100**	1,379,825	100
Credit cards	**935,777**	**–**	884,395	–
Micro-finance loans	**750,019**	**78**	629,857	79
Consumer loans	**301,538**	**2**	202,225	3
Others	**7,806**	**90**	11,374	93
Retail loans and advances subtotal	**3,371,955**	**59**	3,107,676	61
Gross amount of loans and advances to customers	**6,271,366**	**52**	5,837,565	54

(G) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside the Chinese mainland

	2023		2022	
	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	**45,368**	**37**	36,521	23
Transportation, storage and postal services	**36,248**	**21**	30,814	19
Property development	**22,960**	**44**	26,298	37
Manufacturing	**19,335**	**56**	20,494	39
Production and supply of electric power, heating power, gas and water	**12,359**	**8**	9,023	33
Wholesale and retail	**10,002**	**29**	8,923	28
Telecommunications, software and IT services	**8,323**	**29**	10,908	30
Leasing and commercial services	**6,207**	**36**	3,430	30
Mining	**4,945**	**63**	6,074	46
Construction	**623**	**80**	1,772	99
Water, environment and public utilities management	**419**	**100**	110	40
Others	**4,782**	**75**	5,414	72
Corporate loans and advances subtotal	**171,571**	**36**	159,781	32
Residential mortgage	**8,671**	**100**	9,383	100
Credit cards	**133**	**–**	124	–
Micro-finance loans	**1,278**	**100**	1,181	100
Others	**55,846**	**95**	43,425	93
Retail loans and advances subtotal	**65,928**	**96**	54,113	94
Gross amount of loans and advances to customers	**237,499**	**53**	213,894	47

(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:

	2023				
	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	8,165	5,122	7,021	2,739	4,388
Credit card	29,910	16,383	26,666	19,179	15,562
Micro-business loan	5,269	4,592	9,130	1,649	3,793

	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

As at 31 December 2023, for corporate loans and advances measured at amortised cost, the fair value of collateral held against impaired loans and advances is RMB3,810 million (31 December 2022: RMB3,206 million).

(H) Loans and advances to customers overdue for more than 90 days

(i) By geographical segments

	2023	2022
Headquarters	**13,308**	11,980
Yangtze River Delta region	**7,613**	7,716
Bohai Rim region	**4,863**	4,051
Pearl River Delta and West Coast region	**5,342**	4,619
Northeast region	**1,433**	967
Central region	**5,307**	5,239
Western region	**4,538**	3,653
Outside the Chinese mainland	**638**	395
Subsidiaries	**2,780**	2,458
Total	**45,822**	41,078

(ii) By overdue period

	2023	2022
Gross amount of 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)	**11,476**	15,379
– between 6 and 12 months (inclusive)	**11,598**	11,290
– over 12 months	**22,748**	14,409
Total	**45,822**	41,078
As a percentage of total gross amount of loans and advances to customers:		
– between 3 and 6 months (inclusive)	**0.17%**	0.25%
– between 6 and 12 months (inclusive)	**0.18%**	0.19%
– over 12 months	**0.35%**	0.24%
Total	**0.70%**	0.68%

(H) Loans and advances to customers overdue for more than 90 days

(continued)

(iii) Collateral information

	2023	2022
Secured portion of overdue loans and advances	**17,141**	16,404
Unsecured portion of overdue loans and advances	**28,681**	24,674
Fair value of collateral held against overdue loans and advances	**47,613**	42,302

The amount of the Group's overdue loans and advances to financial institutions for more than 90 days as at 31 December 2023 was RMB1 million (31 December 2022: 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

	2023		2022	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Renegotiated loans and advances to customers (Note)	**13,007**	**0.20%**	12,076	0.20%
Less:				
– Renegotiated loans and advances to customers overdue more than 90 days	**6,673**	**0.10%**	5,207	0.09%
– Renegotiated loans and advances to customers overdue less than 90 days	**6,334**	**0.10%**	6,869	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 2023 was nil (31 December 2022: nil).

(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 2023 and 31 December 2022, 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 RMB unless otherwise stated)

	January to March 2024	January to March 2023
Interest income	94,135	93,344
Interest expense	(42,135)	(37,935)
Net interest income	52,000	55,409
Fee and commission income	22,296	27,317
Fee and commission expense	(2,092)	(2,238)
Net fee and commission income	20,204	25,079
Other net income	13,470	9,344
Operating income	85,674	89,832
Operating expenses	(26,965)	(27,323)
Operating profit before impairment losses	58,709	62,509
Expected credit losses	(14,267)	(16,421)
Share of profits of joint ventures	371	529
Share of profits of associates	375	264
Profit before taxation	45,188	46,881
Income tax	(6,746)	(7,655)
Profit for the period	38,442	39,226
Attributable to:		
Equity holders of the Bank	38,077	38,839
Non-controlling interests	365	387
Earnings per share		
Basic and diluted (RMB Yuan)	1.51	1.54

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(Expressed in millions of RMB unless otherwise stated)

	January to March 2024	January to March 2023
Profit for the period	**38,442**	39,226
Other comprehensive income after tax		
Items that may be reclassified subsequently to profit or loss:		
Net fair value gain/(loss) on financial assets measured at fair value through other comprehensive income	**2,867**	(1,473)
Net changes in expected credit losses of financial assets measured at fair value through other comprehensive income	**(403)**	(1,626)
Net movement in cash flow hedge reserve	**(12)**	(36)
Share of other comprehensive income/(expense) from equity-accounted investees	**636**	466
Exchange difference on translation of financial statements of foreign operations	**822**	(935)
Items that will not be reclassified subsequently to profit or loss:		
Net fair value gain on equity instruments designated at fair value through other comprehensive income	**650**	277
Other comprehensive income for the period, net of tax	**4,560**	(3,327)
Attributable to:		
Equity holders of the Bank	**4,518**	(3,255)
Non-controlling interests	**42**	(72)
Total comprehensive income for the period	**43,002**	35,899
Attributable to:		
Equity holders of the Bank	**42,595**	35,584
Non-controlling interests	**407**	315

This financial statement was approved by the Board of Directors on 29 April 2024.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in millions of RMB unless otherwise stated)

Item	31 March 2024	31 December 2023
Assets		
Cash	**16,129**	14,931
Precious metals	**2,209**	2,321
Balances with central bank	**797,211**	667,871
Balances with banks and other financial institutions	**92,427**	100,769
Placements with banks and other financial institutions	**294,182**	287,694
Amounts held under resale agreements	**224,494**	172,246
Loans and advances to customers	**6,555,072**	6,252,755
Financial investments at fair value through profit or loss	**524,686**	526,145
Derivative financial assets	**19,463**	18,733
Debt investments at amortised cost	**1,739,594**	1,749,024
Debt investments at fair value through other comprehensive income	**916,465**	899,102
Equity investments designated at fair value through other comprehensive income	**20,117**	19,649
Interests in joint ventures	**16,649**	15,707
Interests in associates	**11,574**	10,883
Investment properties	**1,139**	1,160
Property and equipment	**119,210**	115,348
Right-of-use assets	**17,215**	17,041
Intangible assets	**2,535**	2,709
Goodwill	**9,954**	9,954
Deferred tax assets	**89,978**	90,557
Other assets	**49,923**	53,884
Total assets	**11,520,226**	11,028,483

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Expressed in millions of RMB unless otherwise stated)

Item	31 March 2024	31 December 2023
Liabilities		
Borrowing from central bank	254,270	378,621
Deposits from banks and other financial institutions	561,995	508,378
Placements from banks and other financial institutions	277,693	247,299
Financial liabilities at fair value through profit or loss	48,765	43,958
Derivative financial liabilities	17,413	17,443
Amounts sold under repurchase agreements	162,679	135,078
Deposits from customers	8,533,902	8,240,498
Salaries and welfare payable	28,346	28,679
Tax payable	16,308	13,597
Contract liabilities	5,251	5,486
Lease liabilities	12,907	12,675
Provisions	21,142	19,662
Debt securities issued	311,560	176,578
Deferred tax liabilities	1,638	1,607
Other liabilities	140,866	113,195
Total liabilities	10,394,735	9,942,754
Equity		
Share capital	25,220	25,220
Other equity instruments	150,446	150,446
Including: Preference shares	27,468	27,468
Perpetual bonds	122,978	122,978
Capital reserve	65,432	65,432
Investment revaluation reserve	17,370	13,656
Hedging reserve	80	92
Surplus reserve	108,737	108,737
General reserve	141,591	141,481
Retained profits	556,627	518,638
Proposed profit appropriation	49,734	49,734
Exchange reserve	3,728	2,934
Total equity attributable to shareholders of the Bank	1,118,965	1,076,370
Non-controlling interests	6,526	9,359
Including: Non-controlling interest	6,526	6,521
Perpetual debt capital	–	2,838
Total equity	1,125,491	1,085,729
Total liabilities and equity	11,520,226	11,028,483

This financial statement was approved by the Board of Directors on 29 April 2024.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in millions of RMB unless otherwise stated)

	January to March 2024	January to March 2023
Operating activities		
Profit before taxation	**45,188**	46,881
Adjustments for:		
– Impairment losses on loans and advances	**13,271**	16,550
– Impairment losses on investments and others	**996**	(129)
– Unwinding of discount on the allowances of loans and advances	**(58)**	(53)
– Depreciation of property and equipment and investment properties	**2,606**	2,446
– Depreciation of right-of-use assets	**1,005**	1,026
– Amortisation of other assets	**241**	290
– Net gain on investments in debt securities and equity instruments	**(4,239)**	(2,460)
– Interest income on investments	**(20,894)**	(19,529)
– Interest expense on issued debt securities	**1,746**	1,853
– Share of profits of associates	**(375)**	(264)
– Share of profits of joint ventures	**(371)**	(529)
– Net gains on disposal of property and equipment and other assets	**(62)**	(82)
– Interest expense on lease liabilities	**121**	131
Changes in:		
Balances with central bank	**43,295**	11,021
Loans and advances to customers	**(321,655)**	(267,788)
Other assets	**(7,890)**	(53,704)
Deposits from customers	**284,662**	236,136
Deposits and placements from banks and other financial institutions	**111,757**	(13,512)
Balances and placements with banks and other financial institutions with original maturity over 3 months	**(55,048)**	(26,497)
Borrowings from central bank	**(124,203)**	65,216
Other liabilities	**33,384**	(4,735)
Net cash generated from operating activities before income tax payment	**3,477**	(7,732)
Income tax paid	**(4,685)**	(4,886)
Net cash generated from operating activities	**(1,208)**	(12,618)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Expressed in millions of RMB unless otherwise stated)

	January to March 2024	January to March 2023
Investing activities		
Payment for the purchase of investments	**(533,044)**	(449,172)
Proceeds from the disposal of investments	**512,737**	340,191
Investment gains received from investments	**27,274**	25,584
Payment for the purchases of property and equipment and other assets	**(10,971)**	(9,313)
Proceeds from the disposal of properties and equipment and other assets	**5,123**	835
Net cash flows used in investing activities	**1,119**	(91,875)
Financing activities		
Proceeds from the issue of negotiable interbank certificates of deposits	**142,353**	49,322
Proceeds from the issue of certificates of deposits and others	**12,471**	9,859
Proceeds from the issue of debt securities	**18,213**	31,127
Proceeds from other financing activities	**2,095**	5,350
Repayment of negotiable interbank certificates of deposits	**(4,350)**	(22,210)
Repayment of certificates of deposit and others	**(9,528)**	(8,124)
Repayment of debt securities	**(25,431)**	(19,189)
Payment on lease liabilities	**(1,117)**	(1,127)
Payment on redemption of perpetual debt capital	**(2,863)**	–
Distribution paid on perpetual debt capital	**(93)**	(90)
Interest paid on financing activities	**(1,796)**	(974)
Net cash generated from financing activities	**129,954**	43,944
Increase/(decrease) in cash and cash equivalents	**129,865**	(60,549)
Cash and cash equivalents as of 1 January	**599,019**	567,198
Effects of foreign exchange rate changes on cash and cash equivalents	**195**	(1,709)
Cash and cash equivalents as of 31 March	**729,079**	504,940
Cash flows from operating activities include:		
Interest received	**72,745**	73,496
Interest paid	**31,940**	29,794

This financial statement was approved by the Board of Directors on 29 April 2024.

THE BANK

China Merchants Bank Co., Ltd.
7088 Shennan Boulevard
Futian District
Shenzhen
Guangdong Province
China

FISCAL AGENT, REGISTRAR, PRINCIPAL PAYING AGENT AND TRANSFER AGENT

The Hongkong and Shanghai Banking Corporation Limited
Level 26, HSBC Main Building
1 Queen's Road Central
Hong Kong

CMU LODGING AND PAYING AGENT AND CMU REGISTRAR

The Hongkong and Shanghai Banking Corporation Limited
Level 26, HSBC Main Building
1 Queen's Road Central
Hong Kong

LEGAL ADVISERS

To the Issuer as to Hong Kong law

Clifford Chance
27th Floor, Jardine House
One Connaught Place
Central
Hong Kong

To the Arrangers and the Dealers as to English law

Linklaters
11th Floor, Alexandra House
Chater Road
Central
Hong Kong

To the Issuer as to PRC law

JunHe LLP
28/F Tower Three, Kerry Plaza
No. 1-1 Zhongxinsi Road
Futian District
Shenzhen, China

To the Arrangers and the Dealers as to PRC law

King & Wood Mallesons
28th Floor, China Resources Tower
2666 Keyuan South Road, Nanshan District
Shenzhen, China

AUDITOR

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong