



Bank of Communications Co., Ltd.

2022 ANNUAL REPORT

Stock Code:03328



CREATE SHARED VALUE

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IMPORTANT REMINDERS

- I. The Board of Directors, the Board of Supervisors and Directors, Supervisors, Senior Management of the Bank are responsible for the authenticity, accuracy and completeness of the Annual Report, free of false records, misleading statements or material omissions and assume individual and joint legal responsibilities.
- II. The 2022 Annual Report and its summary of the Bank were reviewed and approved at the 6th Meeting of the 10th Session of the Board of Directors of the Bank on 30 March 2023. The number of directors who should attend the meeting was 16, with 15 directors attending the meeting in person. One director entrusted others to attend. Mr. Shi Lei, the Independent non-Executive Director, was unable to attend the meeting and presented a proxy in written for Ms. Li Xiaohui to attend the meeting and exercise the voting right for him.
- III. Mr. Ren Deqi, Chairman of the Bank, Mr. Liu Jun, Principal in charge of accounting and Mr. Chen Yu, Head of Accounting Department represent that they are responsible for the authenticity, accuracy and completeness of the financial statements in the Annual Report.
- IV. The Group's financial statements that were prepared in accordance with China Accounting Standards were audited by KPMG Huazhen LLP. Those prepared in accordance with International Financial Reporting Standards were audited by KPMG, both with unqualified auditor's reports issued.
- V. The proposal on profit distribution for the year of 2022 was reviewed by the Board of Directors: based on the total issued ordinary shares of 74.263 billion of the Bank as at the end of the Reporting Period, a cash dividend of RMB0.373 (including tax) per share would be distributed to registered shareholders of A share and H share, totalling RMB27.700 billion. There is no proposal on bonus share or proposal on conversion of capital reserve into share capital for the current year.
- VI. Prospective statements involved in the report, such as future plans and development strategies, do not constitute a substantive commitment of the Group to investors. Investors and stakeholders are required to keep sufficient risk awareness and understand the differences between plan, forecasting and commitment.
- VII. The Group's operation is mainly exposed to risks including credit risk, market risk, operational risk and compliance risk. The Group has taken and will continue to take various steps to effectively manage risks. For more details which requires investors' attention, please refer to the section of "Management Discussion and Analysis – Risk Management".

DEFINITIONS

The following terms will have the following meanings in this Report unless otherwise stated:

“Bank”, “BoCom”	Bank of Communications Co., Ltd.
“Group”	The Bank and its subsidiaries
“Ministry of Finance”	Ministry of Finance of the People’s Republic of China
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“SSF”	The National Council for Social Security Fund
“CHI”	Central Huijin Investment Ltd.
“PBOC”	The People’s Bank of China
“CBIRC”	China Banking and Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“Ministry of Agriculture and Rural Affairs”	The Ministry of Agriculture and Rural Affairs of the People’s Republic of China
“SSE”	The Shanghai Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	<i>The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited</i>
“Corporate Governance Code”	Appendix 14 <i>Corporate Governance Code</i> of Hong Kong Listing Rules
“Win to Fortune”	A corporate and interbank wealth management brand of the Bank, providing comprehensive one-stop wealth management solutions for corporate, government institutions and interbank financial customers through intelligent financial service and digital transformation.
“OTO Fortune”	A main brand of retail business of the Bank with the core value of “creating and sharing abundant wealth with noble virtue” devoted to realising value maintenance and appreciation of wealth for customers.
Personal Mobile Banking	A mobile APP providing online business processing and other services to personal customers of the Bank and covering a variety of financial products and life service needs of customers.
Corporate Mobile Banking	A portable and convenient channel providing online account opening, account enquiry, reconciliation management, transfer and payment, wealth management and investment, financial information, business signing and termination for corporate customers through APPs on mobile phones and tablet computers, with close and convenient channels.
Corporate Online Banking	An electronic transaction system of the Bank providing financial services such as account enquiry, corporate payment, cash management, international business, wealth management and investment and financial services for corporate customers through the Internet.
“BoCom Credit Card Official APP”	A one-stop digital service platform of finance and life for all customers.
“Benefit Loan”	An online credit consumption loan product of the Bank for qualified customers.
“Inclusive e-Loan”	An online inclusive financing business of the Bank for qualified customers.
“Xingnong e-Loan”	An online financing service of the Bank for agricultural business entities.
Cloud BoCom	An online and offline service brand, practicing the service concept of “institution online, employee online, product online, and service online”, building a “cloud outlet, cloud teller, and cloud butler” system based on remote video services, meeting customers’ online and digitalised service needs through a new mode of online service as screen-to-screen service.

GENERAL INFORMATION

I. CORPORATE INFORMATION

Chinese name: 交通銀行股份有限公司
 Chinese abbreviation: 交通銀行
 English name: Bank of Communications Co., Ltd.

Legal representative: Ren Deqi
 Authorised representatives: Ren Deqi, Zhou Wanfu (temporary)
 Secretary of the Board of Directors and Company Secretary: Zhou Wanfu (temporary)

Registered address: 188 Yin Cheng Zhong Lu, (Shanghai)
 Pilot Free Trade Zone, PRC

Contact and address: 188 Yin Cheng Zhong Lu, Pudong New District, Shanghai

Postal code: 200120
 Tel: 86-21-58766688
 Fax: 86-21-58798398
 E-mail: investor@bankcomm.com
 Official website: www.bankcomm.com,
 www.bankcomm.cn

Principal place of business in Hong Kong: 20 Pedder Street, Central, Hong Kong

Information Disclosure Channels and Places Where the Annual Report is Available

A share: *China Securities Journal, Shanghai Securities News, Securities Times* and website of the SSE at www.sse.com.cn
 H share: Website of HKEX News at www.hkexnews.hk
 Places where the annual report is available: Board of Directors Office of the Bank and principal business locations

Information of Shares

Classes	Stock exchange	Stock name	Stock code
A Share	Shanghai Stock Exchange	Bank of Communications	601328
H Share	The Stock Exchange of Hong Kong Limited	BANKCOMM	03328
Domestic Preference Share	Shanghai Stock Exchange	BOCOM PREF1	360021

Domestic auditor: KPMG
 Huazhen LLP 8/F, Office Tower
 E2, Oriental Plaza, 1 East Chang
 An Avenue, Dongcheng District,
 Beijing, PRC

Name of auditor signed: Shi Haiyun, Li Li

International auditor: KPMG
 Registered Public Interest Entity Auditor
 8/F, Prince's Building, 10 Chater
 Road, Central, Hong Kong, PRC

Name of auditor signed: Chan Siu Tung Thomas

PRC legal advisor: AllBright Law Offices

Hong Kong legal advisor: DLA Piper Hong Kong

Share Registrar and Transfer Office

A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
 No. 188 South Yanggao Road, Pudong New District, Shanghai, P.R. China
 H Share: Computershare Hong Kong Investor Services Limited
 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Other Information

Unified social credit code: 9131000010000595XD

II. COMPANY PROFILE AND PRINCIPAL ACTIVITIES

Founded in 1908, the Bank is one of banks with the longest history in modern China. The Bank reopened after reorganisation on 1 April 1987 and became the first nationwide state-owned joint-stock commercial bank in China, with Head Office located in Shanghai. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007. In 2022, the Bank ranked 10th among global banks in terms of tier-1 capital.

The strategic goal of the Bank is to “build a world-class banking group with business features and advantages”. During the “14th Five-Year Plan” period, the Bank adhered to promoting the “One-Four-Five” Strategy, the Bank was led by the strategic goal, created four business features: inclusive finance, trade finance, sci-tech finance and wealth finance and took “green” as the background color of the operation and management of the Group’s business. The Bank promoted five professional capabilities: customer operations, technology empowerment, risk management, cooperative operation, resource allocation. During the implementation of the strategy, the Bank focused on two key areas: “Shanghai Base” construction and digital transformation, and took the lead in achieving innovative breakthroughs, demonstrated and led high-quality development of the whole bank.

With the mission of “Creating Shared Value”, the Bank committed to the value growth and harmonious development of customers, shareholders, employees and the society.

Upon approval by the CBIRC, the Bank provides comprehensive financial services including deposits and loans, supply chain finance, cash management, international settlement and trade financing, investment banking, asset custody, wealth management, bank cards, private banking, treasury businesses, etc. for 2.46 million corporate customers and 190 million retail customers through online service channels such as mobile banking and online banking, as well as over 2800 domestic outlets and 23 overseas branches (subsidiaries) and representative offices. The Group is involved in businesses such as financial leasing, fund, wealth management, trust, insurance, overseas securities, and debt-to-equity swap through wholly-owned or controlling subsidiaries.

As a large state-owned banking group with a long history, the bank will always keep in mind the “country’s most fundamental interests”, maintain strategic stability, practice the concept of “providing finance for the people”, strengthen comprehensive risk controls, strive to provide high-quality services to our customers, create more value for shareholders, build a happy home for employees, and make greater contributions to society.

During the Reporting Period, the Group’s operating mode, primary businesses and key performance drivers had no significant change.

HONOURS AND REWARDS

TOP 10

Top 1000 World Banks 2022
(ranked 10)
The Banker (UK)

Best Cash Management Bank, China

The Asset

Top 10 Transaction Banking Innovation Award

The Banker

First prize of FinTech Development Award

The People's Bank of China

Innovation Achievement award

Ministry of Industry and Information Technology of the People's Republic of China

Digital Pioneer Enterprise Award

Tencent

Best Custodian, Pension, China

The Asset

The 17th People's Enterprise Social Responsibility Award – Annual Enterprise Award
The 19th People's Ingenuity Award – Ingenuity Service Award

People. cn

MSCI ESG Rating Grade A

Morgan Stanley Capital International

TOP 155

Fortune Global 500 – 2022
(ranked 155)
Fortune (USA)

Bank of Communications Financial Leasing Co., Ltd.

"Class A Institution" in the Comprehensive Evaluation of Shanghai Banking Institutions
The People's Bank of China, Shanghai headquarters

Best Financial Leasing Company of the Year
Global Leasing Industry Competitiveness Forum

Outstanding Achievement Award for China Financial Leasing
China International Finance Forum

Bank of Communications Schroder Fund Management Co., Ltd.
Golden Bull Fund Management Company

China Securities Journal

Golden Fund Top Company Award
Shanghai Securities Journal

Top 10 Star Fund Company Award
Securities Times

BOCOM Wealth Management Co., Ltd.

The Golden Shell Award on Excellent Wealth Management Company in 2022

21st Century Business Herald

Golden Bull Award on Bank Wealth Management Company

China Securities Journal

Bank of Communications International Trust Co., Ltd.
Integrity Trust · Excellent Company Award

Shanghai Securities News

Excellent Risk Management Trust Company of the Year

Securities Times

BOCOM MSIG Life Insurance Company Limited
Excellent Pension Services Provider of the Year

National Business Daily

Gold Medal Insurance Product Ark Award
Securities Times

FINANCIAL HIGHLIGHTS

KEY FINANCIAL DATA AND FINANCIAL INDICATORS

As at the end of the Reporting Period, key financial data and financial indicators prepared by the Group under International Financial Reporting Standards (the “IFRSs”) are as follows:

Items	2022	2021	2020	2019	2018
Full year results					(in millions of RMB)
Net interest income	169,937	161,693	153,336	144,083	130,908
Net fee and commission income	44,639	47,573	45,086	43,625	41,237
Net operating income	273,528	269,748	246,724	232,857	213,055
Credit impairment losses	60,411	66,371	62,059	51,954	43,454
Operating expenses	76,825	74,545	66,004	66,560	64,040
Profit before tax	98,215	93,959	86,425	88,200	86,067
Net profit (attributable to shareholders of the Bank)	92,149	87,581	78,274	77,281	73,630
As at the end of the year					(in millions of RMB)
Total assets	12,992,419	11,665,757	10,697,616	9,905,600	9,531,171
Loans and advances to customers ¹	7,296,155	6,560,400	5,848,424	5,304,275	4,854,228
Total liabilities	11,956,679	10,688,521	9,818,988	9,104,688	8,825,863
Due to customers ¹	7,949,072	7,039,777	6,607,330	6,072,908	5,793,324
Shareholders' equity (attributable to shareholders of the Bank)	1,023,409	964,647	866,607	793,247	698,405
Per share					(in RMB)
Earnings per share (attributable to the ordinary shareholders of the Bank) ²	1.14	1.10	0.99	1.00	0.96
Net assets per share (attributable to ordinary shareholders of the Bank) ³	11.43	10.64	9.87	9.34	8.60
Key financial ratios					(%)
Return on average assets	0.75	0.80	0.77	0.80	0.80
Return on weighted-average shareholders' equity ²	10.33	10.76	10.35	11.20	11.36
Net interest margin ⁴	1.48	1.56	1.57	1.58	1.51
Cost-to-income ratio ⁵	28.14	27.67	26.81	28.63	30.11
Non-performing loan ratio	1.35	1.48	1.67	1.47	1.49
Provision coverage ratio	180.68	166.50	143.87	171.77	173.13
Capital adequacy ratios					(in millions of RMB unless otherwise stated)
Net capital ⁶	1,250,317	1,139,957	1,021,246	911,256	817,549
Including: Net core tier-1 capital ⁶	840,164	783,877	727,611	689,489	634,807
Other tier-1 capital ⁶	176,480	176,348	134,610	100,057	60,025
Tier-2 capital ⁶	233,673	179,732	159,025	121,710	122,717
Risk-weighted assets ⁶	8,350,074	7,379,912	6,695,462	6,144,459	5,690,542
Capital adequacy ratio (%) ⁶	14.97	15.45	15.25	14.83	14.37
Tier-1 capital adequacy ratio (%) ⁶	12.18	13.01	12.88	12.85	12.21
Core tier-1 capital adequacy ratio (%) ⁶	10.06	10.62	10.87	11.22	11.16

Notes:

1. Loans and advances to customers do not include interest receivable on related loans. Due to customers includes interest payable of related deposits.
2. Calculated pursuant to the requirements of *Regulations on the Preparation of Information Disclosure for Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision)* issued by the Securities Regulatory Commission (the “CSRC”).
3. Refer to shareholder’s equity attributable to the ordinary shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares as at the end of the period.
4. Represented the ratio of net interest income to total average interest-bearing assets.
5. Calculated pursuant to China Accounting Standards, as business and management fees divided by operating income, which is consistent with the financial report under China Accounting Standards. Comparative data has been restated in accordance with the current position.
6. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (for Trial Implementation)* by the China Banking and Insurance Regulatory Commission (the “CBIRC”).

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS



Ren Deqi

Chairman

The year 2022 was an extraordinary year. The 20th CPC National Congress was successfully held, and policymakers drew up an ambitious blueprint for the comprehensive advancement of the country through Chinese modernisation. In the context of changes unseen in a century and dramatic changes in the external environment, the global economy and financial markets faced many challenges. During the year, Bank of Communications effectively structured its business development and carried out epidemic prevention and control. We also focused on the three major financial tasks in an effort to make ongoing progress and quality improvements while maintaining stability, and we achieved our annual business targets. The Board of Directors recommended a distribution of cash dividends of RMB0.373 (before tax) per share, totalling RMB27.7 billion, which represents 32.72% of the net profit attributable to holders of ordinary shares of the parent company.

In the past 10 years of the new era, we have significantly enhanced the scale and strength of our business, steadily improved the quality of our business, and maintained our value creation capabilities, while working in line with national strategies. By the end of 2022, the Bank's asset size amounted to nearly 13 trillion, and our tier-1 capital ranking had climbed to a 10th-place ranking globally, reflecting our status as a large world-class bank with robust capital strength. Nevertheless, we still lag behind the world's leading banks, which presents us with what we view as an extraordinary opportunity to catch up and surpass them. In 2022, the Board revised and improved our development outline under the "14th Five-Year Plan" to finetune the direction of our business in view of economic development, the depth of our resources and our actual needs. On the basis of maintaining strategic stability and continuity, we aim to establish a world-class banking group with distinctive features in the medium and long term by delivering excellent products and outstanding brands, pursuing innovation and engaging in modern governance. In this way, we will deliver long-term shared value for our shareholders and other relevant parties.

We understand that **the successful implementation of our strategies hinges on keeping up with trends and creating business features**, and we have deeply integrated our business strategy with national plans for a new development pattern and Chinese modernisation. To this end, the Bank has proposed creating four business features: "inclusive finance, trade finance, sci-tech finance and wealth finance", with "green finance" serving as the underlying foundation of the Group's business operations and development. We have focused on enhancing the coverage and availability of financial services, extensively developing retail credit and serving inclusive small and micro enterprises. In addition, we have aligned our operations with the development trend "dual-circulation", and we have developed trade finance to enhance customer loyalty. The Bank has played its role in developing a country with strong technology and manufacturing sectors, and we have cultivated an integrated sci-tech finance services system for commercial and investment banking. Meanwhile, the Bank has developed its wealth management business in an effort to seize opportunities brought about by the country's shared prosperity, and we have improved our "full chain" wealth finance system. In 2022, the Bank made progress in creating the four business features, with growth rates of over 30% in inclusive small and micro loans, consumer loans, industrial chain finance business and loans to strategic emerging industries, reflecting the continued optimisation of our credit structure. The clientele and scale of our wealth management business grew steadily, and our pension clientele grew rapidly. At the same time, the Bank provided more green financial services, with the balance of green loans and the underwritten amount of green bonds increasing by 33% and 46% respectively over the previous year.

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS

We understand that **the implementation of strategies requires breakthroughs based on a depth of resources**. To this end, we aim to achieve innovative breakthroughs in two key areas: the construction of the “Shanghai Base” and digital transformation. We have made full use of our home base in Shanghai and seized the major opportunities brought about by Shanghai’s development as an international financial centre and the integrated development of the Yangtze River Delta. We explored all-round innovation in products, processes and institutional mechanisms and designated Shanghai as the functional area for the Group’s innovation and resource planning, while also leveraging successful experiences gained in Shanghai in other regions to improve the Group’s high-quality development. In 2022, the Shanghai base’s contribution and visibility steadily increased, and we began to see results in our pursuit of innovation in strategic key areas through the “One thing” mechanism. The Bank also continued to invest more resources and build up its talent pool to facilitate the construction of the New Digital BoCom. We firmly put forward the vision “Platform, Open, Wise, Enterprise, Reinvest” for FinTech development, and integrated digital thinking and digital operations throughout all of the Bank’s operations and management processes. Over the past three years, the Bank’s investment in technology has grown at an average annual rate of almost 30%, and the Bank’s number of FinTech personnel has increased by nearly 70% compared to three years ago as a result of the launch of the 10,000 FinTech Talents Programme. In 2022, we steadily pursued digital transformation by achieving breakthroughs in retail transformation, supply chain finance and the financial ecosystem. Meanwhile, we actively promoted “online institutions, online employees, online products and online services”, and comprehensively enhanced our online and digital business operations and internal management capabilities. In addition, the Bank successfully launched the two pilot projects for retail credit and B2B payment enterprise architecture, and we made significant progress in building the middle office and enterprise architecture, which has begun supporting the Bank’s business innovation.

We understand that **the implementation of strategies requires a foundation of sound business operations that move across economic cycles**. Only banks that have stood the test of economic cycles are well positioned to create shared value. We cultivated a robust risk culture and risk control strategy, accelerated the improvement of the Group’s unified risk management system, strengthened risk measurement and monitoring, and continued the digital transformation of risk management. We also improved the Bank’s regular and systematic inspection mechanism and carried out comprehensive risk screening in key areas. Furthermore, after three years, the Bank succeeded in its battle for asset quality, with the non-performing loan ratio at the end of 2022 dropping to the lowest level since 2015 as a result of the Bank’s ongoing effort to “control newly-added NPLs and optimise existing NPLs”.

We also understand that **as a major state-owned bank, we must actively fulfill our social responsibilities and demonstrate our commitment to our communities**. To this end, we made over 60 million in charitable donations in 2022, with a focus on supporting poverty alleviation and rural revitalisation, and long-term public welfare projects. We continued to strengthen the protection of consumer rights and interests, and we achieved first-place rankings in both relevant evaluations respectively conducted by the People’s Bank of China and the China Banking and Insurance Regulatory Commission.

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS

In 2022, the Board of Directors successfully completed its general election and formed the 10th session of the Board of Directors. We have formed new special committees to fully leverage the professional expertise of our directors and ensure that the special committees are fully fulfilling their advisory role. We would like to express our sincere gratitude to the 9th session of the Board of Directors for their hard work and dedication. Meanwhile, we systematically revised our Articles of Association and other mechanisms in accordance with regulations, legislation and other requirements to further clarify the boundaries of the responsibilities of various governance bodies and improve decision-making, thus further improving our corporate governance system.

In 2023, the global landscape will remain complex and challenging, with weakening growth momentum in the world economy and increased risks in global financial markets. The foundation of China's economic recovery is not yet solid, and the triple pressures remain high. Nevertheless, China's economy is characterised by strong resilience, huge potential and sufficient vitality. The country's long-term positive economic fundamentals have not changed, and China's commercial banks are currently developing in a period that presents both strategic opportunities and various challenges. Based on the mission of serving the high-quality development of the real economy, the Bank will maintain its strategic determination and facilitate the creation of business features, while further leveraging the advantages of the "Shanghai Base". Going forward, we will also continue to promote the construction of the New Digital BoCom, improve risk control, and optimise and enhance the Bank's business quality, efficiency, scale and structure, with the ultimate goal of sharing the results of our reform and development with customers, shareholders, employees and other relevant parties.

Those who make changes based on the norm will succeed, and those who uphold integrity and make innovation will advance. In this new year, we will focus on our primary task of serving Chinese modernisation and move forward persistently to achieve our established goals, so as to make a greater contribution to strengthening the country and supporting the pursuit of national revitalisation.

STATEMENT FROM THE PRESIDENT



Liu Jun

President

During the past year, despite the severe and complex external environment and multiple unexpected factors, the Bank of Communications achieved fruitful results in high-quality development and pushed our quality, structure, scale and efficiency to a new level, thanks to the unwavering support of our shareholders and customers, as well as the cohesive and diligent work of our colleagues. At the end of 2022, the Group's total assets increased by 11.37% over the end of the previous year to 12.9924 trillion, and net profit attributable to the parent company increased by 5.22% on a year-to-year basis to 92.149 billion. Meanwhile, the Group's non-performing loan ratio decreased by 0.13 percentage point over the end of the previous year to 1.35%, and the provision coverage ratio increased by 14.18 percentage points over the end of the previous year to 180.68%. We are pleased to see that our A-share and H-share stock prices increased by 10.58% and 3.25% respectively, compared with the end of the previous year. In addition, the Group's tier-1 capital made it into the top 10 of *The Banker's* Top 1000 World Banks list for the first time. These achievements not only represent our strong market position, but also reflect that investors expect the Bank of Communications to deliver higher quality development in the future.

During the year, in order to serve the country's most fundamental interests, we were committed to fully leveraging our financial strength to accurately and efficiently drive the development of the real economy.

We firmly believe that the idea of finance serving the real economy cannot be simply interpreted using “zero-sum thinking” or implemented by offering “interest concessions”. Based on the idea that finance represents the “lifeblood of the real economy”, we have been making core resource investments that align with national strategic plans and the people’s urgent requirements and expectations, with the goal of continuously delivering stable, step-by-step support for Chinese-style modernisation. At the end of 2022, the balance of various RMB loans of domestic branches was 6,848.3 billion, representing an increase of 786.7 billion or 12.98% over the end of the previous year, and the highest balance in nearly a decade. During the year, we provided high-level financial services to support the construction of a modern industrial system, with the growth rates of the Group’s strategic emerging industry loans and green finance loans reaching 109.88% and 33.28% respectively. Meanwhile, medium and long-term loans for manufacturing and high-tech manufacturing increased by 57.72% and 129.82% respectively. We took various measures to promote the scale and quality of inclusive financial services. The Group opened its Tibet Autonomous Region branch smoothly and on schedule, which filled our service gap in the country’s snow-capped plateau; and we comprehensively improved our digital operations and reach capabilities in respect of long-tail customers, allowing us to help various enterprises solve their “worries” and “immediate difficulties”. In addition, we further upgraded the Group’s financial service system for rural revitalisation, resulting in the balance of full agriculture-related loans increasing by 143.1 billion during the year.

During the year, we actively promoted the construction of the New Digital BoCom, and accelerated the dynamic transformation of value creation. We firmly believe that science and technology is not just an empowering tool or addition for finance, but a revolutionary opportunity to re-create and reshape operations. We have strengthened top-level design to accelerate the overall improvement of the Group’s FinTech capabilities. Specifically, we devised a FinTech development plan for the 14th Five-Year Plan period, which includes plans to launch the group’s digital transformation, as well as a unified and clear FinTech development blueprint. In addition, we are planning to implement the “three centres and five branches” R&D matrix. Using this model, the Group will be able to systematically promote the construction of enterprise-level architecture and a middle office for data, marketing, risk control and operations; build and optimise an intensive, intelligent customer service ecosystem; and gradually consolidate the foundation of the Group’s digital technology. Meanwhile, we will continue to integrate business with technology by opening up new scenarios. The Bank made full use of cutting-edge innovation scenarios in its Shanghai Base, expanded the application coverage of the “One Thing” model, and realised a cumulative increase of 41.92% in industry chain finance. The Group launched the “One Thing” medical payment platform in 29 provincial branches across the country; achieved “full coverage” of the “Jiao Zheng Tong” service across network outlets in the Yangtze River Delta region; and launched Personal Mobile Banking 7.0 and the new version of its Enterprise Online Banking service. The number of standard transceiver customers in the Group’s RMB cross-border payment system ranked first in the market; and the Bank contributed its high-efficiency, low-cost and highly scalable cross-border payment “BoCom Solutions” to the Multilateral Central Bank Digital Currency Bridge project (mCBDC Bridge).

During the year, we successfully tackled issues related to asset quality, strengthened our capabilities, and progressed in our development cycle and long-term journey. We firmly believe that risk management is the Bank's most important tool for smoothing out cyclical fluctuations and driving sustainable development. Based on this core value, starting in 2020, the Bank of Communications initiated a three-year "battle" against asset quality issues. During the past three years, increasing downward pressure on the macro-economy and the outbreak of the pandemic have brought great challenges to the prevention and control of financial risks. Nevertheless, during this time, we overcame various unfavourable factors, firmly implemented the strategy of "controlling additions of new loans and optimising existing loans", and ultimately succeeded in our three-year effort to improve asset quality. At the end of 2022, the Group recorded a non-performing loan ratio of 1.35% and an overdue loan rate of 1.16%, representing the lowest levels for both since 2015, and our provision coverage ratio rose to 180.68%. This marked improvement in asset quality indicators demonstrates the significant progress we have made in boosting the Bank's risk management capabilities. In recent years, the Group has improved the comprehensiveness of its unified risk management system. For example, the Group's "three sets of accounts (general ledger, detailed ledger, journal) are consolidated for accounting treatment" to address risks in the head office and branches, domestically and abroad, and on and off the balance sheet; the Bank has initially established a risk "barrier" for full-chain prevention and control, whole-process management and all-round supervision; and the Bank has significantly improved its digital risk management capabilities and fully promoted the construction of an enterprise-level supervision system, special list system and anti-money laundering system. These systems have helped lay a solid foundation for the Group's high-quality development.

2023 outlook: Upholding integrity and innovation, and seeking progress based on stability

2023 is the first year in which the spirit of the 20th National Congress of the Communist Party of China will be fully implemented. At present, regulators are implementing the "double-hundred action", and enterprises have been instructed to "simultaneously deal with the slowdown in economic growth, make difficult structural adjustments, and absorb the effects of the previous economic stimulus policies", while also weathering the "three pressures of demand contraction, supply shock and weakening expectations". As a result, we now face a business environment that is far more complex than in the past. As we press on in pursuit of the Group's goals, we will closely adhere to the main line of "high-quality" development, the fundamental principle of serving the real economy and the orientation of value creation; and use market-oriented thinking to comprehensively test and shape the features and style of the Bank's high-quality development. In this way, we will be able to effectively improve the quality and quantity of growth, advance along the path of financial development with Chinese characteristics, and offer greater support for Chinese-style modernisation.

Strengthening the resilience of operating fundamentals. The stronger the winds and the waves, the more necessary it is to anchor the target and stay the course. According to the principle of “stabilising growth, employment and prices”, we will continue to implement policies and measures to stabilise the economy, identify the interface between the strategies of expanding domestic demand and deepening supply-side structural reform, and continue to increase the Group’s supply of high-quality financial services, with a view to improving our economic operations and pursuing high-quality development. We will serve the key areas and weak sections of economic and social development, actively support the construction of a modern industrial system, aid in the basic reengineering of traditional industries and the upgrading of industrial chains, proactively play our role in expanding domestic demand and promoting common prosperity, and increase the supply of financial services in the key areas of inclusive finance, private enterprises, rural revitalisation and people’s livelihoods. In view of deep-rooted contradictions in areas such as customer structure and business structure that have plagued the Bank of Communications for a long time, we will focus on addressing key areas; concentrate on tackling difficult issues; accelerate the development of the four major business lines of inclusive finance, trade finance, sci-tech finance and wealth finance; highlight the foundational nature of green finance; continue to promote retail transformation and digital transformation; and reinforce the innovation breakthroughs that have been made at the Shanghai base and implement them across other areas of the Bank. Through these efforts, we will be able to accelerate our development into a world-class banking group with unique advantages. By adhering to bottom-line thinking, bearing in mind limits, coordinating traditional and non-traditional defences, and accurately managing our risk response, we will build an automated, real-time, precise and agile comprehensive risk management system, and thereby cultivate an “endogenous” risk management culture and capability.

Building momentum to achieve success. Only innovators are able to move forward, stand out and succeed. We will take the initiative to connect with the new entities, business models and needs that are emerging from the process of Chinese-style modernisation; and we will continue to deepen the implementation of strategies, forge core competitive advantages, and pursue a balanced business structure that makes our business development more resilient. Going forward, the Group will explore the latest basic technology architectures; adopt the mid-to-high-end service model; provide a supply of innovative, sophisticated products; and establish a “Great Wealth-Great Asset Management-Great Investment Bank” business service chain. In this way, we can gain a better understanding of our customers and respond to their balance sheet needs, while also creating an excellent customer journey experience. Furthermore, we will also pursue multi-dimensional digital transformation covering the Bank’s value system, customer service, and business processes; continue to open up new scenarios both vertically and horizontally; explore the use of technology to connect with a wider range of peers in the financial sector; promote the co-construction and value sharing of G-end, B-end, C-end, and F-end platforms; and demonstrate the Bank’s outstanding value creation capabilities.

At the Bank of Communications, we believe that small but continuous steps can lead to great results; that fortune rewards the diligent; and that those who master themselves will excel. We will bear these truths in mind as we forge ahead.

STATEMENT FROM CHAIRMAN OF THE BOARD OF SUPERVISORS



Xu Jiming

Chairman of the Board
of Supervisors

Recently, we have been looking back at days gone by and looking forward to the new epoch that is approaching. The year 2022 marked an extremely important year in the history of the Party and the country. During the year, the Bank adhered to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, thoroughly studied and implemented the spirit of the 20th National Congress of the Communist Party of China, and raised the quality and efficiency of operations and management to a new level. In 2022, the Board of Supervisors took a proactive role in performing its supervisory duties faithfully, diligently, efficiently, accurately and pragmatically, helping the Bank to more effectively modernise its corporate governance.

Closely integrate with national development and deeply cultivate strategic supervision. We have firmly positioned the main thrust of our work within the framework of national strategic deployment; proactively focused on offering financial support for technology innovation, green development, the people's livelihood and other key areas of the real economy; and strived to improve the quality and effectiveness of weak sectors. In addition, we have carried out special research on the coordinated development of Beijing, Tianjin and Hebei, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and Hainan Free Trade Port. In these ways and more, we are steadily working to drive the implementation of national strategies and plans. Meanwhile, we have aligned the focus of our supervision with the Bank's development strategy, cultivated the strategic advantages of the "Shanghai Base", formulated, implemented and evaluated the Bank's strategy in an orderly manner, and supervised the implementation of other related work.

Establish a work mechanism for the "three special areas" to improve the quality and efficiency of supervision.

We have formed an integrated supervision model covering special research, specialist seminars and special trainings, with a focus on core supervisory duties in respect of strategy, risk and internal control, and financial compliance, among other areas. For the six key projects identified, we conducted special research at the grassroots level, and then held specialist seminars and special trainings to strengthen our capabilities and further enhance precise supervision. Meanwhile, we proposed constructive and targeted supervision opinions and recommendations and submitted them to the Board of Directors and senior management. Ultimately, the results of our supervision were effectively adopted, and the Bank's supervisory operations were reasonably transformed.

Continue to optimise operations and reinforce the foundation for the performance of duties. We optimised the rules of procedure and other systems of the Board of Supervisors, carried out the leadership transition for the Board of Supervisors, exercised supervision over and conducted evaluations of the performance of duties, and took multiple measures to ensure full coverage of supervisory duties, laying a solid foundation for the compliant and efficient performance of duties.

We are determined to keep moving forward, and we won't stop until we achieve our goals. In 2023 and beyond, the Board of Supervisors will always bear in mind the "purpose of serving the country's most fundamental interests", further improve the effectiveness of supervision based on the Board's core duties, and work together with all parties that are involved in corporate governance to jointly promote the high-quality development of the Bank of Communications.

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I. ECONOMIC AND FINANCIAL ENVIRONMENT

Despite the complex and severe situation at home and abroad as well as multiple unexpected factors in 2022, China managed to efficiently coordinate the pandemic prevention and control with the socio-economic development, accelerated the implementation of a package of policies and successive measures to stabilise the economy, ensured adequate supply to stabilise the market price and reinforced relief policies to further support enterprises, thanks to the strong leadership of the CPC Central Committee. Under such circumstances, industrial production was generally stable, the total economic volume reached a new level, and the annual GDP exceeded RMB120 trillion for the first time. Meanwhile, new achievements were made in terms of high-quality development, high-tech manufacturing and other industries developed rapidly, modern service industry grew at a good pace, food production hit a record high, employment and prices remained stable, and people's livelihoods were firmly guaranteed.

Stable monetary policy and prudent regulatory environment helped to enhance the quality and effectiveness of financial services to the real economy. During the Reporting Period, the PBOC lowered the deposit reserve ratio twice and guided the loan market quotation rate (LPR) down to ensure abundant market liquidity and promote the reduction of corporate financing costs. The PBOC continuously leveraged the structural monetary policies to improve the inclusive financial services for small and micro enterprises, sci-tech innovation and other key areas, while expanding the financing support for infrastructure and key projects through policy-based financial instruments, special refinancing for equipment renewal and transformation, and other incremental tools. The PBOC also improved the macro-prudential management of real estate finance so as to better meet reasonable housing credit needs, and drive the stable and healthy development of real estate market. Furthermore, with the improvement of regulatory framework for financial institutions, the PBOC assessed and identified a total of 19 domestic systemically important banks, for which additional supervision shall be performed continuously. Besides, the market-based principle and rule of law shall be applied to the disposal of risk events, for the purpose of ensuring the overall sound operation of banking financial institutions.

The banking industry continuously strengthened support for the real economy, with increased loan investments under the premise of prudent operation. The credit structure was consistently optimised, with expanded medium- and long-term loans for the manufacturing industry and inclusive loans to micro and small enterprises, as well as stronger financial supply for those key areas such as sci-tech innovation, green and low-carbon, and modern agriculture. The loan interest rates were relatively stable but slightly declined, and thus the weighted average interest rate of loans was kept at a historically low level, as such, banking financial institutions were pushed to boost the real economy by offering reasonable interest concessions.

II. FINANCIAL STATEMENT ANALYSIS

During the Reporting Period, the Group strictly carried out the decisions and arrangements by the CPC Central Committee. It continued to adhere to the general work keynote of making progress while remaining stability. The Group also fully implemented the overall requirements of “preventing the epidemic, stabilising the economy and coordinating development with safety” and continuously executed the three major financial tasks to keep and consolidate “the development status of maintaining stability with progress made and quality improved”.

Focus on value creation with stable profitability. During the Reporting Period, the Group’s net profit (attributable to shareholders of the Bank) amounted to 92.149 billion, representing a year-on-year increase of 5.22%; the Group’s net operating income amounted to 273.528 billion, representing a year-on-year increase of 1.40%; the net interest margin stood at 1.48%. The return on average assets stood at 0.75%. The return on weighted average net assets stood at 10.33%.

Increase asset allocation to serve the real economy. As at the end of the Reporting Period, the total assets of the Group increased by 11.37% over the end of the previous year to 12.99 trillion, of which, the balance of the Group’s loans and advances to customers increased by 735.8 billion or 11.22% over the end of the previous year to 7.30 trillion, representing a year-on-year increase of 23.8 billion; the balance of bond investment increased by 395.4 billion or 13.09% over the end of the previous year to 3.42 trillion, representing a year-on-year increase of 161.8 billion.

Build a strong safety base to solidify the foundation of risk management. The Bank gained remarkable results from the battle for asset quality. As at the end of the Reporting Period, non-performing loan ratio of the Group was 1.35%, representing a decrease of 0.13 percentage points over the end of the previous year. Provision coverage ratio was 180.68%, representing an increase of 14.18 percentage points over the end of the previous year. Overdue loan ratio was 1.16%, representing a decrease of 0.17 percentage points over the end of the previous year.

(I) Analysis on Key Income Statement Items

1. Profit before tax

During the Reporting Period, the Group’s profit before tax increased by 4.256 billion on a year-on-year basis, representing an increase of 4.53% to 98.215 billion. The increase of profit was mainly derived from the year-on-year increase of net interest income and the year-on-year decrease of credit impairment losses. During the Reporting Period, the Group’s net interest income increased by 8.244 billion or 5.10% on a year-on-year basis. Credit impairment losses decreased by 5.96 billion or 8.98% on a year-on-year basis.

The selected items from the income statement of the Group during the periods indicated are shown below:

(in millions of RMB unless otherwise stated)

	2022	2021	Increase/ (decrease) (%)
Net interest income	169,937	161,693	5.10
Net non-interest income	103,591	108,055	(4.13)
Including: Net fee and commission income	44,639	47,573	(6.17)
Net operating income	273,528	269,748	1.40
Credit impairment losses	(60,411)	(66,371)	(8.98)
Impairment losses on other assets	(1,897)	(2,320)	(18.23)
Insurance business expense	(19,380)	(17,054)	13.64
Other operating expenses	(93,625)	(90,044)	3.98
Including: Operating expenses	(76,825)	(74,545)	3.06
Profit before tax	98,215	93,959	4.53
Income tax	(6,185)	(5,020)	23.21
Net profit	92,030	88,939	3.48
Net profit attributable to shareholders of the Bank	92,149	87,581	5.22

The breakdown of the net operating income of the Group during the periods indicated is shown below:

(in millions of RMB unless otherwise stated)

Item	2022		Increase/ (decrease) on a year-on-year basis (%)
	Amount	Proportion (%)	
Net interest income	169,937	62.13	5.10
Net fee and commission income	44,639	16.32	(6.17)
Net gains arising from trading activities	17,607	6.44	(24.58)
Net gains arising from financial investments	494	0.18	(62.32)
Net share of profits of associates and joint ventures	292	0.11	5.42
Insurance business income	18,100	6.62	9.60
Other operating income	22,459	8.20	17.99
Total net operating incomes	273,528	100.00	1.40

2. Net interest income

During the Reporting Period, the Group's net interest income increased by 8.244 billion on a year-on-year basis to 169.937 billion, accounting for 62.13% of the net operating income, which was a major component of the Group's income. During the Reporting Period, the Group made every effort to increase its financial support for the real economy and people's livelihood by continuously increasing the proportion of loans to customers, while at the same time, in response to the trend of time deposits actively. It offset some of the upward pressure on costs by adjusting and optimising the internal structure of liabilities, driving a year-on-year increase in net interest income.

FINANCIAL STATEMENT ANALYSIS

The average balances, associated interest income and expenses and average rate of return or average rate of cost of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated are shown below:

(in millions of RMB unless otherwise stated)

	From January to December 2022			From January to December 2021		
	Average balance	Interest income/(expense)	Average rate of return/(cost) (%)	Average balance	Interest income/(expense)	Average rate of return/(cost) (%)
Assets						
Cash and balances with central banks	766,989	11,020	1.44	780,069	10,699	1.37
Due from and placements with banks and other financial institutions	853,328	17,886	2.10	737,444	12,266	1.66
Loans and advances to customers	6,934,959	291,905	4.21	6,154,222	266,419	4.33
Investment securities	2,954,940	97,311	3.29	2,716,367	88,262	3.25
Interest-bearing assets	11,510,216	418,122	3.63	10,388,102	377,646	3.64
Non-interest-bearing assets	1,103,261			1,018,481		
Total assets	12,613,477			11,406,583		
Liabilities and Shareholders' Equity						
Due to customers	7,466,070	163,457	2.19	6,708,100	140,982	2.10
Due to and placements from banks and other financial institutions	2,114,882	44,696	2.11	1,982,978	38,581	1.95
Debt securities and others	1,415,962	40,032	2.83	1,270,806	36,390	2.86
Interest-bearing liabilities	10,996,914	248,185	2.26	9,961,884	215,953	2.17
Shareholders' equity and non-interest-bearing liabilities	1,616,563			1,444,699		
Total liabilities and shareholders' equity	12,613,477			11,406,583		
Net interest income		169,937			161,693	
Net interest spread¹			1.37			1.47
Net interest spread²			1.48			1.56
Net interest spread^{1, 3}			1.58			1.68
Net interest margin^{2, 3}			1.69			1.77

Notes:

1. Represented the difference between the average rate of return on total average interest-bearing assets and the average rate of cost of total average interest-bearing liabilities.
2. Represented the ratio of net interest income to total average interest-bearing assets.
3. Taken into account the tax exemption on the interest income from bond investment.

During the Reporting Period, the Group's net interest income increased by 5.10% on a year-on-year basis. The net interest spread was 1.37%, representing a decrease of 10 basis points on a year-on-year basis. The net interest margin decreased by 8 basis points on a year-on-year basis to 1.48%.

The table below shows the net interest spreads and net interest margin of the Group for each quarter of the period indicated:

(%)	2022			
	January-March	April-June	July-September	October-December
Net interest spread	1.48	1.39	1.36	1.29
Net interest margin	1.56	1.49	1.46	1.41
Net interest spread ^{Note}	1.69	1.60	1.56	1.50
Net interest margin ^{Note}	1.78	1.70	1.66	1.62

Note: Taken into account the tax exemption on the interest income from bond investment.

The table below illustrates the impact of changes in scales and interest rates on the Group's interest income and interest expenses. The changes in scales and interest rates are based on the changes in average balance and the changes on interest rates of interest-bearing assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

	Comparison between 2022 and 2021 Increase/(Decrease) due to		
	Amount	Interest rate	Net increase/(decrease)
Interest-bearing assets			
Cash and balances with central banks	(179)	500	321
Due from and placements with banks and other financial institutions	1,924	3,696	5,620
Loans and advances to customers	33,806	(8,320)	25,486
Investment securities	7,754	1,295	9,049
Changes in interest income	43,305	(2,829)	40,476
Interest-bearing liabilities			
Due to customers	15,917	6,558	22,475
Due to and placements from banks and other financial institutions	2,572	3,543	6,115
Debt securities and others	4,151	(509)	3,642
Changes in interest expenses	22,640	9,592	32,232
Changes in net interest income	20,665	(12,421)	8,244

During the Reporting Period, the Group's net interest income increased by 8.244 billion on a year-on-year basis, of which the increase of 20.665 billion was due to changes in the average balances of assets and liabilities and the decrease of 12.421 billion was due to changes in the average rate of return and average rate of cost.

FINANCIAL STATEMENT ANALYSIS

(1) Interest income

During the Reporting Period, the Group's interest income increased by 40.476 billion or 10.72% on a year-on-year basis to 418.122 billion. The interest income from loans and advances to customers, investment securities and cash and balances with central banks accounted for 69.81%, 23.27% and 2.64% of total interest income respectively.

A. Interest income from loans and advances to customers

Interest income from loans and advances to customers was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers increased by 25.486 billion or 9.57% on a year-on-year basis to 291.905 billion, which was mainly due to the impact of the average balance of loans and advances to customers increasing by 780.737 billion or 12.69%. The increase was mainly generated from medium and long-term corporate and personal loans.

Analysis of the average income of loans and advances to customers by business type and term structure

(in millions of RMB unless otherwise stated)

	From January to December 2022			From January to December 2021		
	Average balance	Interest income	Average rate of return (%)	Average balance	Interest income	Average rate of return (%)
Corporate loans	4,412,329	176,385	4.00	3,917,298	158,362	4.04
– Short-term loans	1,390,254	47,582	3.42	1,300,743	44,440	3.42
– Medium and long-term loans	3,022,075	128,803	4.26	2,616,555	113,922	4.35
Personal loans	2,287,938	111,439	4.87	2,075,137	103,576	4.99
– Short-term loans	584,594	28,849	4.93	547,418	29,541	5.40
– Medium and long-term loans	1,703,344	82,590	4.85	1,527,719	74,035	4.85
Discounted bills	234,692	4,081	1.74	161,787	4,481	2.77
Total loans and advances to customers	6,934,959	291,905	4.21	6,154,222	266,419	4.33

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by 9.049 billion or 10.25% on a year-on-year basis to 97.311 billion, which was mainly due to the year-on-year increase of 238.573 billion or 8.78% in the average balance of investment securities.

C. Interest income from cash and balances with central banks

The balances with central banks mainly included balances in statutory reserves and excess reserves. During the Reporting Period, interest income from cash and balances with central banks increased by 321 million or 3.00% on a year-on-year basis to 11.020 billion, which was mainly due to the year-on-year increase by 7 basis points in the average rate return on cash and balances with central banks.

D. Interest income from due from and placements with banks and other financial institutions

During the Reporting Period, the interest income from due from and placements with banks and other financial institutions increased by 5.620 billion or 45.82% on a year-on-year basis to 17.886 billion, which was mainly due to the year-on-year increase of 44 basis points in the average rate of return on due from and placements with banks and other financial institutions and due to the year-on-year increase of 115.884 billion or 15.71% in the average balance.

(2) Interest expenses

During the Reporting Period, the Group's interest expenses increased by 32.232 billion or 14.93% on a year-on-year basis to 248.185 billion.

A. Interest expenses on due to customers

Due to customers is the Group's primary funding source. During the Reporting Period, interest expenses on due to customers increased by 22.475 billion or 15.94% on a year-on-year basis to 163.457 billion, accounting for 65.86% of total interest expenses.

Analysis of the average cost of due to customers by product category

(in millions of RMB unless otherwise stated)

	From January to December 2022			From January to December 2021		
	Average balance	Interest expenses	Average rate of cost (%)	Average balance	Interest expenses	Average rate of cost (%)
Corporate deposits	4,800,242	102,342	2.13	4,395,310	88,165	2.01
– Demand deposits	1,911,196	18,489	0.97	1,897,980	16,706	0.88
– Time deposits	2,889,046	83,853	2.90	2,497,330	71,459	2.86
Personal deposits	2,665,828	61,115	2.29	2,312,790	52,817	2.28
– Demand deposits	789,468	2,394	0.30	774,599	3,689	0.48
– Time deposits	1,876,360	58,721	3.13	1,538,191	49,128	3.19
Total due to customers	7,466,070	163,457	2.19	6,708,100	140,982	2.10

B. Interest expenses on due to and placements from banks and other financial institutions

During the Reporting Period, interest expenses on due to and placements from banks and other financial institutions increased by 6.115 billion or 15.85% on a year-on-year basis to 44.696 billion, which was mainly due to a year-on-year increase of 16 basis points in the average rate of cost of due to and placements from banks and other financial institutions and due to a year-on-year increase of 131.904 billion or 6.65% in the average balance.

C. Interest expenses on debt securities issued and other interest-bearing liabilities

During the Reporting Period, interest expenses on debt securities issued and other interest-bearing liabilities increased by 3.642 billion or 10.01% on a year-on-year basis to 40.032 billion, which was mainly due to a year-on-year increase of 145.156 billion or 11.42% in the average balance of debt securities issued and others.

FINANCIAL STATEMENT ANALYSIS

3. Net fee and commission income

During the Reporting Period, relying on the advantage of full licenses, the Group created a “second curve” of sustained profit growth starting from building the feature of wealth management brand, with a focus on key businesses such as wealth management, bank cards and custody. However, this was affected by various factors such as the ongoing turbulence in the capital market, the transformation of the net value of wealth management products and the reduction of fees and concessions. The Group’s net fee and commission income decreased by 2.934 billion or 6.17% on a year-on-year basis to 44.639 billion, of which wealth management income decreased by 1.621 billion or 13.77% on a year on- year basis; agency services income decreased by 684 million or 12.08% on a year-on-year basis; bank cards income decreased by 995 million or 4.94% on a year-on-year basis.

The breakdown of the Group’s net fee and commission income for the periods indicated is shown below:

(in millions of RMB unless otherwise stated)

	2022	2021	Increase/ (decrease) (%)
Bank cards	19,141	20,136	(4.94)
Wealth management business	10,154	11,775	(13.77)
Custody and other fiduciary businesses	7,496	7,484	0.16
Agency services	4,980	5,664	(12.08)
Investment banking	3,093	3,120	(0.87)
Guarantee and commitment	2,884	2,527	14.13
Settlement services	1,364	1,296	5.25
Others	227	283	(19.79)
Total fee and commission income	49,339	52,285	(5.63)
Less: fee and commission expense	(4,700)	(4,712)	(0.25)
Net fee and commission income	44,639	47,573	(6.17)

4. Operating expenses

During the Reporting Period, the Group’s operating expenses increased by 2.280 billion or 3.06% on a year-on-year basis to 76.825 billion. The Group’s cost-to-income ratio was 28.14%, representing a year-on-year increase of 0.47 percentage point. The cost-to-income ratio is around 26% if the tax exemption effect of bond interest income and other income was restored.

The breakdown of the Group’s operating expenses for the periods indicated is shown below:

(in millions of RMB unless otherwise stated)

	2022	2021	Increase/ (decrease) (%)
Staff remuneration, bonus, allowance and welfare	26,918	25,383	6.05
Other staff costs	12,396	11,442	8.34
Operating expenses	28,861	29,621	(2.57)
Depreciation and amortisation	8,650	8,099	6.80
Total operating expenses	76,825	74,545	3.06

5. Asset impairment losses

During the Reporting Period, the Group's asset impairment losses were 62.308 billion, representing a year-on-year decrease of 6.383 billion or 9.29%, of which the credit impairment losses on loans decreased by 4.843 billion or 7.69% on a year-on-year basis to 58.102 billion. Pursuant to the CBIRC Notice on Promulgation of the Administrative Measures for Implementation of the Expected Credit Losses Method by Commercial Banks (Yin Bao Jian Gui [2022] No. 10), the Group continued to adopt the expected credit loss method and updated the parameters of the impairment model in a timely manner to reflect the impact of changes in the external environment on asset credit risk. At the same time, the quality of the Group's assets has continued to improve in recent years, and the reasonable and full provision for asset impairment can adequately cover the expected loss of risk and has sufficient risk protection and loss absorption capacity.

6. Income tax

During the Reporting Period, the Group's income tax expenses increased by 1.165 billion or 23.21% on a year-on-year basis to 6.185 billion. The effective tax rate of 6.30% was lower than the statutory tax rate of 25%, which was mainly due to the tax exemption on interest income from treasury bonds and local treasury bonds held by the Group, as promulgated in relevant tax provisions.

(II) Analysis on Key Balance Sheet Items

1. Assets

As at the end of the Reporting Period, the Group's total assets increased by 1,326.662 billion or 11.37% over the end of the previous year to 12,992.419 billion, which was mainly due to the increase in the scale of loans and advances to customers as well as financial investments.

The balances (after provision) of the key components of the Group's total assets and their proportions to the total assets as at the dates indicated are shown below:

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	7,136,677	54.93	6,412,201	54.97
Financial investments	3,955,207	30.44	3,523,249	30.20
Cash and balances with central banks	806,102	6.20	734,728	6.30
Due from and placements with banks and other financial institutions	690,421	5.32	632,708	5.42
Others	404,012	3.11	362,871	3.11
Total assets	12,992,419	100.00	11,665,757	100.00

FINANCIAL STATEMENT ANALYSIS

(1) Loans and advances to customers

During the Reporting Period, the Group focused on its main business and carried out its mission to stabilise the economy. It continued to improve the quality and effectiveness of its services to the real economy and closely connected with the construction of the modernised industrial system. The Group deeply involved into the coordinated development of the region, focused on the key areas and weaknesses of unbalanced and inadequate economic and social development, and further increased credit allocation in inclusive small and micro businesses, manufacturing, strategic emerging industries, green and agriculture-related areas, achieving a steady growth in the total amount of loans and consistent improvement of the loan structure.

The balance and breakdown of the Group's loans and advances to customers at the dates indicated are shown below:

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021		31 December 2020	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate loans	4,711,353	64.58	4,138,582	63.09	3,707,471	63.39
–Short-term loans	1,438,252	19.71	1,309,291	19.96	1,251,162	21.39
–Medium and long-term loans	3,273,101	44.87	2,829,291	43.13	2,456,309	42.00
Personal loans	2,366,507	32.43	2,285,096	34.83	1,980,882	33.87
–Mortgage	1,512,648	20.73	1,489,517	22.70	1,293,773	22.12
–Credit card	477,746	6.55	492,580	7.51	464,110	7.94
–Others	376,113	5.15	302,999	4.62	222,999	3.81
Discounted bills	218,295	2.99	136,722	2.08	160,071	2.74
Total loans and advances to customers	7,296,155	100.00	6,560,400	100.00	5,848,424	100.00

As at the end of the Reporting Period, the Group's total loans and advances to customers increased by 735.755 billion or 11.22% over the end of the previous year to 7,296.155 billion, which the RMB loans increased by 786.730 billion or 12.98% to 6,848.263 billion over the end of the previous year.

The corporate loan balance was 4,711.353 billion, achieving an increase of 572.771 billion or 13.84% over the end of the previous year, whose proportion in loans and advances to customers increased by 1.49 percentage points to 64.58% over the end of the previous year. Short-term loans increased by 128.961 billion, and medium and long-term loans increased by 443.810 billion, whose proportion in loans and advances to customers increased to 44.87%.

The balance of personal loans was 2,366.507 billion, representing an increase of 81.411 billion or 3.56% over the end of the previous year, whose proportion in loans and advances to customers decreased by 2.40 percentage points to 32.43% over the end of the previous year. Mortgage loans increased by 23.131 billion or 1.55% over the end of the previous year, whose proportion in loans and advances to customers decreased by 1.97 percentage points to 20.73% over the end of the previous year. Credit card loans decreased by 14.834 billion or 3.01% over the end of the previous year.

Discounted bills increased by 81.573 billion or 59.66% over the end of the previous year.

Distribution of loans and advances to customers by security types

(In millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021	
	Balance	Proportion (%)	Balance	Proportion (%)
Unsecured loans	2,461,988	33.75	2,085,835	31.79
Guaranteed loans	1,179,381	16.16	1,056,138	16.10
Loans secured by collateral	2,579,866	35.36	2,488,276	37.93
Pledged loans	1,074,920	14.73	930,151	14.18
Total	7,296,155	100.00	6,560,400	100.00

Expected credit loss allowance for loans and advances to customers

(in millions of RMB)

	31 December 2022	31 December 2021
Balance at the end of the previous year	161,162	140,561
Accrual/(Reversal) in the period	58,102	62,945
Write-offs and disposals in the period	(46,313)	(47,519)
Recovered after written-off	5,146	6,324
Other movements	(78)	(1,149)
Balance at the end of the period	178,019	161,162

(2) Financial investments

As at the end of the Reporting Period, the Group's net balance of financial investments increased by 431.958 billion or 12.26% over the end of the previous year to 3,955.207 billion.

The breakdown of investments by nature

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021	
	Balance	Proportion (%)	Balance	Proportion (%)
Bonds	3,416,632	86.38	3,021,272	85.75
Equity instruments and others	538,575	13.62	501,977	14.25
Total	3,955,207	100.00	3,523,249	100.00

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The breakdown of investments by the presentation basis of financial statements

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 20221	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial investments at fair value through profit and loss	705,357	17.83	638,483	18.12
Financial investments at amortised cost	2,450,775	61.97	2,203,037	62.53
Financial investments at fair value through other comprehensive income	799,075	20.20	681,729	19.35
Total	3,955,207	100.00	3,523,249	100.00

As at the end of the Reporting Period, the balance of the Group's bond investments increased by 395.360 billion or 13.09% over the end of the previous year to 3,416.632 billion. In the future, the Bank will reinforce the research and judgement of the economic and financial situation, and focus on the allocation of incremental investment and optimisation of historical bond investments. Firstly is to maintain the overall strategy of investing mainly in interest rate bonds and make reasonable arrangements for investment in treasury bonds and local treasury bonds. Secondly is to serve the new development pattern, actively connected with the financing needs of debt-issuing entities in areas such as science and technology innovation, green development and infrastructure construction, and make a sound project reserve for credit bonds and investment arrangements. Thirdly is to increase the bond transaction volume and expedite the turnover of treasury bonds and policy bank financial bonds. Fourthly is to seize the market opportunity of higher US bond yields to enhance the value contribution of foreign currency bonds based on good liquidity management.

The breakdown of securities investment by issuers

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 20221	
	Balance	Proportion (%)	Balance	Proportion (%)
Government and central banks	2,626,005	76.86	2,325,896	76.98
Public sector entities	37,930	1.11	27,073	0.90
Interbank institutions and other financial institutions	539,009	15.78	472,688	15.65
Corporate entities	213,688	6.25	195,615	6.47
Total	3,416,632	100.00	3,021,272	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to 539.009 billion, including bonds issued by policy banks of 115.803 billion and by interbank institutions and non-bank financial institutions of 423.206 billion, which accounted for 21.48% and 78.52% of the total bonds respectively.

Top 10 financial bonds held by the Group*(in millions of RMB unless otherwise stated)*

Bond name	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
Policy Bank Bond issued in 2018	6,903	4.99	24/01/2023	1.58
Policy Bank Bond issued in 2017	6,330	4.39	08/09/2027	1.37
Policy Bank Bond issued in 2018	5,000	4.98	12/01/2025	1.15
Policy Bank Bond issued in 2018	4,400	4.97	29/01/2023	1.01
Commercial Bank subordinated Bond issued in 2022	3,500	3.00	07/11/2032	–
Commercial Bank Bond issued in 2022	3,484	SOFR+1.06	29/09/2027	1.99
Commercial Bank subordinated Bond issued in 2022	3,360	3.00	10/11/2032	–
Policy Bank Bond issued in 2017	3,332	4.30	21/08/2024	0.73
Policy Bank Bond issued in 2019	3,126	2.70	19/03/2024	0.42
Commercial Bank Bond issued in 2022	3,103	SOFR+0.78	28/04/2025	0.37

(3) Foreclosed asset

The selected information of the Group's foreclosed asset on the dates indicated is shown below:

(in millions of RMB)

	31 December 2022	31 December 2021
Original value of foreclosed assets	1,412	1,437
Less: Impairment allowance	(412)	(407)
Net value of foreclosed assets	1,000	1,030

2. Liabilities

Thoroughly implementing the Measures for Liability Quality Management of Commercial Banks issued by the CBIRC, the Group established and completed a liability quality management system commensurate with the amount and complexity of the Bank's liabilities in accordance with the principle of compatibility with business strategy, risk appetite and overall business characteristics, and continuously improved the capability and level of liability quality management. During the Reporting Period, the Bank conscientiously implemented the requirements of the "six characteristics" of liability quality management, strengthened the foundation for the development of our liabilities business, while strengthening the monitoring, analysis and management of the sources, structure and costs of our liabilities, resulting in a steady development of overall liabilities business.

As at the end of the Reporting Period, the Group's total liabilities increased by 1,268.158 billion or 11.86% over the end of the previous year to 11,956.679 billion. Among them, due to customers increased by 909.295 billion or 12.92% over the end of the previous year, which accounted for 66.48% of total liabilities and represented an increase of 0.62 percentage points over the end of the previous year. The balance of due to and placements from interbank institutions and other financial institutions decreased by 18.047 billion or 1.65% over the end of the previous year, which accounted for 9.02% of total liabilities and represented a decrease of 1.24 percentage points over the end of the previous year.

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Due to customers

Due to customers is the Group's primary funding source. As at the end of the Reporting Period, the Group's balance of due to customers increased by 909.295 billion or 12.92% over the end of the previous year to 7,949.072 billion. In terms of customer structure, the proportion of corporate deposits was 61.36%, representing a decrease of 3.27 percentage points over the end of the previous year. The proportion of personal deposits was 37.18%, representing an increase of 3.05 percentage points over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits decreased by 5.21 percentage points over the end of the previous year to 36.16%, while the proportion of time deposits increased by 4.99 percentage points over the end of the previous year to 62.38%.

The balance and breakdown of the Group's due to customers as of the dates indicated are shown below:

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021		31 December 2020	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Corporate deposits	4,877,033	61.36	4,550,020	64.63	4,341,524	65.71
– Demand deposits	1,989,383	25.03	2,061,672	29.28	2,005,934	30.36
– Time deposits	2,887,650	36.33	2,488,348	35.35	2,335,590	35.35
Personal deposits	2,955,724	37.18	2,402,812	34.13	2,192,231	33.18
– Demand deposits	885,013	11.13	850,831	12.09	812,534	12.30
– Time deposits	2,070,711	26.05	1,551,981	22.04	1,379,697	20.88
Other deposits	4,227	0.05	3,359	0.05	5,499	0.08
Accrued interest	112,088	1.41	83,586	1.19	68,076	1.03
Total	7,949,072	100.00	7,039,777	100.00	6,607,330	100.00

3. Off-balance sheet items

The Group's off-balance sheet items included derivative financial instruments, contingencies and commitments as well as collaterals.

The Group entered into various derivative financial instruments including interest rate contracts, exchange rate contracts, precious metals and commodity contracts for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note 20. Derivative Financial Instruments to the Consolidated Financial Statements for the details of nominal amount and fair value of the derivative financial instruments.

The Group's contingencies and commitments mainly included outstanding litigations, credit related commitments and financial guarantees, capital expenditure commitments, operating leasing commitments, commitments on security underwriting and bond acceptance. Please refer to Note 39. Contingencies to the Consolidated Financial Statements for the details of contingencies, and Note 40. Commitments to the Consolidated Financial Statements for the details of commitments.

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business, please refer to Note 41 Collaterals to the Consolidated Financial Statements for the details.

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the balance of Group's cash and cash equivalents increased by 54.495 billion over the end of the previous year to 248.803 billion.

The net cash inflows from operating activities increased by 402.996 billion on a year-on-year basis to 368.221 billion, which was mainly resulted from increases of cash inflows from due to customers and from due to central banks.

The net cash outflows from investing activities increased by 209.349 billion on a year-on-year basis to 284.897 billion, which was mainly due to the increase of bond investments.

The net cash outflows from financing activities increased by 34.281 billion on a year-on-year basis to 32.975 billion, which was mainly due to the year-on-year decrease of cash inflows of the perpetual bonds issued in the same period last year.

(IV) Segment Analysis

(1) Operating results by geographical segments

The profit before tax and net operating income from each of the Group's geographical segments for the periods indicated are as below:

(in millions of RMB unless otherwise stated)

	2022				2021			
	Profit before tax	Proportion (%)	Net operating income ¹	Proportion (%)	Profit before tax	Proportion (%)	Net operating income ¹	Proportion (%)
Yangtze River								
Delta	47,589	48.45	103,288	37.76	45,781	48.72	98,807	36.63
Pearl River Delta	11,037	11.24	24,962	9.13	12,027	12.80	23,432	8.69
Bohai Rim								
Economic Zone	8,425	8.58	31,472	11.51	13,312	14.17	30,220	11.20
Central China	27,866	28.37	38,222	13.97	18,922	20.14	37,080	13.75
Western China	9,205	9.37	23,161	8.47	7,520	8.00	24,100	8.93
North Eastern								
China	(59)	(0.06)	7,280	2.66	(5,899)	(6.28)	7,273	2.70
Overseas	3,791	3.86	12,920	4.72	7,769	8.27	13,135	4.87
Head Office	(9,639)	(9.81)	32,223	11.78	(5,473)	(5.82)	35,701	13.23
Total	98,215	100.00	273,528	100.00	93,959	100.00	269,748	100.00

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investments, net gains from investments in associates and joint ventures, insurance business income and other operating income. Same applies hereinafter.
2. Head Office included the Pacific Credit Card Centre. Same applies hereinafter.
3. Total included profit/(loss) attributable to non-controlling interests.

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(2) Deposits and loans and advances by geographical segments

The Group's loans and advances balances by geographical segments as at the dates indicated are as below:

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021	
	Loans and advances balances	Proportion (%)	Loans and advances balances	Proportion (%)
Yangtze River Delta	2,000,365	27.42	1,780,637	27.14
Pearl River Delta	978,749	13.41	857,521	13.07
Bohai Rim Economic Zone	1,137,282	15.59	965,957	14.72
Central China	1,196,075	16.39	1,092,985	16.66
Western China	875,476	12.00	774,445	11.80
North Eastern China	250,190	3.43	247,023	3.77
Overseas	376,277	5.16	348,948	5.32
Head Office	481,741	6.60	492,884	7.52
Total	7,296,155	100.00	6,560,400	100.00

The Group's deposit balances by geographical segments as at the dates indicated are as below:

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021	
	Deposit balances	Proportion (%)	Deposit balances	Proportion (%)
Yangtze River Delta	2,157,812	27.15	1,878,481	26.68
Pearl River Delta	1,024,315	12.89	871,667	12.38
Bohai Rim Economic Zone	1,671,923	21.02	1,491,168	21.18
Central China	1,260,425	15.86	1,130,712	16.06
Western China	846,610	10.65	763,629	10.85
North Eastern China	391,719	4.93	360,775	5.12
Overseas	480,408	6.04	456,074	6.48
Head Office	3,772	0.05	3,685	0.05
Accrued interest	112,088	1.41	83,586	1.20
Total	7,949,072	100.00	7,039,777	100.00

3. Operating results by business segments

The Group's four main business segments are corporate banking, personal banking, treasury businesses and other businesses.

The Group's profit before tax and net operating income from each of the Group's business segments for the periods indicated are as below:

(in millions of RMB unless otherwise stated)

	2022		2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Net operating income	273,528	100.00	269,748	100.00
Corporate banking	126,182	46.13	126,010	46.71
Personal banking	119,903	43.84	117,642	43.61
Treasury businesses	25,793	9.43	24,459	9.07
Other businesses	1,650	0.60	1,637	0.61
Profit before tax	98,215	100.00	93,959	100.00
Corporate banking	45,441	46.27	38,263	40.72
Personal banking	31,098	31.66	36,844	39.21
Treasury businesses	21,885	22.28	18,563	19.76
Other businesses	(209)	(0.21)	289	0.31

Note: Due to the adjustment to the assessment rules for income and expense distribution among business segments, comparative data have been prepared in accordance with the current presentation.

(V) Capital Adequacy Ratio

The Group calculated the capital adequacy ratios pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) issued by the CBIRC and the relevant requirements. Since the adoption of the Advanced Approach of Capital Management upon the first approval by the CBIRC in 2014, the Bank steadily promoted the implementation and deepened the application of advanced methods in accordance with regulatory requirements. Upon the approval by the CBIRC in 2018, the Bank expanded the application scope of advanced methods and ended the parallel period. According to the Additional Regulatory Rules on Systemically Important Banks (Trial Implementation) issued by the PBOC and the CBIRC in 2021, the additional capital requirement of the Group is 0.75%. As at the end of the Reporting Period, the Group's capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio were 14.97%, 12.18%, and 10.06% respectively, all of which met various regulatory capital requirements.

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021	
	The Group	The Bank	The Group	The Bank
Net core tier-1 capital	840,164	701,902	783,877	659,155
Net tier-1 capital	1,016,644	876,692	960,225	833,945
Net capital	1,250,317	1,104,732	1,139,957	1,006,266
Core tier-1 capital adequacy ratio (%)	10.06	9.40	10.62	10.01
Tier-1 capital adequacy ratio (%)	12.18	11.74	13.01	12.67
Capital adequacy ratio (%)	14.97	14.80	15.45	15.29

Notes:

1. The above calculation excluded China BoCom Insurance Co., Ltd. and BOCOM MSIG Life Insurance Company Limited.
2. According to the implementation scope of the Advanced Measurement Approach of Capital Management approved by the CBIRC, the credit risk that met the regulatory requirements was assessed by the internal rating-based approach, the market risk by the internal model approach, and the operational risk by the standardised approach. The credit risk not covered by the internal rating-based approach was assessed by the weighted approach. The market risk not covered by the internal rating-based approach was assessed by the standardised approach. The operational risk not covered by the standardised approach was assessed by the basic-indicator approach.

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For further information on the Group's capital measurement, please refer to the *2022 Disclosure on Capital Adequacy Ratio of Bank of Communications Co., Ltd.* at the website of SSE, the website of HKEX News or the official website of the Bank.

(VI) Leverage Ratio

The Group calculated the leverage ratio pursuant to the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) issued by the CBIRC. Also, according to the Additional Regulatory Rules on Systemically Important Banks (Trial Implementation) issued by the PBOC and the CBIRC in 2021, the additional required leverage ratio of the Group is 0.375%. As at the end of the Reporting Period, the Group's leverage ratio was 7.08%, which met the regulatory requirements.

	<i>(in millions of RMB unless otherwise stated)</i>			
	31 December 2022	30 September 2022	30 June 2022	31 March 2022
Net tier-1 capital	1,016,644	993,562	970,873	979,545
Balance of adjusted on- and off-balance sheet assets	14,349,614	14,005,204	13,770,696	13,416,205
Leverage ratio (%)	7.08	7.09	7.05	7.30

Please refer to "Supplementary Information on Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio" for more information on the leverage ratio of the Group.

III. BUSINESS REVIEW

(I) Development Strategies and Implementation

During the Reporting Period, the Group is guided by Xi Jinping Thoughts on Socialism with Chinese Characteristics for a New Era and is led by the strategic goal of “build a world-class banking group with business features and advantages”, performed the enterprise mission of “Creating Shared Value”, consistently creating four major business features, took Green as the background of the Group’s business operation and development, took the construction of Shanghai Base and digital transformation as two breakthroughs of strategy implementation, promoting the implementation of strategies.

1. Create business features

Inclusive finance. Bank intensified its efforts in the strategic deployment of “Enhancing the Inclusiveness of Finance” and expanding domestic demand, and steadily improved the quality and efficiency of inclusive financial businesses. As at the end of the Reporting Period, the balance of inclusive loans for small and micro enterprises increased by 34.66% compared with over the end of the previous year, the number of customers with loan balance increased by 38.09% over the end of the previous year. The Bank promoted consumer finance as a new growth pole of retail business, the balance of retail loans of domestic branches¹ increased by 3.09% compared with over the end of the previous year, in which personal consumption loans increased by 58.38% compared with over the end of the previous year. The Bank upgraded the rural revitalisation financial service system, and the balance of agriculture-related loans increased by 22.15% over the end of the previous year.

Trade finance. The Bank actively served the development of industrial chain and supply chain and high-level opening to the outside world under the background of “Dual Circulation”, opened domestic and overseas, local and foreign currency, onshore and offshore integrated financial services. During the Reporting Period, by virtue of the scenario that ecology drives innovation in product portfolio solutions, the Bank created a benchmarking chain for key enterprises, the volume of industrial value chain financial business increased by 41.92% on a year-on-year basis. The Bank promoted the convenience level of trade and investment, the amount of international settlement increased by 11.5% on a year-on-year basis. The Bank launched online “Digital Trade Services” and intelligent trade finance products, actively supported the development of new forms of foreign trade, the volume of Easy series products exceeded a trillion. The Bank accelerated cross-border Renminbi product and service innovation, the volume of collection and payment of cross-border Renminbi has set a new record.

Sci-tech finance. The Bank kept up with the pace of national technological self-reliance and industrial transformation and upgrading, served and supported a virtuous cycle of “Technology-Industry-Finance”. As at the end of the Reporting Period, sci-tech finance customer segment consistently grew, sci-tech finance credit customers increased by 49.55% over the end of the previous year, the market share of “little giant” customers of “specialization, delicacy, characterization and novelty” and Sci-Tech Innovation Board customers increased 1.81 percentage points and 1.15 percentage points respectively. The Bank launched supporting policies closely around the characteristics of technological enterprises, strongly supported the construction of a modern industrial system, the balance of loans to strategic emerging industries increased by 110% over the end of the previous year.

¹ Including personal housing loans, personal consumption loans, credit card loans, personal business loans.

BUSINESS REVIEW

Wealth finance. The Bank strengthened the operation of full volume of customers, brought wealth management products' and service brand's superiorities into full play, better met the multi-level wealth management needs of the people. As at the end of the Reporting Period, individual financial assets under management (AUM²) managed by domestic branches increased by 8.57% over the end of the previous year. The Bank continuously deepened customer expansion and potential exploration, and the number of middle and high-end customers increased by 10.73% over the end of the previous year. The Bank enriched the system of wealth management products, more than 2, 500 new wealth management products were launched throughout the year. The Bank was one of the first group to obtain the qualification of personal pension business, the number of pension customers increased by 7.5% over the end of the previous year.

The Bank integrated the concept of green development into the entire process of creating business characteristics and enhanced the market influence of green financial services. The Bank formulated the "Action Plan for Achieving Carbon Peak and Carbon Neutrality of the Bank of Communications" which strengthened the management requirements for green finance in credit granting policy. The Bank also improved the "2+N" green finance policy system. The Bank actively promoted the construction of green intelligent identification and ESG evaluation system, integrating green credit, green investment banking, green inclusive finance, and other product solutions based on green development scenarios, and won the "2022 A-share Listed Companies' Best Practice Case for ESG". As at the end of the Reporting Period, the balance of green loan increased by 33% over the end of the previous year.

2. Focusing on two breakthroughs and continuing to exert efforts

Leverage the advantages of "Shanghai Base" and leading role The Group regarded the construction of "Shanghai Base" as a strategic arrangement and continued to promote innovation and breakthroughs, focused on serving the strategic tasks assigned by the CPC Central Committee to Shanghai, and was committed to making "Shanghai Base" a source of innovation for the Group. During the Reporting Period, the Bank increased policy and funding support to help Shanghai speed up economic recovery and revitalization, achieving a penetration rate of 15.6% for technology enterprises in Shanghai and increasing the proportion of chain finance balance in the Bank by more than 11 percentage points in the past two years. The Bank actively participated in the innovation of the financial factor market, continuously increased the scale of financial market business, and helped to form the "Shanghai Price". The Bank promoted the demonstration and leading role of "Shanghai Base" through the "One-Stop-Process" and Special Team Mechanisms. The "One-Stop-Process for Medical Treatment Payments" was launched in 29 provincial branches of the Group, and "Jiaozhengtong", the cross-provincial business, ranked first among peers in the Yangtze River Delta region. The authorization of the industrial chain project achieved full coverage of the branches in the Yangtze River Delta region, and the balance of financing business of regional industrial chains increased by 50% year-on-year.

² Excluding the fair value of customers' securities, same applies hereinafter.

Deeply promoting digital transformation The Bank deeply promoted digital transformation, fully utilised the new elements empowerment business of “Data + Technology” to improve the quality and enhance the efficiency, and continuously strengthened the ability of value creation of financial technology. During the Reporting Period, the Bank continued to increase investment in digital transformation, representing an increase of 32.93% year-on-year in investment in financial technology, accounting for 5.26% of operating income. As at the end of the Reporting Period, financial technology talent of the Group accounted for 6.38% of the total staff of the Group. The construction of digital scenarios was accelerated, and the new versions of Personal Mobile Banking 7.0 and Corporate Online Banking was launched. The maturity level of open banking scenarios and construction of the ecosystem was steadily improved. Retail credit and B2B payment, the two Enterprise Architecture pilot projects, were successfully launched, and the role of middle office and Enterprise Architecture construction in supporting business innovation was gradually emerged. The Bank strengthened its digital infrastructure, became the first large state-owned bank to use the autonomous and controllable distributed core system and won the first prize for financial technology development of the People’s Bank of China.

(II) Corporate Banking Business

- ▲ The Bank supported the real economy and promoted an increase in total credit allocation with an excellent structure. During the Reporting Period, the Group’s corporate loan balance increased by 572.771 billion or 13.84% over the end of the previous year, in which related loans to the manufacturing industry, green credit, and the agriculture-related loans increased by 23.23%, 33.28% and 22.15% respectively, all exceeding the average growth rate of the Group’s loans.
- ▲ The Bank served national strategies and supported the development of key areas. As at the end of the Reporting Period, the balance of loans of three major regions including the Yangtze River Delta, the Guangdong–Hong Kong–Macau Greater Bay Area and the Beijing–Tianjin–Hebei Region increased by 14.02% over the end of the previous year, exceeding the average growth rate of the Group’s loans by 2.80 percentage points. Balance of loans in these three major regions accounted for 53.47%, representing an increase of 1.32 percentage points over the end of the previous year.
- ▲ The Bank deepened business features and accelerated the rapid development of sci-tech finance as well as industrial chain finance. At the end of the Reporting Period, the number of credit customers in sci-tech finance increased by 49.55% compared with the end of the previous year, and loans to strategic emerging industries increased by 109.88% compared with the end of the previous year; the business volume of industrial chain finance increased by 41.92% year-on-year.

BUSINESS REVIEW**1. Customer development**

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

For group customers, the Bank increased its services and support for national strategies such as strong manufacturing and transportation and continued to optimise credit management policies and processes. It also established a group-wide integrated and collaborative service system and improved the level of group customer service. As at the end of the Reporting Period, the number of the Bank's group customers reached 88.7 thousand, representing an increase of 11,987 over the end of the previous year. For government institutions customers, the Bank actively participated in the construction of digital government and the process of urban digital transformation. It assisted in the provision of convenient government services and built a smart government product system. As at the end of the Reporting Period, the number of government institutions customers reached 74.0 thousand, representing an increase of 3,599 over the end of the previous year. For small and micro basic customers, the Bank further implemented "Online Management and Remote Management", built an outbound call strategy support system, enhanced digital marketing support and improved services for basic customers. As at the end of the Reporting Period, the number of small and micro basic customers reached 2,255.8 thousand, representing an increase of 223.6 thousand over the end of the previous year.

2. Scenario construction

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

3. Services to inclusive small and micro enterprises

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

At the end of the Reporting Period, the balance of inclusive loans to small and micro enterprises was 456.239 billion, which was an increase of 34.66% over the end of the previous year. The number of customers with loan balances was 293.1 thousand, representing an increase of 38.09% over the end of the previous year. The accumulated average interest rate of inclusive loans to small and micro enterprises was 3.75%, representing a year-on-year decrease of 26 basis points. Non-performing loan ratio of inclusive small and micro enterprises was 0.81%, representing a decrease of 0.35 percentage points over the end of the previous year. Also, 2,771 business outlets of the Bank provided financing services to small and micro enterprises.

4. Industrial chain finance

Using innovative products, the Bank deepened cooperation with leading enterprises in key industries such as electricity, construction, automobiles and pharmaceuticals to meet their upstream and downstream financing needs and serve the construction of modern industrial systems. Concentrating on technological empowerment, the Bank developed an industrial chain rapid financing product line. The volume incurred of rapid discounted bills amounted to 93.476 billion, the volume incurred of Express Pay reached 20.097 billion and the volume incurred of rapid order amounted to 6.561 billion. The Bank also launched BoCom’s self-built smart transaction chain platform. Moreover, the Bank connected with 16 mainstream platforms, such as TravelSky and CSCC, to realise cross-scenario financial cooperation and automate the whole process of rapid payment, which greatly improved user experience. The Bank stimulated special authorisation, system innovation and process optimisation to meet the personalised financing needs of enterprises in the principle of “one policy for one chain”. During the Reporting Period, the industrial chain financial business was 479.126 billion, which increased by 41.29% on a year-on-year basis. There were 26.3 thousand financing customers, and inclusive customers accounted for 91.84%.

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5. *Sci-tech finance*

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

6. *Investment bank*

The Bank intensified its efforts in scaling up full financing to build an innovative investment bank. During the Reporting Period, the bond underwriting according to NAFMII (debt financing instruments for non-financial enterprises) reached 410.576 billion. The Bank captured the business opportunity of the three-year action of SOE reform. The new increase in domestic and overseas mergers and acquisitions finance in 2022 was RMB84.2 billion, with an increase of 14.82% year-on-year, of which the net increase in domestic renminbi mergers and acquisitions loans remained the industry leader for three consecutive years. The Bank served the green development strategy by underwriting green bonds (including carbon neutrality bonds) for 7.165 billion and investing 3.018 billion in green new energy equity. The Bank promoted the stable and healthy development of the real estate market, helped real estate enterprises to raise 16.643 billion in debt financing, landed 7.789 billion in real estate mergers and acquisitions loans and placed 7.487 billion in real estate equity trusts. “Win to Fortune e-Smart”, an information consultancy service, was upgraded and an investment banking full financing platform was launched online to further integrate financing service with collaborative intelligence. With the ability to innovate products and services enhanced in all respects, the Bank was awarded “Excellent ABS Originating Institution” by China Central Depository & Clearing Co., Ltd. and other prizes.

(III) Personal Banking Businesses

- ▲ The increase in personal deposits reached the best record in history and cost control was effective. As at the end of the Reporting Period, the balance of personal deposits was 2,955.724 billion, representing an increase of 23.01% over the end of the previous year. The daily average scales of structured deposits and certificate of deposits decreased by 74.7 billion and 26.9 billion respectively over the previous year, promoting the average rate of cost of personal deposits of domestic branches to decrease by 7 basis points on a year-on-year basis.
- ▲ Personal credit business stably grew under pressure. As at the end of the Reporting Period, the balance of personal loans was 2,366.507 billion, representing an increase of 3.56% over the end of the previous year, including the balance of personal housing loan increased by 1.55% over the end of the previous year. The balance of personal consumption loans of domestic branches increased by 58.38% over the end of the previous year, whose market share³ increased by 0.97 percentage points over the end of the previous year. During the Reporting Period, the cumulative amount of consumptions through credit cards increased by 1.44% over the end of the previous year.
- ▲ Retail customers and AUM sustainably grew. As at the end of the Reporting Period, the number of retail customers of domestic branches (including debit card and credit card customers) increased by 3.29% over the end of the previous year, and the number of middle and high-end customers⁴ increased by 10.73% over the end of the previous year. The scale of AUM increased by 8.57% over the end of the previous.

1. Retail customers and AUM

The Bank improved the tiered and categorised customer management system and strengthened the digital management capability of retail customers. A new, clear and concise retail customer tagging system was launched to improve the customer profile. The Bank deepened the application of the retail marketing middle office to reach customers effectively and accurately with financial services. The Bank strengthened the promotion and application of the account manager working platform and WeCom of the Bank to build a strong digital management force. The Bank stepped up the expansion of scenario-based finance, promoted the iterative update of Personal Mobile Banking 7.0, further enhanced the effectiveness of customer acquisition and activation in all channels and scenarios, and continuously improved our customer service capability to achieve steady growth in AUM scale. As at the end of the Reporting Period, the number of retail customers of domestic branches (including debit card and credit card customers) increased by 3.29% over the end of the previous year to 191 million. The number of qualified customers of OTO Fortune increased by 10.77% over the end of the previous year to 2,218.6 thousand. The scale of AUM increased by 8.57% over the end of the previous year to 4,621.362 billion.

³ 17 commercial banks, same applies hereinafter.

⁴ Including qualified OTO Fortune customers of domestic branches and private banking customers of the Group.

BUSINESS REVIEW**2. *Wealth management***

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

In addition, the Bank enhanced product creation and supply capabilities. By adhering to open integration, the Bank introduced high-quality products and established partnerships with 16 external institutions on wealth management products consignment. Quantitative indicators were considered together with experts' experience to build the “OTO Best Choice” product system covering wealth management, funds, insurance and precious metals. The Bank was the first batch to be qualified to sell pension funds in 2022 and it was the seventh consecutive year for the Bank to launch the promotion of mobile banking fund subscription rate, and the average yield of the “OTO Best Choice” fund overperformed the market average. Besides, the Bank introduced more low-fluctuating fixed income funds with low starting points, fixed income+ funds, pension funds and cash management products to fulfill the multi-level investment requirement of different types of clients. As at the end of the Reporting Period, the balance of personal public funds product on consignment was 264.520 billion. The balance of wealth management products on consignment was 859.002 billion. The balance of insurance products on consignment was 255.102 billion.

3. *Scenarios and payment*

The Bank improved the strength of financial services for rural revitalisation, actively participated in the construction of the third pillar of pensions, responded to the requirements of financial services for new citizens, and vigorously promoted debit cards themed on rural revitalisation, personal pension accounts, and new debit cards themed on citizens. At the end of the Reporting Period, the accumulated number of debit cards themed on rural revitalization issued amounted to 1,718.4 thousand.

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

As at the end of the Reporting Period, the accumulated number of debit cards issued amounted to 173.5156 million, representing a net increase of 7.7641 million over the end of the previous year. During the Reporting Period, the number of debit card customers acquired online increased by 6.86 percentage points compared with the end of the previous year. Under the support of cooperative institutions, the Bank upgraded payment products to improve card holders' payment experience on mainstream platforms. The Bank contributed to the revitalisation of long-established brands and cooperated in card marketing activities such as consumer discounts for long-established brands to enrich consumption payment scenarios. During the Reporting Period, the accumulated consumption paid by debit card amounted to 2,375.646 billion.

4. Consumer finance

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

As at the end of the Reporting Period, the personal housing loan balance increased by 1.55% over the end of the previous year to 1,512.648 billion. The personal consumption loan balance of domestic branches increased by 58.38% over the end of the previous year to 84.893 billion, and the market share of personal consumption loans domestic branches increased by 0.97 percentage points over the end of the previous year.

5. Private banking

The Bank continued to improve our private banking product system, established a market-wide selection mechanism, continued to grow the number and scale of exclusive products sold on behalf of private banking, and gradually enriched its product strategies. The family wealth management business picked up speed and doubled in size during the Reporting Period, with insurance trusts being the main driver of business growth. The Bank built a professional private banking team, organised tiered training and improved the professional capability of the team. The Bank published investment research reports and asset allocation proposals on a regular basis to strengthen the investment research capabilities. The Bank strengthened the marketing management based on lists of customers with specific features for precise marketing. As at the end of the Reporting Period, there were 77.0 thousand private banking customers of the Group, representing an increase of 9.33% over the end of the previous year; the assets of private banking customers under management of the Group were 1,084.442 billion, representing an increase of 8.97% over the end of the previous year.

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6. Credit card

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

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

As at the end of the Reporting Period, the cards in force reached 74.5083 million. The net increase of new cards reached 239.5 thousand. During the Reporting Period, the total spending reached 3,058.993 billion, up 1.44% on a year-on-year basis. In detail, the volume of online payment transactions up 17.10% on a year-on-year basis. By the end of the Reporting Period, the accounts receivables from domestic branches reached 477.642 billion⁵.

7. Pension Finance

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

⁵ The credit card overdraft balance in domestic branches includes the balance of personal credit card loans and the balance of corporate business card loans.

(IV) Interbank and Financial Market Businesses

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

1. Interbank businesses

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

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

2. Financial market businesses

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

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The Bank played the role of “Stabiliser” as a market maker in the interbank market and carried out market making, quotation and trading to help shape the “Shanghai Price”. During the Reporting Period, the trading volume in Renminbi money market of domestic branches amounted to 81.99 trillion; the trading volume in foreign currency market amounted to USD1.81 trillion; the trading volume of Renminbi bonds amounted to 5.56 trillion; the trading volume in interbank foreign exchange market amounted to USD3.65 trillion; the trading volume of self-operated gold amounted to 4,967 tons, maintaining its market position as an active trading bank.

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

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

3. Asset custody

Focusing on the origin business of custody, the Bank continued to strengthen the capacity building of our securities custody business, deepened the business synergy of the Group, prepared for innovative products and enhanced the market competitiveness of our public fund custody business. The Bank improved pension custody services, actively developed personal pension custody and continuously consolidated the advantages of the pension brand. The Bank deepened custody cooperation with insurance companies, securities companies, trust companies and other types of financial institutions, and optimised innovative custody service solutions for asset management products. The Bank actively provided custodian services for industrial funds around the world to help the development of the real economy. As at the end of the Reporting Period, the assets under custody reached 13.05 trillion, representing an increase of 8.06% over the end of the previous year.

4. Wealth management businesses

The Bank adhered to prudent operation of wealth management business and the proportion of net value wealth management products continued to increase. As at the end of the Reporting Period, the balance of asset management products of the Group reached 1,206.901 billion, representing a decrease of 12.81% over the end of the previous year, and the balance of net-worth wealth management products reached 1,085.438 billion, accounting for 89.94% of the wealth management products and representing an increase of 1.47 percentage points over the end of the previous year.

(V) Integrated operation

- ▲ The Group established development pattern with commercial banking business as the body, in close coordination and connection with other businesses including financial leasing, fund, wealth management, trust, insurance, overseas securities and debt-to-equity swap, so as to provide comprehensive financial services for customers.
- ▲ During the Reporting Period, net profits of subsidiaries⁶ that are attributable to shareholders of the Bank amounted to 5.769 billion, the proportion of which to the Group's net profit was 6.26%. As at the end of the Reporting Period, total assets of the subsidiaries⁶ are 603.197 billion, the proportion of which to the total assets of the Group was 4.64%.

Bank of Communications Financial Leasing Co., Ltd. As the Bank's wholly-owned subsidiary, the company was set up in December 2007 with a registered capital of 14.0 billion. The main business scope includes financing leasing and operating leasing in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. The company was elected as the Fifth Chief Administration Unit of China Banking Association (CBA) Financial Leasing Committee. During the Reporting Period, the company adhered to the development strategies of "Professionalism, Internationalisation, Differentiation and Characteristics", and was deeply engaged in aviation, shipping, traditional financing leasing and other businesses. The company's main indicators still ranked first in the industry. As at the end of the Reporting Period, total assets and net assets were 358.981 billion and 41.089 billion respectively. The balance of leasing assets was 316.795 billion, of which the balance of aviation and shipping leasing assets took the lead in exceeding 200 billion in the industry. The company owned and managed 473 ships and was the largest leasing company in the domestic merchant fleet. The company also had a fleet of 277 planes, making the value of aircraft leasing assets ranked second domestically and tenth globally in the financial leasing industry. The company's net profit during the Reporting Period was 3.815 billion, representing a year-on-year increase of 8.05%. The company have successively won 25 honours such as the "Best Financial Leasing Company of the Year" of the Global Leasing Industry Competitiveness Forum, and "China Financial Leasing Outstanding Achievement Award" of China International Finance Forum.

During the Reporting Period, the company improved its ability to provide precise services in key strategic areas of the country. As at the end of the Reporting Period, the balance of leasing assets of the company in the Yangtze River Delta Region increased by 18.94% over the end of the previous year to 37.465 billion, among which the balance of leasing assets in Shanghai increased by 31.71% over the end of the previous year to 25.245 billion and the first aircraft leasing project in Lin-Gang Special Area was launched. The company fully leveraged its innovative leading role, setting up a special working group for the new infrastructure (new energy) leasing business centre and the inclusive (technology) leasing business centre. During the Reporting Period, the company invested 16.831 billion in new infrastructure and new energy projects, representing a year-on-year increase of 86.45%. The company adhered to the "Manufacturing Power" strategy, with manufacturing investment reaching 9.212 billion, representing a year-on-year increase of 89.24%. The company deeply served the development of national high-end manufacturing, industrial and supply chains. During the Reporting Period, the company placed orders for 53 ships with Chinese shipyards, reaching a total amount of 12.68 billion, and supported key ship financing projects such as the world's largest multi-purpose heavy-lift vessel and the first LNG dual-fuel-powered Aframax tanker in China; the company also signed a letter of intent to order 50 C919 and 10 ARJ21 aircraft with COMAC. The company actively practiced the development concept of "green finance", and the scale of green finance lease assets exceeded 70 billion under the statistical scope of the People's Bank of China's green loan special category. The company also successfully issued the first ESG Free Trade Zone offshore bonds ("Pearl Bonds") of financial institutions in China.

⁶ Excluding Bank of Communications (Luxembourg) S.A., Bank of Communications (Brazil) Co., Ltd. and Bank of Communications (Hong Kong) Limited, same applies hereinafter.

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Bank of Communications International Trust Co., Ltd. The company was set up in October 2007 with a registered capital of 5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85% and 15% shares respectively. The main business scope includes trust loans, equity investment trusts, securities investment trusts, credit asset securitization, corporate asset securitization, qualified domestic institutional investor (QDII), family trusts, charitable trusts, etc. During the Reporting Period, the company insisted on prioritizing stability, set the strategic goal of “building the most trustworthy first-class trust company”, served the real economy actively, accelerated transformation and development and deepened the synergy effect of the Group. As at the end of the Reporting Period, the total assets, net assets and the assets under management of the company were 18.528 billion, 15.418 billion and 513.740 billion respectively. The company’s net profit during the Reporting Period was 0.942 billion, representing a decrease of 23.72% on a year-on-year basis. The company has been rated as Level A (the highest level) for seven consecutive years in the industry rating launched by the China Trustee Association and has won the “Cheng Xin Tuo · Excellent Trust Company Award” granted by the *Shanghai Securities News*. The company has won the “Annual Excellent Risk Control Trust Company Award” from *Securities Times* for seven consecutive years, and the “China Trust Industry Golden Bull Award” from *China Securities Journal* was awarded to the BOCOMM TRUST-Fengyun 68 Active Management TOF Product.

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

Bank of Communications Schroder Fund Management Co., Ltd. The company was set up in August 2005 with a registered capital of 0.2 billion. It was jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., with the shares accounting for 65%, 30% and 5% respectively. The primary businesses include fund raising, fund sales and asset management. According to data from Haitong Securities, among 12 large equity investment companies, the company ranked first in terms of equity investment return rate in the past year. With outstanding investment performance, the company has won the “grand slam” of corporate awards in the three major authoritative awards in the public fund industry and has also won the “Golden Bull Fund Management Company” award for four consecutive years. As at the end of the Reporting Period, the company’s total assets and net assets were 7.926 billion and 6.305 billion respectively, and the public fund under management reached 528.1 billion. Affected by the fluctuations in the market, the company’s net profit during the Reporting Period was 1.581 billion, representing a decrease of 11% on a year-on-year basis.

As the backbone of the Group to build wealth management feature, the company, centring on the Group's strategy and the 14th Five-Year Plan, continuously improved core competitiveness in investment research and built multi-level product lines. Relying on spillover effect of initiative management investment research advantages, the company improved its management ability in equities, fixed income+ and FOF, investment advisory portfolios, strived to make itself a first-class fund company with core competitiveness for high-quality development and actively assisted the Group in the construction of wealth management ability. During the Reporting Period, the company and the Bank jointly promoted the implementation of personal pension system, made efforts in the layout and sales of pension financial products, and thus BoCom One Year Stable Pension FOF became the largest FOF product under management in the market, with a scale of over 12.0 billion as at the end of the Reporting Period.

BOCOM Wealth Management Co., Ltd. As a wholly-owned subsidiary of the Bank, the company was set up in June 2019 with a registered capital of 8.0 billion. It primarily issues wealth management products of fixed income, equity, commodities, financial derivatives and hybrid categories to customers. During the Reporting Period, the company adhered to the customer-centric and investor-oriented principles and adjusted the focus of product design and issuance in a timely manner. The company actively expanded consignment agencies outside the Bank, and the balance of products sold under consignment outside the Bank reached 499.613 billion, accounting for 46.03% of the balance of products. The company has preliminarily established an open and diversified omni-channel system with the Bank as the main body. As at the end of the Reporting Period, the balance of wealth management products decreased by 11.37% over the end of the previous year to 1,085.438 billion. As at the end of the Reporting Period, the company's total assets and net assets were 11.458 billion and 11.099 billion respectively. The company's net profit during the Reporting Period was 1.188 billion, indicating an increase of 2.86% on a year-on-year basis.

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

BOCOM MSIG Life Insurance Company Limited. The company was set up in January 2010 with a registered capital of 5.1 billion, of which the Bank and the MS&AD Insurance Group contributed 62.50% and 37.50% shares respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances in Shanghai as well as regions where its branches were established. As at the end of the Reporting Period, the company's total assets and net assets were 109.916 billion and 7.167 billion respectively. During the Reporting Period, the original premium income was 18.144 billion, representing an increase of 7.10% on a year-on-year basis, the amount of new businesses value was 0.881 billion, representing an increase of 5.30% on a year-on-year basis. Affected by the fluctuations in the capital market and decrease in investment income, the net loss was 0.591 billion.

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

BOCOM Financial Asset Investment Co., Ltd. As a wholly-owned subsidiary of the Bank, it was set up in December 2017 with a registered capital of 10.0 billion. As one of the first pilot banks to implement debt-to-equity swap as determined by the State Council, it is mainly engaged in debt-to-equity swap and supporting services. As at the date of disclosing this announcement, the Bank has injected additional capital of 5.0 billion to the company. During the Reporting Period, the company made efforts to develop the main business of market-oriented debt-to-equity swap, and actively reduced leverage ratio and controlled risks for the real economy. Its net incremental investment of the year was 9.901 billion. As at the end of the Reporting Period, the company managed funds with a subscribed scale of 8.338 billion through its subsidiary, Bank of Communications Capital Management Co., Ltd., which represented an increase of 298.34% on a year-on-year basis, further strengthening the momentum of its equity investment business development. As at the end of the Reporting Period, the company’s total assets and net assets were 61.956 billion and 20.415 billion respectively. The company’s net profit during the Reporting Period was 1.124 billion, representing a decrease of 61.32% on a year-on-year basis.

The company closely followed the direction of the Group’s “14th Five-Year Plan”, continuously increased the proportion of business in the Shanghai Base, the Yangtze River Delta region, and other key strategic areas of the country. The company also accelerated the formation of technology and financial service capabilities, chose equity investment as a starting point, deepened customer cooperation relationships, and helped the Group consolidate its customer and debt base. During the Reporting Period, the balance of investment in key regions such as the Yangtze River Delta, the Guangdong-Hong Kong-Macau Greater Bay Area, and the Beijing-Tianjin-Hebei Region accounted for 58.13% of the total investment. Among them, the proportion of investment in the Shanghai area was 9.12%, and the proportion of investment in newly-emerging strategic industries was 51.27%.

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

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

During the Reporting Period, the company took advantage of the full business license for general insurances, promoted the improvement and innovation of insurance products to continuously enhance insurance customer experience, and obtained the ISO9001 certification. The company's gross premiums during the Reporting Period increased by 14.38% on a year-on-year basis to HKD0.28 billion, reaching a record high, and the premium profits before expenditure were HKD18.45 million and the net compensation rate was 31.30%, maintaining a favorable condition.

(VI) Global Service Capabilities

- ▲ The Group formed an overseas operating network covering major international financial centres across five continents and had 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, with 69 overseas operating outlets. During the Reporting Period, the net profit of overseas banking institutions amounted to 5.111 billion, whose contribution to the Group's total net profit accounted for 5.55%. As at the end of the Reporting Period, the total assets of overseas banking institutions amounted to 1,262.918 billion, whose contribution to the Group's total assets accounted for 9.72%.
- ▲ The Bank strengthened trade facilitation and e-CNY cross-border scenarios, and enhanced financial services in the field of foreign investment and foreign trade. During the Reporting Period, international settlement volume increased by 11.5% year-on-year, cross-border renminbi settlement volume increased by 26.84% year-on-year, and the cumulative business volume of online settlement and financing products for international business doubled year-on-year.

1. International Development

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

BUSINESS REVIEW**2. International settlement and trade financing**

The Bank served the high level of opening up to support the cross-border financial needs of customers in manufacturing, wholesale and retail industries, and increase support for small and micro foreign trade enterprises. The “Digital Trade Service” is an online and intelligent trade finance product that covers five modules: new foreign trade, scenario finance, Easy series, large customer platform and banking and government docking, to effectively serve the construction of a strong trade nation. The Bank integrated into scenarios such as shipping logistics and pilot digital services for capital projects to enhance the quality and effectiveness of supporting financial services. The Bank optimised the functions of the Easy series of online settlement and financing products. The number of customers and business volume continued to grow exponentially, and the digitalisation of financial services continued to improve. The Bank supported the development of new foreign trade models, and the trading volume of cross-border e-commerce, integrated foreign trade services and market procurement totalled RMB28.21 billion. The Bank promoted technology empowerment and enriched the platform for large clients in international business. It also launched a pilot bridge for digital currency of multiple central banks and launched the innovative letter of credit business of renminbi cross-border payment system. During the Reporting Period, the amount of international settlement processed by the Bank reached USD538.77 billion, representing a year-on-year increase of 11.5%. The volume of financing for cross-border trade reached USD220.49 billion, representing a year-on-year increase of 1.8%.

3. Overseas service network

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

4. Cross-border renminbi transactions

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

5. Offshore businesses

The Bank strengthened the integrated development of offshore and onshore businesses as well as the integrated operation of non-resident accounts, and fully explored the business potentials of the integration of Yangtze River Delta and Lin-Gang Special Area of Shanghai Pilot Free Trade Zone. As at the end of the Reporting Period, the asset balance of offshore business increased by USD1.0 billion and 6.27% over the end of the previous year to USD16.936 billion.



Column

BOCOM-HSBC STRATEGIC COOPERATION

During the Reporting Period, the Bank and HSBC were strongly committed to promoting the cooperation in various fields under the framework of the strategic cooperation mechanism, as well as consolidating the mutually beneficial and win-win cooperation situation.

Maintenance of unhindered communication mechanism. The Bank and HSBC held the top-level meetings at the Chairman/Group Chairman through online channels; established and conducted the dialogue mechanism for the President/Group CEO; communicated the significant matters of business development in a timely manner, and determined the direction and route of cooperation.

Continued expansion on the scope of cooperation. The teams of both parties steadily promoted cooperation in various fields under the unified framework of “1+1 Global Financial Service” based on the market-oriented principles. BoCom and HSBC joined hands to assist Chinese enterprises to “go global”, concluding 2 cooperative syndicated loan projects; the cooperation in Hong Kong region was further increased, concluding 57 bond underwriting projects and 20 cooperative syndicated loan projects; trade financing and cross-border Renminbi settlements were continuously deepened; the investment banking and inter-bank bond trading business cooperation kept advancing; the cooperation scale of fund distribution increased steadily.

Sustained promotion of experience sharing. Under the framework of “Resources and Experience Sharing (RES)”, both parties focused on the transformation and development, business innovation and other issues, and also continued carrying out the two-way training and business experience exchange. During the Reporting Period, both parties successfully renewed the new three-year cooperation agreement on RES, which will enhance the resources sharing and experience exchange on key issues of transformation and development to empower the high-quality development.

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

BUSINESS REVIEW

(VII) Channel Construction

1. Corporate online banking and corporate mobile banking

Centring on the customers, the Bank focused on the online security, experience and efficiency, created a new version of corporate online banking as well as cooperate mobile banking, also gradually promoted and applied. As at the end of the Reporting Period, the number of contracted customers of corporate online banking (Bank-corporate direct connection) increased by 12.82% over the end of the previous year, and the annual cumulative transaction volume saw an increase of 13.96% on a year-on-year basis. The number of contracted customers of corporate mobile banking increased by 19.15% over the end of the previous year, and the annual cumulative transaction volume saw an increase of 31.03% on a year-on-year basis.

2. Personal mobile banking

Focusing on the concept of “Easy Access” and customer experience, the Bank launched the Personal Mobile Banking version 7.0, which reinvented the processes and upgraded functions in wealth investment, credit financing, financial scenario and digital security, providing customers with more intelligent and convenient mobile services and achieving a leap in customer experience with financial technologies. As at the end of the Reporting Period, the number of monthly active users (MAU) of personal mobile banking increased by 19.35% over the end of the previous year to 45.4833 million.

3. BoCom Credit Card Official APP

The Bank implemented the high-quality development strategy and deeply promoted the digital transformation. The Bank upgraded and launched the version 6.0, the BoCom Credit Card Official APP added a series of livelihood scenarios such as the rural revitalisation as well as the best selection and preferential purchase, which further facilitated the online consumption for users, improving the urban and rural development. In addition, the BoCom Credit Card Official APP also customised a barrier-free version for elderly users. As at the end of the Reporting Period, the cumulative number of registered customers of BoCom Credit Card Official APP amounted to 75.0070 million and the number of monthly active users (MAU) was 25.4373 million. The frequencies of BoCom Credit Card Official APP used in financial and non-financial scenarios were 82.79% and 66.23%, respectively.

4. Open Banking

The Bank expanded its financial services for livelihood service scenarios such as medical care, travel, education, government affairs, and actively served the platform digital transformation of industrial chains, supply chains and others. As at the end of the Reporting Period, 2,586 interfaces were launched for open banking with a cumulative 1.6 billion calls. New retail customers acquired via the open banking increased by 57.63% on a year-on-year basis to 0.7834 million. 113.817 billion financing amount was collected through online chain financial service of open banking.

5. Cloud BoCom

The Bank continuously promoted its brand of “Cloud BoCom”, and, by utilising innovative remote audio and video services, expanded the business channels for customers, improved the availability and satisfaction of financial services, ensured the business continuity, and provided strong support for the business services during the epidemic prevention period. As at the end of the Reporting Period, the number of services provided by the Cloud BoCom amounted to 52 thousand, an increase of more than 13 times over the end of the previous year. The Bank strived to develop new media channels such as “BoCom” WeChat Mini Program and Cloud BoCom to enhance its capability of converting and operating new customers acquired from the channels. As at the end of the Reporting Period, customers served by “BoCom” WeChat Mini Program increased by 90.08% over the end of the previous year to 23.6623 million. Continuously enriched Cloud BoCom service capabilities, serving 5.5031 million users, an increase of 132.35% over the end of the previous year.

(VIII) FinTech and Digital Transformation

- ▲ The Bank focused on the value creation and retail, deepened the digitalisation and enterprise-level thinking. Driven by information technology and data elements, the Bank strengthened the capability of supporting the digital transformation business and technology platform, accelerated the ecosystem construction of various scenarios and established a new mode of online and offline integrated operation. The Bank strived to enhance its flexible and agile product innovation capability, open and collaborative channel service capability, and accurate and intelligent operational management capability, so as to promote the overall capability of digital operation.
- ▲ During the Reporting Period, the Bank’s investment in FinTech increased by 32.93% on a year-on-year basis to 11.631 billion, which accounted for 5.26% of the operating income, representing an increase of 1.22 percentage points on a year-on-year basis. As at the end of the Reporting Period, the number of FinTech employees increased by 29.15% over the end of the previous year to 5,862, which accounted for 6.38% of the Group’s total employees, representing an increase of 1.35 percentage points on a year-on-year basis.

1. Product empowerment and service innovation

In terms of high-quality and efficient governance, the Bank launched the “Jiaozhengtong” service at the outlets in order to establish the “Government Affairs Hall” around the daily life. As at the end of the Reporting Period, the Bank launched the local government affairs services at 1,826 outlets with a coverage ratio of 64.3%, and achieved full coverage at branched located in Yangtze River Delta region and Guangdong Province. Also, the Bank actively promoted the application of the CIPS standard transmit product for the cross-border Renminbi payment system in cross-border financial scenarios and facilitated the ecosystem construction.

BUSINESS REVIEW

For the facilitation of business development, the Bank focused on the financial needs in areas such as livelihood consumption, small and micro business, and rural revitalisation, and implemented the inclusive finance and served the livelihood. The Bank optimised the entire online process of “Inclusive e-Loan” to guarantee the normal business during the pandemic; “Xingnong e-Loan” continued to expand the product system for rural revitalisation; the financial services of online industrial chain provided financing relief measures for medium and small enterprises; the B2B payment project launched four saleable products including the bank and enterprise payment, cross-border e-commerce, electricity bill manager and factor market settlement, which synchronously connected with 8 leading customers such as Alibaba, Tencent in the industry.

In respect of the livelihood, the credit medical care has been launched in 45 cities, supporting cross-provincial medical treatments in the Yangtze River Delta region. The Bank implemented digital Renminbi functional innovation and construction of application scenarios, also built a normalised digital Renminbi operation system around key topics (such as “Great Travel”, “Great Medical Care”, “Big Retail”, “Great Livelihood”, and “Great Education”) as well as customer demands. As at the end of the Reporting Period, the balance of wallets was RMB562 million with the accumulated transaction amount of RMB79.4 billion.

2. Utilisation of technological innovation drivers

The Bank drove the construction of enterprise-level structure and middle office with the enterprise-level and digital thinking. Two enterprise-level structure pilot projects (retail credit and B2B payment) have been successfully launched, initially forming a new structure including marketing middle office, operating middle office, risk control middle office, data middle office and enterprise-level technology platform.

The credit card distributed core system was successfully launched so that the Bank became the first large state-owned bank to use the independent and controllable distributed core system. By comprehensively reconstructing the business architecture system, the new system improved customer experience as well as operational quality and efficiency. The credit card distributed core system won the first prize of 2022 FinTech Development Award by the PBOC.

The Bank continuously improved the infrastructure cloudification service capability, completed the new generation of distributed cloud platform, accelerated the deployment of multi-cloud, and enhanced the “One cloud with multiple cores” strategy. The “5G Full-field Intelligent Financial Cloud Network” was awarded the “Top 10 Application Cases” of the 2022 World 5G Convention jointly sponsored by the National Development and Reform Commission (NDRC) and other ministries, as well as the third prize of the FinTech Development by PBOC, promoting the accelerated application of 5G technology in the financial industry.

The Bank deepened the application of artificial intelligence technologies, built the upstream and downstream industrial links (such as industrial chains and supply chains) with the full-stack knowledge graph platform to assist in the network construction and supplement. Interception rules for telecommunication fraud accounts were optimised to improve the accuracy of risk alerts, and over 1,600 fraudulent accounts were controlled during the year. In addition, the Bank enhanced the automation of business operations, reduced the manual parts, improved the quality and efficiency of business processing, and simplified tasks (such as the time for image verification of account opening is reduced from 3 months to 1 week).

3. Enhancement of data support capabilities

The Bank enhanced the data governance, continuously improved the data standard management system, conducted the closed-loop control on data quality based on the data quality management system, and steadily level up the data standardisation. The data security management system was further improved, the impact assessment of rights protection was effectively implemented, and the data security maturity assessment system was basically established.

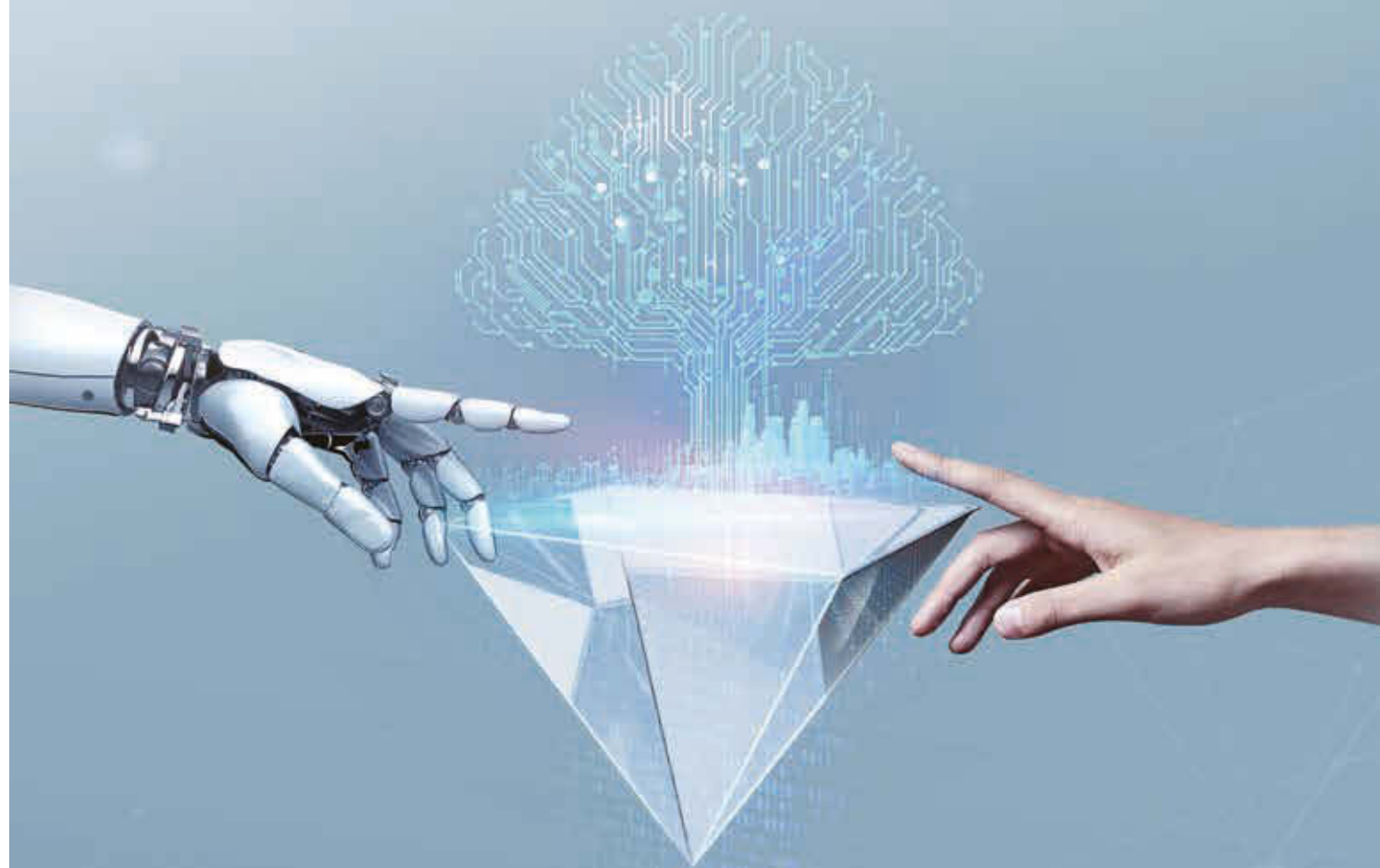
The enterprise-level data middle office was established and strengthened to provide integrated, efficient and intelligent data support for the business digital transformation. The data analysis platform became an integrated platform for data modelling, strategy design and analysis application across the Bank. Besides, the management cockpit supported the online presentation and flexible query of various indicators (such as the national strategic orientation and business operation priorities), and the digital and scientific level of the Bank's operation and management has been steadily improved. The Bank also actively participated in the market-oriented development of data elements and became the first batch of data providers in Shanghai Data Exchange and Shenzhen Data Exchange. In 2022, the Bank obtained a Level 4 certificate for the Data Management Capability Maturity Assessment Model (DCMM), the "Data Governance Best Practice Award" from the Data Management Association International (DAMA), the "Xinghe" Data Asset Management Benchmarking Case Award from China Academy of Information and Communications Technology, and won the "Data Asset Innovation Award" from the Global Data Ecosystem Conference.

4. Consolidation of the bottom line for production security

During the Reporting Period, the Bank's production system was operated smoothly, and the security production was successfully completed during important periods such as the 20th National Congress of the Communist Party of China, the Winter Olympic Games, the Winter Paralympic Games and the "two sessions". During the pandemic, the Bank made every effort to ensure the continuous operation of the business and the stable operation of various production systems.

The Bank carried out financial technology ethics publicity and implementation training for its employees to promote the Bank's ethical value of "Technology for good, data for equal rights" and to continuously improve employees' financial technology ethics.

The Bank steadily processed the construction of digital infrastructure and disaster recovery system, planned two new remote data centres in Guian (Guizhou Province) and Horing (Inner Mongolia), accelerated the construction of a new local data centre in Pujiang District, and enhanced the actual business take-over capability of the local and remote disaster recovery centres to support the transformation and development.



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IV. RISK MANAGEMENT

The Board of Directors of the Bank established the overall risk appetite of “Stability, Balance, Compliance and innovation” for the Bank and further set specific indicators of risk limits against various risks including credit, market, operation, liquidity, interest rate of banking book, information technology and country to exercise strict control over various risk types. During the Reporting Period, the Group closely focused on the “three major tasks” under the financial planning, strictly adhered to the bottom-line thinking, coordinated the development and security, and mainly considered the battle for asset quality to continuously improve its comprehensive risk management capability. Besides, the Bank deepened the reform of risk credit and anti-money laundering, strengthened the modernisation of risk governance system and governance capability, and promoted the digital transformation of risk management. Also, the annual risk management objectives and tasks were successfully completed, which strongly facilitating the Bank’s high-quality development.

(I) Risk Management Framework

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

(II) Risk Management Tool

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

RISK MANAGEMENT

(III) Credit Risk Management

During the Reporting Period, the Bank continued to strengthen unified credit risk management. The Group promoted the development of credit business in an orderly manner, supported the real economy improve steadily, and strived to develop green finance. The Group provided proactive support to key fields such as inclusive small and micro enterprises, advanced manufacturing, infrastructure construction, strategic emerging industries and trade and logistics, and reinforced control over real estate, implicit government debts, large enterprises, overcapacity and credit card. The Group consolidated the foundation of management base, optimised the framework of credit granting policy, in which process the outline of credit granting and risk policy, the guidelines on industry investment, “one policy for one bank” and some special policies were upgraded in a timely manner. Moreover, the Group made the credit process online and more automated, completed docking with the unified registration and publicity system of movable property financing of the Credit Information Center of the People’s Bank of China, promoted online real estate mortgage registration throughout China and realised its “cross-provincial business” in many cities across the country. With these efforts, the system tools were upgraded continuously, which enriched post loan (investment) management and risk monitoring. In addition, risk classification became more sophisticated with the asset quality improved steadily.

The Group enhanced disposal and collection of non-performing loans continuously. During the Reporting Period, the disposal of non-performing loans reached 86.4 billion, representing a year-on-year increase of 2.9%. Among them, the substantive settlement was 39.34 billion, representing a year-on-year increase of 16.9%, and the quality and efficiency of disposal were improved simultaneously. During the Reporting Period, the Bank focused on the significant risks and key sectors, brought into play the professional disposal capability, steadily and orderly performed the risk disposals on significant items, increased the use of disposal methods such as non-performing asset securitisation and debt-for-equity swap of risk assets, and improved the quality and efficiency of non-performing asset settlement and recovery.

During the Reporting Period, the Group reinforced risk identification and prompted risk response. The business accountability mechanism for credit granting of key customers was continuously deepened, the approval procedures of credit business were also continuously deepened, the post-loan management was continuously improved and enhanced. The Bank continuously strengthened the credit risk identification and management in key sectors, further optimised systems and models of risk monitoring, assessment and measurement, and the direct operation and management mechanism for the asset preservation was significantly effective. By maintaining strict asset quality classification standards, the foundation of asset quality was continuously strengthened, and the asset quality was steadily improved. As at the end of the Reporting Period, the balance of non-performing loans was 98.526 billion and the non-performing loan ratio was 1.35%, representing an increase of 1.730 billion and a decrease of 0.13 percentage points respectively over the end of the previous year. The period also witnessed a decrease in both the balance and proportion of overdue loans. The Group adopted prudent classification standards for overdue loans. All the corporate loans overdue for more than 60 days were included in non-performing loans and accounted for 63%. Loans overdue for over 90 days were included in non-performing loans and accounted for 58% of non-performing loans.

Distribution of loans by five categories of loan classification*(in millions of RMB unless otherwise stated)*

	31 December 2022		31 December 2021		31 December 2020	
	Amount	Proportion (%)	Amount	Amount	Proportion (%)	Amount
Pass loan	7,092,545	97.21	6,374,975	97.17	5,668,199	96.92
Special mention loan	105,084	1.44	88,629	1.35	82,527	1.41
Total performing loan balance	7,197,629	98.65	6,463,604	98.52	5,750,726	98.33
Sub-standard loan	40,465	0.55	52,960	0.81	52,652	0.90
Doubtful loan	33,257	0.46	25,978	0.40	26,713	0.46
Loss loan	24,804	0.34	17,858	0.27	18,333	0.31
Total non-performing loan balance	98,526	1.35	96,796	1.48	97,698	1.67
Total	7,296,155	100.00	6,560,400	100.00	5,848,424	100.00

Distribution of special mention loans and overdue loans by business type*(in millions of RMB unless otherwise stated)*

	31 December 2022				31 December 2021			
	Overdue loan balance	Special mention loan ratio (%)	Overdue loan balance	Special mention loan ratio (%)	Overdue loan balance	Special mention loan ratio (%)	Overdue loan balance	Special mention loan ratio (%)
Corporate loans	84,584	1.80	46,309	0.98	73,858	1.78	53,503	1.29
Personal loans	20,499	0.87	38,483	1.63	14,737	0.64	33,653	1.47
Mortgage	8,051	0.53	13,023	0.86	3,966	0.27	9,001	0.60
Credit cards	10,808	2.26	20,122	4.21	9,637	1.96	20,462	4.15
Personal business loans	436	0.18	1,985	0.83	381	0.20	1,533	0.81
Others	1,204	0.88	3,353	2.45	753	0.66	2,657	2.32
Discounted bills	1	0.00	36	0.02	34	0.02	6	0.004
Total	105,084	1.44	84,828	1.16	88,629	1.35	87,162	1.33

The balance of corporate overdue loan was 46.309 billion, representing a decrease of 7.194 billion over the end of the previous year. The overdue ratio was 0.98%, representing a decrease of 0.31 percentage points over the end of the previous year. The balance of personal overdue loan was 38.483 billion, representing an increase of 4.830 billion over the end of the previous year. The overdue loan ratio was 1.63%, representing an increase of 0.16 percentage points over the end of the previous year.

RISK MANAGEMENT

Distribution of loans and non-performing loans by business type*(in millions of RMB unless otherwise stated)*

	31 December 2022				31 December 2021			
	Loans	Proportion (%)	Non-performing Loan	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing Loan	Non-performing loan ratio (%)
Corporate loans	4,711,353	64.58	78,487	1.67	4,138,582	63.09	77,618	1.88
Personal loans	2,366,507	32.43	20,003	0.85	2,285,096	34.83	19,168	0.84
Mortgage	1,512,648	20.73	6,731	0.44	1,489,517	22.70	5,083	0.34
Credit cards	477,746	6.55	9,310	1.95	492,580	7.51	10,821	2.20
Personal business loans	239,271	3.28	1,716	0.72	188,293	2.87	1,301	0.69
Others	136,842	1.87	2,246	1.64	114,706	1.75	1,963	1.71
Discounted bills	218,295	2.99	36	0.02	136,722	2.08	10	0.01
Total	7,296,155	100.00	98,526	1.35	6,560,400	100.00	96,796	1.48

Distribution of loans and non-performing loans by industry*(in millions of RMB unless otherwise stated)*

	31 December 2022				31 December 2021			
	Loans	Proportion (%)	Non-performing Loan	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing Loan	Non-performing loan ratio (%)
Corporate loans	4,711,353	64.58	78,487	1.67	4,138,582	63.09	77,618	1.88
Transportation, storage and postal services	823,156	11.28	5,645	0.69	763,419	11.64	10,873	1.42
Manufacturing	836,532	11.46	21,934	2.62	732,565	11.16	28,305	3.86
Leasing and commercial services	729,818	10.00	9,079	1.24	650,742	9.92	11,517	1.77
Real estate	519,857	7.13	14,560	2.80	419,820	6.40	5,260	1.25
Water conservancy, environmental and other public facilities	429,222	5.88	5,343	1.24	382,201	5.83	3,357	0.88
Production and supply of electric power, heat, gas and water	342,617	4.70	3,237	0.94	268,772	4.10	2,496	0.93
Wholesale and retail trade	254,447	3.49	3,911	1.54	215,554	3.29	5,649	2.62
Construction	176,696	2.42	2,000	1.13	157,729	2.40	1,504	0.95
Finance	148,747	2.04	1,874	1.26	132,633	2.02	–	–
Education, science, culture and public health	128,762	1.76	2,861	2.22	122,196	1.86	2,759	2.26
Mining	118,246	1.62	2,162	1.83	120,216	1.83	2,413	2.01
Others	94,839	1.31	1,012	1.07	77,884	1.19	743	0.95
Information transmission, software and information technology services	68,246	0.94	648	0.95	60,718	0.93	1,149	1.89
Accommodation and catering	40,168	0.55	4,221	10.51	34,133	0.52	1,593	4.67
Personal loans	2,366,507	32.43	20,003	0.85	2,285,096	34.83	19,168	0.84
Discounted bills	218,295	2.99	36	0.02	136,722	2.08	10	0.01
Total	7,296,155	100.00	98,526	1.35	6,560,400	100.00	96,796	1.48

The Group actively implemented the national policies and deployment, continuously increased financing support for the real economy. Manufacturing loans represents an increase of 103.967 billion or 14.19% over the end of the previous year, higher than the average growth rate of all loans. In stabilising investments and growth in key sectors, the loans of Transportation, storage and postal services increased by 59.737 billion or 7.82% over the end of the previous year. Leasing and commercial services loans increased by 79.076 billion or 12.15% over the end of the previous year. Water conservancy, environmental and other public facilities loans increased by 47.021 billion or 12.30% over the end of the previous year. Production and supply of electric power, heat, gas and water loans increased by 73.845 billion or 27.47% over the end of the previous year. Meanwhile, the Group maintained a stable and orderly financing for the real estate business, increased financing support for high-quality real estate enterprises and projects, also promoted the stable and healthy development of the real estate market. Real estate loans increased by 100.037 billion or 23.83% over the end of the previous year.

Distribution of loans and non-performing loans by region

(in millions of RMB unless otherwise stated)

	31 December 2022				31 December 2021			
	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)	Loans	Proportion (%)	Non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta	2,000,365	27.42	21,107	1.06	1,780,637	27.14	22,399	1.26
Pearl River Delta	978,749	13.41	8,403	0.86	857,521	13.07	5,559	0.66
Bohai Rim Economic Zone	1,137,282	15.59	10,707	0.94	965,957	14.72	13,893	1.44
Central China	1,196,075	16.39	14,520	1.21	1,092,985	16.66	19,224	1.76
Western China	875,476	12.00	9,333	1.07	774,445	11.80	9,661	1.25
North Eastern China	250,190	3.43	13,595	5.43	247,023	3.77	12,090	4.89
Overseas	376,277	5.16	11,551	3.07	348,948	5.32	3,139	0.90
Head office	481,741	6.60	9,310	1.93	492,884	7.52	10,831	2.20
Total	7,296,155	100.00	98,526	1.35	6,560,400	100.00	96,796	1.48

Note: Head Office included the Pacific Credit Card Centre.

The Group implemented differentiated policies of “one policy for one bank” to make dynamic adjustments to business authorisation based on regional economic traits.

Overdue loans and advances

(in millions of RMB unless otherwise stated)

Overdue Period	31 December 2022		31 December 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 3 months	27,737	0.38	23,164	0.35
3 months to 1 year	33,480	0.46	29,433	0.45
1 to 3 years	19,083	0.26	27,164	0.42
Over 3 years	4,528	0.06	7,401	0.11
Total	84,828	1.16	87,162	1.33

RISK MANAGEMENT

As at the end of the Reporting Period, the balance of overdue loans was 84.828 billion, representing a decrease of 2.334 billion over the end of the previous year. The overdue ratio was 1.16%, representing a decrease of 0.17 percentage points over the end of the previous year. The balance of loans overdue for over 90 days was 57.091 billion, representing a decrease of 6.907 billion over the end of the previous year.

Restructured loans

(in millions of RMB unless otherwise stated)

	31 December 2022		31 December 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Restructured loans	13,660	0.19	8,792	0.13
Including: Restructured loans overdue over three months	1,533	0.02	1,625	0.02

Loan migration rates

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

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

Credit risk concentration

As at the end of the Reporting Period, the total loans to the largest single borrower of the Group accounted for 4.56% of the Group's net capital, and the total loans to top 10 customers accounted for 18.56% of the Group's net capital. The situation of loans to top 10 single borrowers as at the end of the Reporting Period is shown below.

(in millions of RMB unless otherwise stated)

	As at 31 December 2022		
	Industry	Amount	Percentage of total loans (%)
Customer A	Production and supply of electric power, heat, gas and water	57,000	0.78
Customer B	Production and supply of electric power, heat, gas and water	37,700	0.52
Customer C	Transportation, storage and postal services	34,762	0.48
Customer D	Real estate	18,889	0.26
Customer E	Manufacturing	15,670	0.21
Customer F	Transportation, storage and postal services	15,038	0.21
Customer G	Transportation, storage and postal services	13,676	0.19
Customer H	Transportation, storage and postal services	13,271	0.18
Customer I	Transportation, storage and postal services	13,177	0.18
Customer J	Transportation, storage and postal services	12,864	0.18
Total of Top 10 Customers		232,047	3.18

(IV) Market Risk Management

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

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

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

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

(V) Liquidity Risk Management

Liquidity risk is the risk that occurs when the commercial bank cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfil other payment obligations, or meet other funding needs in the normal course of business. The main factors affecting the liquidity risk include early withdrawal by deposit customers, deferred repayment by loan customers, mismatch of asset and liability structure, difficulty in asset realisation, decline in financing capability, etc.

RISK MANAGEMENT

The governance structure of liquidity risk management of the Group consisted of a decision-making body comprised the Board of Directors and its Special Committees and Senior Management, a supervisory body comprised the Board of Supervisors and Audit Supervision and an executive body comprised Financial Management Department, Financial Markets Department, Risk Management Department, Operations and Channel Management Department, branches, subsidiaries and the Head Office's departments in charge of each business.

The Group's liquidity risk management goal was to establish and improve the liquidity risk management system, and effectively identify, measure, monitor and manage the liquidity risk at legal entity level and group level, subsidiaries, branches and business lines to ensure that the liquidity needs can be timely satisfied at a reasonable cost.

The Group annually determined liquidity risk appetite and formulated liquidity risk management strategies and policies according to business strategies, business characteristics, financial strength, financing abilities, overall risk appetite and market influence. The strategies and policies covered all on- and off-balance sheet businesses, as well as all business departments, branches and subsidiaries that might have a significant impact on liquidity risk at home and abroad and included liquidity risk management under normal and stressful conditions.

During the Reporting Period, the Group continuously improved its liquidity risk management system, adhered to the balance between capital source and utilization, timely and flexibly adjusted its liquidity management strategies and business development structure and rhythm, and promoted the coordinated development of the entire bank's asset liability business; the Group conducted cash flow calculation and analysis on a daily basis and strengthened daytime liquidity management and financing management to ensure liquidity safety during major holidays, key time points, and epidemic situations. The Bank strictly monitored liquidity risk related indicators, strengthened proactive risk early warning and prediction, and timely made strategic adjustments to ensure the smooth operation of liquidity risk indicators throughout the Bank.

The Group launched regular stress testing for liquidity risk, in which the stressed scenarios and various factors which may affect liquidity situation were reasonably considered. The results of stress tests showed that the Bank's liquidity risk was in a controllable range under various pressures scenarios.

As at the end of the Reporting Period, the table below shows the liquidity ratio indicator of the Group:

	Standard Value	31 December 2022	31 December 2021	31 December 2020
Liquidity ratios (%)	≥25	69.76	67.11	69.24

Note: Calculated according to the regulatory standard of the CBIRC.

The daily average liquidity coverage ratio of the Group during the fourth quarter of 2022 was 122.00% (the daily average within the quarter was the arithmetic average of daily data of the quarter, the number of daily data required was 92). The ratio decreased by 4.13 percentage points over the previous quarter mainly due to increase in net cash outflows. The Group's qualified HQLA mainly included cash, reserves that can be withdrawn from the central bank under stress scenarios and bonds that meet the definition of primary and secondary assets in *the Administrative Measures for Liquidity Risk Management of Commercial Banks*.

The Group's net stable funding ratio for the third quarter of 2022 was 107.41%, representing a decrease of 1.61 percentage points over the previous quarter, which was mainly due to the increase in loans issued to retail and small business customers, non-financial institutions, sovereignty, central banks and public sector entities. In the fourth quarter of 2022, the net stable funding ratio was 109.16%, representing an increase of 1.75 percentage points over the previous quarter, which was mainly due to the increase in wholesale financing.

For more details about the LCR and the average of detailed items during the fourth quarter and the net stable capital ratio and detailed items in the last two quarters of 2022, please refer to "Supplementary Information on Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio".

(VI) Operational Risk Management

The Group developed comprehensive operational risk management system dealing with the nature, scale and product complexity of the Group's businesses. The Group also standardised the procedures of operational risk controls, control self-assessment, loss data collection, key risk indicator monitoring and operational risk event management. During the Reporting Period, the Group further enhanced the operational risk classification and matrix evaluation mechanism, strengthened the integrated management of operational risks of subsidiaries, and strengthened operational risk monitoring assessment on key areas. The Group also strengthened business continuity and outsourcing risk management.

(VII) Legal Compliance and Anti-money Laundering

During the Reporting Period, the Bank made efforts to improve and promote the implementation of its legal compliance management framework. The Group improved legal knowledge education and the construction of compliance culture, contributing to steady legal and compliance management. During the Reporting Period, the Group took the measures to enhance anti-money laundering management capabilities, including advancing the self-evaluation of money laundering risk, strengthening customer identification, improving the quality and efficiency of large-sum transactions and suspicious transactions' reports, strengthening the anti-money laundering system construction, and promoting the anti-money management capability continuously.

(VIII) Reputation Risk Management

The Group implemented the Administrative Measures for Reputational Risk of Bank and Insurance Institution (for Trial Implementation). As for the governance structure, the Group improved the reputational risk management of "Board of Directors, Board of Supervisors and Top Management Team". As for the mechanism, the Group enhanced the Group integrated management, continuously improving the management system of reputational risk of the Group. As for execution, the Group optimised the closed-loop management of the whole process, including pre-assessment, in-process response, and post event summary, and improved the management of the reputational risk. During the Reporting Period, the Group's reputational risk management system operated well and the reputational risk was under control.

RISK MANAGEMENT

(IX) Cross-Industry, Cross-Border and By-Country Risk Management

The Group set up the risk management system across industries and borders, characterised by “centralised management, clear allocation, adequate tools, IT support, risk quantification, and consolidation of substantially controlled entities”. All subsidiaries and overseas branches take into account both the Group’s standardised requirements and the respective requirements from local regulatory governing bodies while performing risk management. During the Reporting Period, considering the uncertainties caused by the global COVID-19 pandemic, the Group strengthened risk management in overseas institutions, improved the institutional system, advanced assessment mechanism, and strengthened the development and drilling of various emergency plans to ensure stable operation of business. In addition, the Group also strengthened management of key areas such as employees’ awareness of pandemic prevention, liquidity, business continuity and asset quality in overseas institutions. The Group enhanced the consolidation management, improved unified risk management of the Group, refined the full lifecycle management of subsidiaries, and optimised risk information reporting mechanism. The Group strengthened by-country risk management, increased the frequency of monitoring by-country risk exposure, improved the management of by-country risk limits, carried out by-country risk analysis and rating, continuously paid attention to and responded to by-country risk events in a timely manner, and integrated by-country risk management requirements throughout the entire process of relevant business development.

(X) Management of Large Exposure Risk

The Group thoroughly implemented the requirements of the Administrative Measures for the Large Exposures of Commercial Banks issued by the CBIRC, boosted the construction of management system, continuously monitored situations of large exposure risk, and strictly adhered to various delegated authorities’ standards, so as to improve the Group’s ability to prevent systematic and regional risk. During the Reporting Period, the Group’s large exposure risk indicators all met the regulatory requirements.

(XI) Climate and Environmental Risk Management

The Group actively supported the target of “Carbon Peak and Carbon Neutrality”, and promoted the further integration of climate and environmental risks into the comprehensive risk management system. According to the risk appetite determined by the Board of Directors, the Bank continuously improved the governance structure, strengthened institutional restrictions, enhanced the risk assessment, and optimised management as well as control measures to effectively respond to new challenges brought by climate change and low-carbon transformation of the social economy.

During the Reporting Period, the Bank increased the industrial dimensions involved in the statistics of carbon emission data for investment and financing enterprises, and continuously improved the environmental benefit measurement of projects related to carbon emission reduction support tools. In 2022, the Bank performed the sensitivity stress tests on the climate risk for eight high-carbon-emission industries (including power, steel, construction materials, non-ferrous metal, civil aviation, petrochemicals and papermaking) and analysed the potential impact of the green and low-carbon transformation of the social economy on the Bank’s asset quality. Test results indicated that the credit risk of the Bank’s eight customers in such high-carbon-emission industries increased under the relevant stress scenarios, while the overall risk was controllable. The impact on the Bank’s capital adequacy level was limited.

V. OUTLOOK

In 2023, amid the sophisticated and challenging international environment, the growth momentum of the global economy slows down, with rising risk of stagflation. The foundation for the recovery of domestic economy is not yet solid, the triple pressures of demand contraction, supply shock, and weakening expectations is still high. However, China's economy is strongly resilient, high potential and vigorous, the long-term promising outlook remains unchanged. With the continuous implementation of various policies, the order of domestic production and livelihood is expected to accelerate the restoration. The endogenous momentum of the economic growth has been continuously accumulated and strengthened, and the overall economy is expected to rebound.

Since 2023 is the beginning of the fully implementation of the underlying principles from the 20th CPC National Congress, the Group will continue following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, actively implement guidelines of the Central Economic Work Conference, adhere to the general principle of seeking improvement in stability, and implement the new development concepts completely, accurately and comprehensively. Besides, the Group will serve to build a new development pattern, continuously improve the quality and efficiency of serving the high-quality development of the real economy, and further promote the implementation of the "14th Five-Year Plan" of the BOCOM. The Group will also accelerate the construction of a world-class banking group with features and advantages, focusing on the following aspects:

Serve the high-quality development of the real economy. The Group will seize opportunities for the development of new drivers such as the supply chain of key manufacturing industry chains, new energy systems, green and low-carbon, and digital economy. Also, the Group will upgrade and optimise the expansion model of the FinTech, better serve and support the virtuous circle of "technology-industry-finance", and help accelerate the construction of modern industrial system. In addition, the Group will seize new opportunities arising from demands such as bulk consumption (residential housing and automobile), service consumption (education, medical care and elderly care services) as well as key consumption (new citizens), vigorously develop the consumer finance business to better serve consumer demands for better lives.

Deeply promote the development of business features. The Group will promote the optimisation of its business structure based on four main features: inclusive finance, trade finance, sci-tech finance and wealth finance as well as the underlying green finance. The Group will enhance the coverage and accessibility of financial services, and expand the growth space for core liabilities and revenue. Besides, the Group will develop the integrated financial services for domestic and overseas services, local and foreign currencies, onshore and offshore business, strengthen the comprehensive efficiency of chain finance to effectively connect with the national deployment on stabilising and strengthening chain finance. The Group will give full play to the comprehensive operating advantages of BOCOM Group, better serve the high-quality development of strategic emerging industries and advanced manufacturing industries, and actively adjust and optimise the asset structure across the Bank. Focusing on key customer markets such as agent issuance, financial management and elderly care, the Group will continuously improve the wealth and financial comprehensive service system.

OUTLOOK

Accelerate the construction of Shanghai Base advantage. Focusing on serving the strategic tasks assigned to Shanghai by the Party Central Committee, the Group will strengthen the innovation curation function of Shanghai. The Group will focus on innovation in key areas to strengthen the financial services, upgrade and optimise the innovation system of technology finance. Also, the Group will actively explore new development opportunities in areas such as service trade, digital trade, offshore trade. Besides, the Group will proactively connect with multi-level and diversified livelihood demands, and strive to strengthen the advantage of Shanghai Base. Meanwhile, the Group will strengthen the role of leading enterprise, and accelerate the replication and promotion of the experience model of Shanghai in other regions according to local circumstances and conditions.

Deeply enhance the Group's digital transformation. Taking the retail transformation as a breakthrough, the Group will deepen the digital operation. Mainly focusing on the mobile banking APP and online banking, the Group will enhance the construction and operation of open banking scenarios, optimise and upgrade individual credit business process through digital platform tools, and steadily improve the value contribution of the retail transformation. The Group will accelerate the comprehensive transformation of outlets, improve the operational efficiency of outlets, and change the service model of outlets. Besides, the Group will enhance the full function and product coverage of outlets, strengthen the synergy between physical outlets and "Cloud BoCom", and promote the formation of an integrated online and offline service system.

Continuously enhance the risk management and control capability. The Group will continuously strengthen the Group's unified risk management, and strive to develop the credit risk management at the group level, collaborative treatments of major projects, the market risk and liquidity risk on the integration of local and foreign currencies as well as domestic and overseas business, cross-financial risks and risk management of off-balance sheet business. The Group will continuously strengthen risk management and control in key areas, properly address risks in key real estate enterprises, and focus on preventing local policy debt risks. Moreover, the Group will pay attention to hidden risks of inclusive small and micro customer groups, strongly prevent the rebound of non-performances, and adhere to the bottom line of the safeguard on systemic financial risks.

VI. MAJOR CONCERNS OF CAPITAL MARKET

(I) Interest rate spread trends

In 2022, the Group was fully committed to stabilising the economy and providing financial services to help enterprises alleviate their difficulties. We continued to increase our efforts in serving the real economy and dynamically adjusted and optimised our business development strategy as well as asset and liability business structure. Under the combined impact of multiple factors such as downward LPR and fee reductions and concessions, asset-side yields, especially customer loan yields, dropped faster; at the same time, against the backdrop of macroeconomic and capital market volatility, the investment and consumption willingness of enterprises and citizens declined, and new deposits showed a trend towards term deposits, resulting in a slight upward trend in the overall cost of deposit rate. As a result of the combined impact of various factors on the asset side and the liability side, the Group's net interest margin for the Reporting Period was 1.37%, down 10 basis points year-on-year, and the net interest margin was 1.48%, down 8 basis points year-on-year. Given the general environment of gradually declining asset yields, coupled with the continued pressure on interest rate spread levels, the Group will continue to manage prices forward and emphasis on asset and liability structure management in 2023, while further focusing on the trajectories of customer balance sheets and funding, enhancing the internal circulation of upstream and downstream customer funds, driving the deposition of low-cost funds and promoting the Group's profitability to maintain fundamental stability.

(II) Capital management

The Group continued to improve our capital management system, promoted the transformation of capital intensification and refined management, enhanced the efficiency of capital use as well as increased the level of return to provide strong support for the Group's high-quality development. In 2022, the Group fuelled the business development of the entire bank with a sound level of capital adequacy, increased our efforts to serve the real economy and continued to increase credit allocation. We also continuously optimised and improved the economic capital management and assessment mechanism, adhered to the performance assessment and evaluation system that emphasised on economic value added (EVA) and return on capital, strengthened capital constraints and returns and promoted capital light development. We continued to keep track of international and domestic capital regulatory rules, optimised and improved the internal capital adequacy assessment mechanism, dynamically balanced capital demand and supply and ensured that the capital level can withstand various risks. The Group's net capital increased by 110.36 billion in aggregate in 2022, of which the increase in core tier 1 capital relied on the profit retention accumulated from internal sources, with a net increase of 56.287 billion; the increase in tier 2 capital was mainly through the issuance of tier 2 capital bonds and the provision for excess loan losses, with a net increase of 53.941 billion. The capital base was further strengthened, the capital structure was more reasonable and various capital indicators continued to meet regulatory requirements.

Recently, the regulator released the *Administrative Measures for the Capital Management of Commercial Banks (Exposure Draft)*, which is expected to be formally implemented from 2024. The new regulation focuses on building a differentiated capital regulatory system, revising and re-structuring the rules for measuring risk-weighted assets under Pillar 1, improving the degree of refinement in risk measurement and guiding commercial banks to optimise their asset structure and better serve the real economy. At the same time, the Pillar 2 supervision and inspection requirements will be further improved and adjusted, and the Pillar 3 information disclosure standards will be comprehensively upgraded. The Group will take the implementation of the new capital regulations as an opportunity to further enhance the refinement and systematisation of capital measurement, actively promote the continuous optimisation of the asset structure, and promote capital conservation and capital value creation capabilities.

MAJOR CONCERNS OF CAPITAL MARKET

(III) Real estate credit allocation and asset quality

The Bank implemented the country's decision and deployment on supporting the stable and healthy development of the real estate market. First, the Group maintained stable and orderly real estate financing, followed the general principle of "implementing policies on a city-by-city basis and a client-by-client basis, differentiating management in level and in category", adhered to the five-factor client acceptance criteria of "client, region, business status, cost and return", and strengthened differentiated management. Second, the Group enhanced the risk prevention and control, made full use of internal and external tools to strengthen risk monitoring and implement risk checking, improved the initiative of risk management to achieve early identification, early warning, early detection and early response to risks, and adhered to the bottom line of no systemic risks. Third, the Bank took measures to ensure the assurance of property delivery, providing complementary financing support to policy banks for special loans for "the assurance of property delivery", support high-quality real estate enterprises to merge and acquire high-quality projects of distressed real estate enterprises, and grant reasonable extensions to the stock of real estate financing in accordance with commercial principles on the premise of guaranteeing the safety of debts in accordance with the principles of legal compliance and marketisation, so as to promote the resolution of risks in the inventory business. During the Reporting Period, the Group's balance of public real estate increased by 100.037 billion, or 23.83%, as compared with the end of the previous year.

In 2022, the operations and financial conditions of some real estate companies continued to be under pressure, liquidity risks were highlighted, and debt defaults or negative public opinion occurred in the open market. The Bank relocated the relevant several real estate project loans to non-performing loans in accordance with the principle of substantive risk judgment and has further strengthened the risk management and recovery and disposal of related loans. At the end of the Reporting Period, the balance of non-performing loans to the public real estate sector was 14.56 billion, an increase of 9.3 billion from the end of the previous year, and the non-performing loan ratio was 2.8%, an increase of 1.55 percentage points from the end of the previous year, whereas the overall risk is controllable.

(IV) Asset quality of credit cards

In accordance with the requirements of the *Notice on Further Promoting the Standardised and Healthy Development of Credit Card Business*, the Bank strengthened the management of our credit card business, continued to optimise the structure of our credit card business clientele and focused on enhancing our risk management capability. Through measures such as introducing internal and external quality compliance data, improving risk measurement, refining risk control strategies, strengthening the deployment of battle for asset quality and increasing the disposal of non-performing assets, the asset quality of the credit card business has gradually improved. At the end of the Reporting Period, the 90D+ delinquency ratio issued was 1.95%, versus year-on-year actual of 2.20%, maintaining a downward trend for three years. In 2023, the credit card business will continue to adhere to the general requirement of "making progress and improving quality while maintaining stability". We will coordinate business operation and risk control, and achieve high-quality development of the credit card business by strengthening risk control, optimising the quality of customer acquisition and improving asset structure.

(V) Impact of the *Risk Classification Scheme for Financial Assets of Commercial Banks* on the Bank's asset quality

The *Risk Classification Scheme for Financial Assets of Commercial Banks*, which was formally introduced in February 2023, extended the scope of risk classification to all financial assets bearing credit risk, further refined the corresponding relationship between risk classification and days past due and credit impairment, and improved the criteria for identifying cross-default and restructured loans. Since the issuance of the exposure draft of the new risk classification regulations in 2019, the Bank has carefully studied and taken the initiative to work along with the requirements of the new regulations, deployed and promoted the three-year asset quality battle, prospectively revised the risk classification management approach and has implemented the requirements on the scope of classification, number of days past due and cross-default in the new regulations ahead of schedule. The current size of the stock of assets to be reclassified under the new standard is relatively small, where the overall impact is controllable.

CHANGES IN SHARES AND SHAREHOLDERS

I. CHANGES IN ORDINARY SHARES

As at the end of the Reporting Period, the Bank issued a total of 74,262,726,645 ordinary shares including 39,250,864,015 A shares and 35,011,862,630 H shares, which accounted for 52.85% and 47.15% respectively.

All the ordinary shares issued by the Bank are not subject to sales restrictions.

	31 December 2022		Increase/ decrease during the Reporting Period	31 December 2021	
	Number of shares (share)	Percentage (%)		Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	–	–	–	–	–
II. Shares not subject to sales restrictions	74,262,726,645	100.00	–	74,262,726,645	100.00
1. Renminbi ordinary shares	39,250,864,015	52.85	–	39,250,864,015	52.85
2. Domestically listed foreign shares	–	–	–	–	–
3. Overseas listed foreign shares	35,011,862,630	47.15	–	35,011,862,630	47.15
III. Total shares	74,262,726,645	100.00	–	74,262,726,645	100.00

II. SHAREHOLDERS OF ORDINARY SHARES

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 355,157, of which 323,957 were holders of A shares and 31,200 were holders of H shares. As at 28 February 2023, the total number of shareholders of ordinary shares of the Bank was 352,502, of which 321,366 were holders of A shares and 31,136 were holders of H shares.

(I) Shareholdings of Top 10 Ordinary Shareholders as at the end of the Reporting Period

Name of shareholders (Full name)	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares	Shares pledged or frozen	Nature of shareholders
The Ministry of Finance of the People's Republic of China	–	13,178,424,446	17.75	A Share	Nil	Government
	–	4,553,999,999	6.13	H Share	Nil	
The Hongkong and Shanghai Banking Corporation Limited ("HSBC") ^{2,4}	–	14,135,636,613	19.03	H Share	Nil	Foreign legal entity
The National Council for Social Security Fund ("SSF") ^{3,4}	–	3,105,155,568	4.18	A Share	Nil	Government
	–	8,433,333,332	11.36	H Share	Nil	
HKSCC Nominees Limited ^{4,5}	4,052,857	7,706,614,849	10.38	H Share	Unknown	Foreign legal entity
China Securities Finance Corporation Limited	–	1,891,651,202	2.55	A Share	Nil	State-owned legal entity
Capital Airports Holdings Company Limited	–	1,246,591,087	1.68	A Share	Nil	State-owned legal entity
Hong Kong Securities Clearing Company Limited ("HKSCC")	209,374,254	1,068,284,710	1.44	A Share	Nil	Foreign legal entity
Shanghai Haiyan Investment Management Co., Ltd. ⁵	–	808,145,417	1.09	A Share	Nil	State-owned legal entity
Yunnan Hehe (Group) Co., Ltd. ⁵	–	745,305,404	1.00	A Share	Nil	State-owned legal entity
FAW Equity Investment (Tianjin) Co., Ltd.	–	663,941,711	0.89	A Share	Nil	State-owned legal entity

CHANGES IN SHARES AND SHAREHOLDERS

Notes:

1. The relevant data and information are based on the Bank's register of members at the Share Registrar and Transfer Office and the information provided by shareholders to the Bank.
2. According to the Bank's register of members, the "HSBC" held 13,886,417,698 H shares of the Bank. HSBC beneficially held 249,218,915 more H shares than shown on the Bank's register of members. The discrepancy was due to a purchase of H shares by HSBC from the secondary market in 2007 and thereafter receiving bonus shares issued by the Bank and participating in the rights issue of the Bank. Those extra shares have been registered under Hong Kong Securities Clearing Company Nominees Limited ("HKSCC Nominees Limited").
3. Including the 1,970,269,383 A shares of the Bank held by the Sixth Transfer Account for State-owned Capital of the National Council for Social Security Fund ("SSF"). Other than the above shareholdings, the SSF held additional 616,795,000 H shares, which were indirectly held by certain asset managers (including Hong Kong Stock Connect). As at the end of the Reporting Period, the SSF held a total of 12,155,283,900 A shares and H shares of the Bank, representing 16.37% of the Bank's total ordinary shares issued.
4. HKSCC Nominees Limited held the H shares of the Bank as a nominee. The aggregate number of shares held by HKSCC Nominees Limited represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period. The data did not include 249,218,915 and 7,027,777,777 H shares indirectly held by HSBC and SSF respectively, which were registered under HKSCC Nominees Limited. The data did not include 13,886,417,698 and 1,405,555,555 H shares of the Bank directly held by the aforementioned two shareholders respectively as well, which were registered in the Bank's register of members.
5. Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert as defined under *the Provisional Measures on Shareholdings Administration of Commercial Banks (China Banking Regulatory Commission Order No. 1 of 2018)*. 7 subordinate enterprises of China National Tobacco Corporation including Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. authorised and entrusted China National Tobacco Corporation to present at the Shareholders' General Meeting of the Bank and to exercise the voting rights on their behalf. HKSCC Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited ("HKSCC"). Furthermore, The Bank is not aware of the existence of any related relationship among the other Top 10 shareholders, or whether they are parties acting in concert as defined in *the Provisional Measures on Shareholdings Administration of Commercial Banks*.

(II) Controlling Shareholders/Actual Controllers

There was no controlling shareholder or actual controller of the Bank.

(III) Substantial Shareholders

In accordance with *the Provisional Measures on the Shareholdings Administration of Commercial Bank (CBIRC Decree [2018] No. 1)*, as at the date of disclosing this Report, the Bank's substantial shareholders including the Ministry of Finance, HSBC, SSF, Capital Airports Holdings Company Limited, Shanghai Haiyan Investment Management Co., Ltd., and Daqing Petroleum Administration Bureau are detailed as follows:

1. Substantial shareholders holding 5% or more shares of the Bank⁷

- (1) The Ministry of Finance is the largest shareholder of the Bank, which was incorporated in October 1949 as a division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policies. Its person in charge is Liu Kun, its registered address is No. 3 South Lane, San Li He, Xicheng District, Beijing and its unified social credit code is 11100000000013186G. As at the end of the Reporting Period, the Ministry of Finance held a total of 17,732,424,445 A shares and H shares of the Bank, representing a shareholding of 23.88% of the Bank. To the knowledge of the Bank, this shareholder did not pledge any shares of the Bank.

⁷ Excluding HKSCC Nominees Limited.

- (2) HSBC is the second largest shareholder of the Bank, which was incorporated in 1866, primarily providing comprehensive local and international banking services and related financial services in the Asia-Pacific region. Its Co-chief Executive Officers are Liao, Yi Chien David and Surendra Rosha, and its registered address is No. 1 Queen's Road Central, Central, Hong Kong. As at the end of the Reporting Period, the ordinary share capital issued by HSBC is HKD123.948 billion and USD7.198 billion, which was divided into 49.579 billion ordinary shares. Its business registration certificate number is 00173611-000, its controlling shareholder is HSBC Asia Holdings Limited, its actual controller is HSBC Holdings plc and its ultimate beneficiary is HSBC Holdings plc. As at the end of the Reporting Period, HSBC beneficially held 14,135,636,613 H shares of the Bank, representing a shareholding of 19.03% of the Bank. This shareholder has no parties acting in concert. To the knowledge of the Bank, this shareholder did not pledge any shares of the Bank.
- (3) The SSF is the third largest shareholder of the Bank, which was incorporated in August 2000. It is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating national social security fund. Its legal representative is Liu Wei, its registered capital is RMB 8.00 million, its registered address is South Wing, Fortune Time Building, No. 11 Fenghuiyuan, Xicheng District, Beijing and its unified social credit code is 12100000717800822N. Pursuant to the regulations of the Ministry of Finance and the Ministry of Human Resources and Social Security, the SSF is entrusted to manage the following funds: national social security fund, central government subsidy for personal accounts, part of basic pension insurance funds for enterprise employees, basic pension insurance fund and part of state-owned capital transferred. To the knowledge of the Bank, this shareholder did not pledge any shares of the Bank.

Details of related transactions between the Bank and the Ministry of Finance, HSBC and the SSF are disclosed in Note 47. Related party transactions to the Consolidated Financial Statements.

2. Other substantial shareholders under regulatory standards

Pursuant to *the Provisional Measures on the Shareholdings Administration of Commercial Banks (CBIRC Decree [2018] No.1)*, the Bank's other substantial shareholders included:

- (1) Capital Airports Holdings Company Limited As at the end of the Reporting Period, Capital Airports Holdings Company Limited held 1.68% shares of the Bank, and did not pledge any shares of the Bank. Capital Airports Holdings Company Limited was established on 13 June 1988 with a registered capital of 53.7 billion and its legal representative is Wang Changyi. Capital Airports Holdings Company Limited is a large cross-regional state-owned enterprise group with the core of airport business. The shareholder's sole controlling shareholder is Civil Aviation Administration of China, with no parties acting in concert.
- (2) Shanghai Haiyan Investment Management Co., Ltd. As at the end of the Reporting Period, Shanghai Haiyan Investment Management Co., Ltd. held 1.09% of shares of the Bank, and did not pledge any shares of the Bank. Shanghai Haiyan Investment Management Co., Ltd. was established on 15 October 2009 with a registered capital of 9.0 billion. Its legal representative is Liu Ying, and its main business scopes include industrial investment and investment management, etc. Its sole controlling shareholder is Shanghai Tobacco Group Co., Ltd. This shareholder with Yunnan Hehe (Group) Co., Ltd. and other companies totalling 7 subordinate enterprises (holding 3.00% of the Bank's shares in total) of China National Tobacco Corporation authorised and entrusted China National Tobacco Corporation to present at the Shareholders' General Meeting of the Bank and to exercise their voting right on behalf, constituting a relationship of acting in concert.

CHANGES IN SHARES AND SHAREHOLDERS

- (3) Daqing Petroleum Administration Bureau. As at the end of the Reporting Period, Daqing Petroleum Administration Bureau held 0.4% of the Bank's shares, and did not pledge any shares of the Bank. Daqing Petroleum Administration Bureau was established on 14 September 1991 with a registered capital of RMB46.5 billion and its legal representative is Zhu Guowen. Its main business scope includes onshore oil and gas exploration and mineral resource exploration. The shareholder's sole controlling shareholder is China National Petroleum Corporation, and it has no parties acting in concert.

As at the end of the Reporting Period, the Bank was involved in related transactions⁸ including loans, debt investment and other on-balance sheet credit with the related parties of the aforesaid substantial shareholders. As at the end of the Reporting Period, the on- and off-balance sheet net credit amount was 50.266 billion. The transactions between the Bank and its substantial shareholders and all related parties were conducted in accordance with general commercial terms and conditions, and the terms were fair and reasonable.

- (IV) Substantial Shareholders and Holders of Interest or Short Positions Required to be Disclosed under Division 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO")

As at the end of the Reporting Period, to the knowledge of the directors, supervisors and chief executives of the Bank, the substantial shareholders and other persons (excluding the directors, supervisors and chief executives of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO are as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest ¹	Percentage of total issued A shares (%)	Percentage of total issued shares (%)
The Ministry of Finance of the People's Republic of China	Beneficial owner	13,178,424,446 ²	Long position	33.57	17.75
The National Council for Social Security Fund	Beneficial owner	3,105,155,568 ⁴	Long position	7.91	4.18

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest ¹	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
The Ministry of Finance of the People's Republic of China	Beneficial owner	4,553,999,999 ²	Long position	13.01	6.13
HSBC Holdings plc	Interests of controlled corporations	14,135,636,613 ³	Long position	40.37	19.03
The National Council for Social Security Fund	Beneficial owner	9,050,128,332 ⁴	Long position	25.85	12.19

Notes:

- Long positions held other than through equity derivatives.
- To the knowledge of the Bank, as at the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, respectively representing 6.13% and 17.75% of the total ordinary shares issued by the Bank.
- HSBC Holdings plc wholly owns HSBC Asia Holdings Limited, which wholly owns HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the SFO, HSBC Holdings plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.
- To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held a total of 9,050,128,332 H shares and 3,105,155,568 A shares (please refer to the details in Shareholdings of Top 10 Ordinary Shareholders and relevant notes) of the Bank, respectively representing 12.19% and 4.18% of the Bank's total ordinary shares issued.

⁸ The related parties included were the main shareholders of the Bank declared based on the *Provisional Measures on Administration of Equities of Commercial Banks and Administrative Measures on Related-party Transactions of Banking and Insurance Institutions*, including: controlling shareholders of the key shareholders, actual controlling party, parties acting in concert, and ultimate beneficiaries; legal person or unincorporated organization controlled by institutions mentioned before; and the related parties recognised by the key shareholders based on the *Accounting Standards for Business Enterprises No. 36 Related Party Disclosure*.

Save as disclosed above, as at the end of the Reporting Period, no other person (excluding the directors, supervisors and chief executives of the Bank) or corporation were recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

III. INFORMATION OF PREFERENCE SHARES

(I) Information of Preference Shareholders

As at the end of the Reporting Period, the shareholders of preference shares of the Bank was 78. As at 28 February 2023, the shareholders of preference shares of the Bank was 82.

Top 10 Preference Shareholders and Their Shareholdings as at the end of the Reporting Period

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares	Shares pledged or frozen	Nature of shareholders
China Mobile Communications Group Co., Ltd.	-	100,000,000	22.22	Domestic preference share	Nil	State-owned legal entity
HwaBao Trust Co., Ltd. – HwaBao Trust – Baofu Investment No.1 Collective Capital Trust Plan	-	48,910,000	10.87	Domestic preference share	Nil	Others
CCB Trust Co., Ltd. – “Qian Yuan – Ri Xin Yue Yi” Open-ended Wealth Management Single Fund Trust	-	20,000,000	4.44	Domestic preference share	Nil	Others
Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No.5 Specific Multi-customer Asset Management Plan	-	20,000,000	4.44	Domestic preference share	Nil	Others
Ping An Life Insurance Co., Ltd. – Proprietary fund	-	18,000,000	4.00	Domestic preference share	Nil	Others
China National Tobacco Corporation – Henan Branch	-	15,000,000	3.33	Domestic preference share	Nil	State-owned legal entity
China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	-	15,000,000	3.33	Domestic preference share	Nil	Others
CITIC Securities – Postal Saving Bank – CITIC Securities Xingchen No.28 Collective Asset Management Plan	-	14,000,000	3.11	Domestic preference share	Nil	Others
Everbright Securities Asset Management (“EBSAM”) – Everbright Bank – EBSAM Xinyou No.4 Collective Asset Management Plan	-	13,000,000	2.89	Domestic preference share	Nil	Others
CMW Asset Management – CMB – China Merchants Wealth – Chengcai No.1 Collective Asset Management Plan	-	10,225,000	2.27	Domestic preference share	Nil	Others

Notes:

- Shareholdings of preference shareholders are summarised according to the Bank’s register members of preference shareholders.
- “Percentage” refers to the percentage of number of preference shares held by preference shareholders in the total number of preference shares.
- According to the *Administrative Measures on the Connected Transactions of Banking and Insurance Institutions* issued by the CBIRC, to the knowledge of the Bank, China National Tobacco Corporation Henan Branch is related with Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd., which are among top 10 ordinary shareholders of the Bank.
- The Bank is not aware of the existence of any related relationship among the top 10 preference shareholders or any relationship between the above shareholders and top 10 ordinary shareholders, or whether they are parties acting in concert.

CHANGES IN SHARES AND SHAREHOLDERS

(II) Dividends Distribution of Preference Shares

The Bank distributed dividends annually for the preference shares in cash. In the event that the Bank resolved to cancel part or all of the dividends of preference shares, the difference in the amount of dividends not fully paid to the shareholders of preference shares in the current period did not accrue to the subsequent interest period. Preference shareholders would not participate in the distribution of the residual earnings with ordinary shareholders after receiving dividends as agreed.

In accordance with the resolution and authorisation of the Shareholders' General Meeting, the 26th meeting of the 9th Session of the Board of Directors of the Bank was held on 29 April 2022, at which the proposal for the dividend distribution of "BOCOM PREF1" was considered and approved. The dividend on "BOCOM PREF1" was calculated at the nominal dividend yield of 4.07% and amounted to RMB1,831,500,000, which was distributed on 7 September 2022 in cash. Please refer to the announcement published by the Bank for details of dividend distribution of preference shares.

(III) Restoration of Voting Rights

During the Reporting Period, the Bank did not restore any voting rights of preference shares.

(IV) Accounting Policy for Preference Shares and its Rationale

According to the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments issued by the Ministry of Finance, the International Financial Report Standards 9 – Financial Instruments and the International Accounting Standards 32 – Financial Instruments: Presentation issued by International Accounting Standards Board as well as substantial terms and conditions of the preference shares issued by the Bank, the preference shares of the Bank were classified as equity instruments.

IV. ISSUANCE, LISTING, TRADING AND REDEMPTION/PAYMENT OF SECURITIES

During the Reporting Period, the Bank issued neither ordinary shares and convertible bonds, nor corporate bonds that were required to be disclosed in accordance with the Standards on the Content and Format of Information Disclosure of Publicly Listed Company No.2 – Content and Format of the Annual Report (2021 Revision) and the Administrative Measures for Information Disclosure of Enterprise Credit Bonds. During the Reporting Period, the Bank and its subsidiaries did not purchase or sell any of the Bank's listed securities. Please refer to " (II). Redemption/Payment of Bonds" below for the redemption or payment of the Bank's bonds during the Reporting Period.

The Bank did not issue preference shares during the past three years. During the Reporting Period, there was neither any redemption nor conversion of preference shares.

The Bank has no employee stock.

(I) Issuance of Bonds

According to the resolution of the 2021 First Extraordinary General Meeting, and with the approvals by the CBIRC and PBOC, the Bank issued a 30.0 billion tier-2 capital bond in China's National Interbank Bond Market in February 2022 with a fixed coupon rate of 3.45% and a term of 10 years. The issuer is entitled to the right of redemption with pre-conditions at the end of the 5th year. The net proceeds after deducting offering-related expenses were all used to replenish the tier-2 capital of the Bank.

According to the resolution of the 24th meeting of the 9th Board of Directors, and with the approvals by the CBIRC and the PBOC, the Bank issued a 30.0 billion special financial bond for loans to small and micro enterprises in China's National Interbank Bond Market in June 2022 with a term of 3 years and a coupon rate of 2.75%. The proceeds were all used for loans to small and micro enterprises.

According to the resolution of the 24th meeting of the 9th Board of Directors, and with the approvals by the CBIRC and the PBOC, the Bank issued a 20.0 billion green financial bond in China's National Interbank Bond Market in August 2022 with a term of 3 years and a coupon rate of 2.42%. The proceeds were all used for green industry projects stipulated in the *Green Bond Endorsed Projects Catalogue (2021 Edition)*.

According to the resolution of the 2021 First Extraordinary General Meeting, and with the approvals by the CBIRC and the PBOC, the Bank issued a 50.0 billion tier- 2 capital bond in China's National Interbank Bond Market in November 2022. Of which, one was with a fixed coupon rate of 3.03%, an aggregate nominal amount of 37.0 billion and a term of 10 years. The issuer is entitled to the right of redemption with pre-conditions at the end of the 5th year. The other one was with a fixed coupon rate of 3.36%, an aggregate nominal amount of 13.0 billion and a term of 15 years. The issuer is entitled to the right of redemption with pre-conditions at the end of the 10th year. The net proceeds after deducting offering related expenses were all used to replenish the tier-2 capital of the Bank.

According to the resolution of the 24th meeting of the 9th Board of Directors, and with the approvals by the CBIRC and the PBOC, the Bank issued a 30.0 billion special financial bond for loans to small and micro enterprises in China's National Interbank Bond Market in December 2022 with a term of 3 years and a coupon rate of 2.98%. The proceeds were all used for loans to small and micro enterprises.

According to the resolution of the 24th meeting of the 9th Board of Directors, and with the approvals by the CBIRC and the PBOC, the Bank issued a 10.0 billion green financial bond in China's National Interbank Bond Market in December 2022 with a term of 3 years and a coupon rate of 2.96%. The proceeds were all used for green industry projects stipulated in the *Green Bond Endorsed Projects Catalogue (2021 Edition)*.

CHANGES IN SHARES AND SHAREHOLDERS

(II) Redemption/Payment of Bonds

With the approval by the CBIRC, the Bank fully redeemed the 30.0 billion tier-2 capital bond issued in April 2017 in China's National Interbank Bond Market in advance in April 2022. The bond had a term of 10 years and the issuer is entitled to the right of redemption with pre-conditions at the end of the 5th year.

In November 2022, the Bank paid the 50.0 billion 3-year straight bonds issued in November 2019 in China's National Interbank Bond Market on the due date.

In December 2022, the Bank paid the 40.0 billion 3-year straight bonds issued in December 2019 in China's National Interbank Bond Market on the due date.

Please refer to Note 32. Debt securities issued to the Consolidated Financial Statements for other bonds issued and still in existence by the Bank and subsidiaries.

(III) Equity Linked Agreement

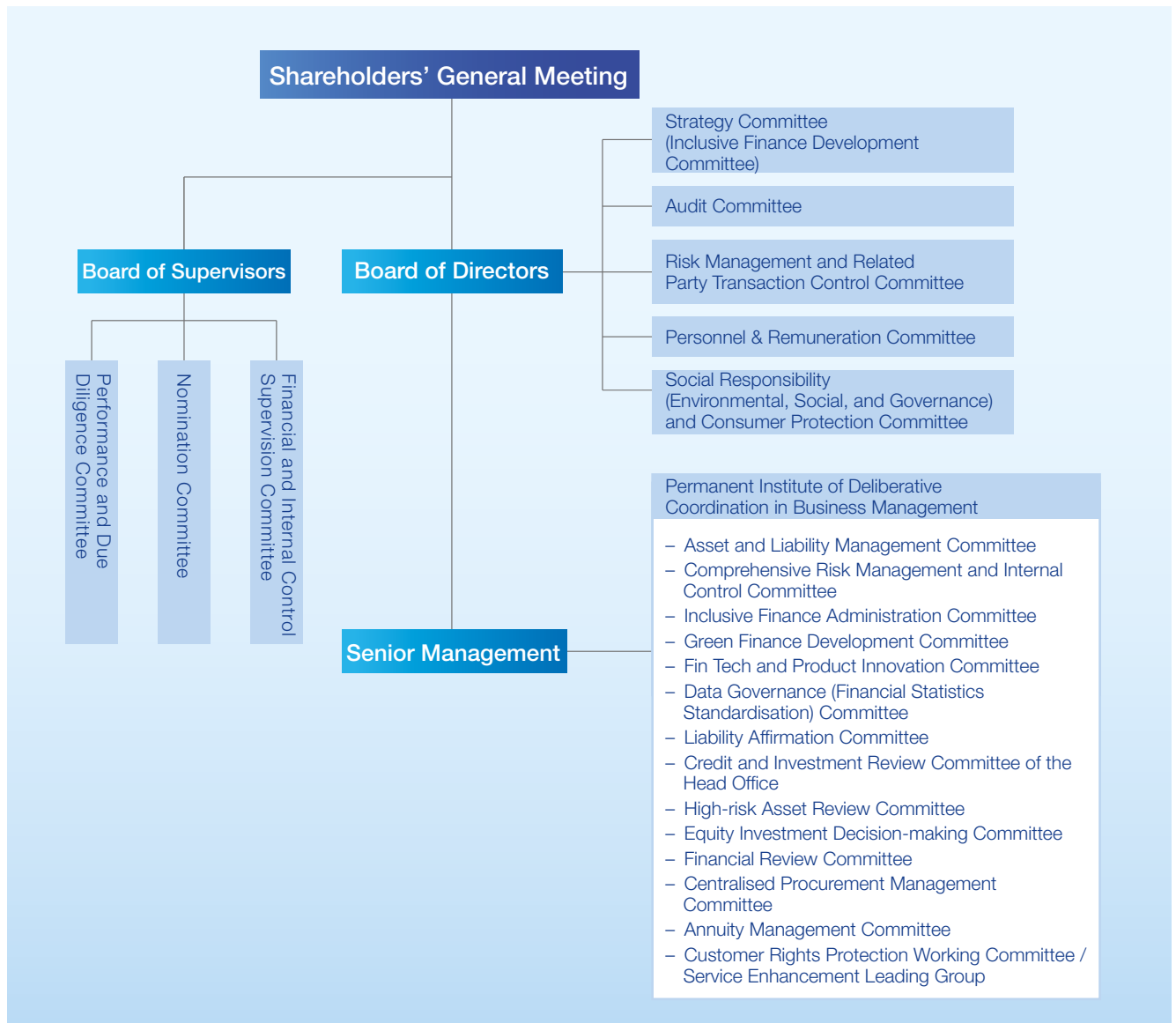
The Bank privately issued domestic preference shares with an amount of 450 million in September 2016. Assuming that the Bank triggers a mandatory share conversion event and all preference shares are mandatorily required to be converted into ordinary shares at the initial share conversion price, the number of the above domestic preference shares being converted into ordinary A shares will not exceed 7.2 billion shares. Please refer to Note 35. Other equity instruments to the Consolidated Financial Statements for other details of domestic preference shares.

CORPORATE GOVERNANCE

Sound corporate governance is the basis for the stable and long-term development of commercial banks. With the vision of “building the bank with the best corporate governance”, the Bank aspired to the best practices in corporate governance, strengthened the Party’s leadership and continuously promoted the organic integration of the Party’s leadership with corporate governance and improved the structure and system of corporate governance. The Bank accelerated the construction of a governance mechanism for modern financial enterprises that operates and balances coordinately with statutorily defined transparent authorities and responsibilities, to consistently improved the scientificity, robustness and effectiveness of corporate governance. During the Reporting Period, the corporate governance of the Bank strictly abided by the *Company Law*, the *Securities Law* and the normative documents and requirements concerning corporate governance for listed companies stipulated by the CSRC.

I. CORPORATE GOVERNANCE STRUCTURE

The Bank established a corporate governance structure comprising the Shareholders’ General Meeting, the Board of Directors, the Board of Supervisors and Senior Management, with clearly defined authorities and responsibilities, balanced equilibrium and coordinated and independent operation.



CORPORATE GOVERNANCE

II. CURRENT STATUS OF CORPORATE GOVERNANCE

The Bank strengthened the Party's leadership in the improvement of corporate governance and improved the coordination and communication mechanism between the Party Committee, the Board of Directors and the Board of Supervisors, and thus achieved the combination of pre-research and discussion of the Party Committee with the decision-making mechanism in corporate governance. The bank effectively carried out the core responsibilities of strategic decision-making of the Board of Directors and risk management, and fostered the governance culture and values featured with prudence, compliance, openness and transparency. In addition, the Bank enhanced the supervisory function of the Board of Supervisors, and especially focused on supervising the implementation of national economic and financial policies and major strategies, as well as the performance of duties, financial activities, internal control and risk management of the Board of Directors, senior management and its members. The senior management implemented business development strategies and various decisions of the Shareholders' General Meeting and the Board of Directors to achieve the business management goals and promote the high-quality development of the Bank.

During the Reporting Period, the bank systematically improved the corporate governance system. The bank comprehensively revised the articles of association and made improvements around shareholder rights and obligations, Shareholder's General Meetings, the Board of Directors, the Board of Supervisors, and responsibilities of the senior management. As at the date of disclosure, the revised articles of association were still in the regulatory approval process. At the same time, the bank also revised the rules of procedure for the Board of Directors, the Board of Supervisors, and the senior management, further clarified the responsibilities of each governance entity and improved the decision-making mechanism. The bank revised the working rules of various special committees under the Board of Directors to standardize and improve their authority and decision-making mechanism. As at the date of disclosure, the revised rules of procedure for the Board of Directors, the Board of Supervisors, and the senior management would take effect synchronously with the approval of the articles of association by the China Banking and Insurance Regulatory Commission (CBIRC). Other revised working rules had already taken effect.

Corporate governance operations of the bank were in compliance with relevant laws, administrative regulations, and the regulations of the China Securities Regulatory Commission (CSRC) and the CBIRC on the governance of listed companies, and there were no significant differences.

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

(I) Shareholders

The largest three shareholders of the Bank are the Ministry of Finance, HSBC and the SSF. The Bank was independent from all shareholders in terms of its business, employees, assets, institutions and finance and possessed the capacity of independent and complete autonomy over its business and operations. The entire businesses of the Bank were listed as a whole and there was no horizontal competition or related transactions arising from certain restructuring. The Bank laid great importance to the protection of shareholders' equity and maintained smooth communication channels with shareholders through holding Shareholders' General Meeting and performance announcements, hosting shareholders and setting up investor hotline and emails to ensure that all shareholders enjoy equal status and have the right of knowledge, participation and voting on significant matters. Shareholders can make inquiries to the Board of Directors and make proposals at the Shareholders' General Meeting through the contacts and contact information listed in the "Corporate Information" of this Annual Report. Please refer to Article 98 and Article 111 of the Articles of Association of the Bank for the method of convening the Extraordinary General Meeting of Shareholders and the procedure of putting forward proposals at the Shareholders' General Meeting.

(II) Shareholders' General Meetings

The Shareholders' General Meeting is the highest authority of the Bank, and exercises relevant functions in accordance with laws. During the Reporting Period, the Shareholders' General Meetings were convened and held in strict accordance with the relevant laws and regulations and the Articles of Association of the Bank. Details are presented on the website of the Bank at www.bankcomm.com, the website of Shanghai Stock Exchange at www.sse.com.cn and the website of HKEx News at www.hkexnews.hk.

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
2021 Annual General Meeting	28 June 2022	9 proposals including the 2021 Work Report of Board of Directors of the Bank of Communication Co., Ltd.	Pass	The official website of the Bank www.bankcomm.com The SSE website www.sse.com.cn The website of the Hong Kong Stock Exchange www.hkexnews.hk
2022 First Extraordinary General Meeting	25 August 2022	4 proposals including the Proposal on Revising the Articles of Association of the Bank of Communication Co., Ltd.	Pass	The same as above
2022 First A-Share General Meeting	25 August 2022	1 proposal including the Proposal on Revising the Articles of Association of the Bank of Communication Co., Ltd.	Pass	The same as above
2022 First H-Share General Meeting	25 August 2022	1 proposal including the Proposal on Revising the Articles of Association of the Bank of Communication Co., Ltd.	Pass	The same as above

(III) Implementation of the Resolutions of Shareholders' General Meeting By the Board of Directors

The Board of Directors of the Bank fully implemented the relevant resolutions passed by Shareholders' General Meeting during the Reporting Period, and exercised its functions and powers in strict accordance with *the Bank's Authorisation to Board of Directors by the Shareholders' General Meeting*.

CORPORATE GOVERNANCE

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Members of the Board of Directors

The Bank currently has 16 directors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Ren Deqi	Chairman of the Board of Directors and Executive Director	Male	59	August 2018 – date of 2024 Annual General Meeting
Liu Jun	Vice Chairman of the Board of Directors, Executive Director and President	Male	51	August 2020 – the same as above
Li Longcheng	Non-executive Director	Male	59	June 2020 – the same as above
Wang Linping	Non-executive Director	Male	59	January 2021 – the same as above
Chang Baosheng	Non-executive Director	Male	54	January 2021 – the same as above
Liao, Yi Chien David	Non-executive Director	Male	50	May 2021 – the same as above
Chan Siu Chung	Non-executive Director	Male	60	October 2019 – the same as above
Mu Guoxin	Non-executive Director	Male	56	August 2022 – the same as above
Chen Junkui	Non-executive Director	Male	48	August 2019 – the same as above
Luo Xiaopeng	Non-executive Director	Male	47	August 2022 – the same as above
Woo Chin Wan, Raymond	Independent Non-executive Director	Male	68	November 2017 – the same as above
Cai Haoyi	Independent Non-executive Director	Male	68	August 2018 – the same as above
Shi Lei	Independent Non-executive Director	Male	65	December 2019 – the same as above
Zhang Xiangdong	Independent Non-executive Director	Male	65	August 2020 – the same as above
Li Xiaohui	Independent Non-executive Director	Female	55	November 2020 – the same as above
Ma Jun	Independent Non-executive Director	Male	59	August 2022 – the same as above

Notes:

1. Term of office of directors begins from the date of appointment qualification approved by the CBIRC.
2. Terms of office of Mr. Ren Deqi and Mr. Liu Jun refer to their terms of office as Executive Directors of the Bank.

Mr. Ren Deqi Chairman of the Board of Directors and Executive Director

Main duties

Mr. Ren has been Chairman of the Board of Directors of the Bank since January 2020.

Mr. Ren has been Executive Director of the Bank since August 2018.

Educational background and professional qualification

Mr. Ren obtained his Master's degree in Engineering from Tsinghua University in 1988.

Senior Economist

Experience

Mr. Ren served as Vice Chairman of the Board of Directors, Executive Director and President of the Bank. Mr. Ren served as Executive Director and Executive Vice President of Bank of China. During the period, he also served as Non-executive Director of Bank of China Hong Kong (Holdings) Limited and Chief Executive Officer of Shanghai Renminbi Trading Business Headquarter of Bank of China. Mr. Ren served as several positions in China Construction Bank, including General Manager of the Risk Management Department, President of the Hubei Branch, General Manager of the Credit Management Department, General Manager of the Risk Monitoring Department and Deputy General Manager of the Credit Approval Department.

Mr. Liu Jun Vice Chairman of the Board of Directors, Executive Director and President**Main duties**

Mr. Liu has been Vice Chairman of the Board of Directors and Executive Director of the Bank since August 2020.

Mr. Liu has been President of the Bank since July 2020.

Educational background and professional qualification

Mr. Liu obtained his Doctoral degree in Business Administration from Hong Kong Polytechnic University in 2003.

Senior Economist

Experience

Mr. Liu served as Executive Vice President of China Investment Corporation. Mr. Liu served as Deputy General Manager of China Everbright Group Ltd., Executive Director and Deputy General Manager of China Everbright Group Limited. During the period, he also successively served as Chairman of Sun Life Everbright Life Insurance Company Limited, Vice Chairman of China Everbright Holdings Company Limited., Executive Director and Vice Chairman of China Everbright Limited, Executive Director and Vice Chairman of China Everbright International Limited, and Chairman of China Everbright Industrial (Group) Co., Ltd. Mr. Liu served as Executive Vice President of China Everbright Bank, during the period he concurrently acted as General Manager of the Financial Market Centre of China Everbright Bank and President of Shanghai Branch of China Everbright Bank. Mr. Liu served as Assistant to President of China Everbright Bank.

Mr. Li Longcheng Non-executive Director**Main duties**

Mr. Li has been Non-executive Director of the Bank since June 2020.

Mr. Li holds position at Central Huijin Investment Ltd.

Educational background and professional qualification

Mr. Li obtained his Doctoral degree in Management from Northeast Forestry University in 2003.

Experience

Mr. Li served as Director of the Heilongjiang Supervision Bureau of Ministry of Finance, Chief Inspector of the Heilongjiang Supervision & Inspection Office of Ministry of Finance, Chief Inspector of the Liaoning Supervision & Inspection Office of Ministry of Finance, Deputy Inspector of the Heilongjiang Supervision & Inspection Office of Ministry of Finance, and Deputy Inspector of the Zhejiang Supervision & Inspection Office of Ministry of Finance. Mr. Li served as Assistant Commissioner, Division Chief of the First Division and Deputy Division Chief of the General Division of the Heilongjiang Supervision & Inspection Office of Ministry of Finance.

Mr. Wang Linping Non-executive Director**Main duties**

Mr. Wang has been Non-executive Director of the Bank since January 2021.

Mr. Wang holds position at Central Huijin Investment Ltd.

Educational background and professional qualification

Mr. Wang obtained his Bachelor's degree in Philosophy from Zhongnan University of Economics and Law in 1986.

Experience

Mr. Wang served as Level-one Inspector of the Retired Cadres Bureau of Ministry of Finance, Chairman of China Finance and Economic Media Group. Mr. Wang served as Minister, Vice Minister and Minister of the Department of Administrative Finance of the Liaison Office of the Central People's Government in Macao Special Administrative Region. Mr. Wang served as Researcher and Deputy Director of Pension Security Division of the Social Security Department of Ministry of Finance, and he served as assistant researcher of the Management Division of the Retirement Funds of Administrative Institutions.

CORPORATE GOVERNANCE

Mr. Chang Baosheng Non-executive Director**Main duties**

Mr. Chang has been Non-executive Director of the Bank since January 2021.

Mr. Chang holds position at Central Huijin Investment Ltd.

Experience

Mr. Chang served as Level-two Inspector and Deputy Inspector of the Ningxia Supervision Bureau of Ministry of Finance. Mr. Chang served as Deputy Inspector, Assistant Commissioner, Deputy Director of the Third Business Department, Deputy Director of the Second Business Department and Deputy Director of the General Office of Ningxia Supervision and Inspection Office of Ministry of Finance.

Educational background and professional qualification

Mr. Chang graduated from Zhongnan University of Economics and Law in 1989.

Mr. Liao, Yi Chien David Non-executive Director**Main duties**

Mr. Liao has been Non-executive Director of the Bank since May 2021.

Mr. Liao has been Co-chief Executive Officer of HSBC, a substantial shareholder of the Bank, Member of the HSBC Group Executive Committee.

Other Duties

Non-executive Director of Hang Seng Bank Limited.

Experience

Mr. Liao served as the managing director, general manager of HSBC Holdings plc and the Head HSBC Asia Pacific Global Banking, President and Chief Executive Officer of HSBC China, Director of Global Banking and Capital Market of HSBC China, Director of Global Capital Market of HSBC China, and Treasurer of HSBC China. Mr. Liao took positions in the Industrial Bank of Japan (currently Mizuho International Plc).

Educational background and professional qualification

Mr. Liao obtained his honorary bachelor's degree from University of London in 1995.

Mr. Chan Siu Chung Non-executive Director**Main duties**

Mr. Chan has been Non-executive Director of the Bank since October 2019.

Mr. Chan serves as the Head of Capital Market for Greater China Region at HSBC, a substantial shareholder of the Bank.

Experience

Mr. Chan served as the Co-Head of Capital Markets for Asia-Pacific at HSBC, Deputy Head of the Global Markets Asia Pacific and Head of Trading in Hong Kong, Head of Trading in Hong Kong, Head of Hong Kong Dollar Interest Rate and Derivatives Trading, Senior Interest Rate Dealer and Senior Dealer.

Educational background and professional qualification

Mr. Chan obtained his Master's degree in Applied Finance from Macquarie University, Australia in 1994.

Mr. Mu Guoxin Non-executive Director**Main duties**

Mr. Mu has been Non-executive Director of the Bank since August 2022.

Mr. Mu serves as a full-time Working Director of the National Council for Social Security Fund, a substantial shareholder of the Bank.

Experience

Mr. Mu served as the Director and the Deputy Director of the Fund Finance Department, Chief of Accounting Division, the Deputy Chief of Accounting Division of Finance and Accounting Department of the National Council for Social Security Fund. Mr. Mu also served as the Deputy Division Chief of the Second System Division of the Accounting Department of the Ministry of Finance.

Educational background and professional qualification

Mr. Mu obtained his MPA degree under the cooperative cultivation programme between Peking University and the National Academy of Governance in 2008.

Senior Accountant

Mr. Chen Junkui Non-executive Director**Main duties**

Mr. Chen has been Non-executive Director of the Bank since August 2019.

Mr. Chen serves as Deputy Director-General of the Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration.

Other duties

Supervisor of China Tobacco Machinery Group Co., Ltd., China Tobacco International Inc. and *China Tobacco Magazine* House Co., Ltd. Director of Nantong Cellulose Fibers Co., Ltd., Zhuhai Cellulose Fibers Co., Ltd. and Kunming Cellulose Fibers Co., Ltd.

Experience

Mr. Chen served as Director and Deputy Director of the Finance and Asset Department of China Tobacco Machinery Group Co., Ltd.

Educational background and professional qualification

Mr. Chen obtained his Master's degree in Management from Capital University of Economics and Business in 2002.

Senior Accountant

Mr. Luo Xiaopeng Non-executive Director**Main duties**

Mr. Luo has been Non-executive Director of the Bank since August 2022.

Mr. Luo serves as the president of the Capital Operation Department of the Capital Airport Group Co., Ltd., the main shareholder of the Bank.

Other duties

Mr. Luo serves as the director of Tianjin Binhai International Airport Co., Ltd, Jilin Civil Aviation Airport Group Co., Ltd and Jiangxi Airport Group Co., Ltd.

Experience

Mr. Luo served as the Chief Financial Officer of Inner Mongolia Civil Aviation Airport Group Co., Ltd, the general manager of the finance department and secretary of the board of directors of Beijing Capital International Airport Co., Ltd.

Educational background and professional qualification

Mr. Luo obtained his Master's degree in Finance from Jiangxi University of Finance and Economics.

CORPORATE GOVERNANCE

Mr. Woo Chin Wan, Raymond Independent Non-executive Director**Main duties**

Mr. Woo has been Independent Non-executive Director of the Bank since November 2017.

Educational background and professional qualification

Mr. Woo obtained his MBA degree from York University in Canada in 1982.

Hong Kong and Canadian Certified Public Accountant

Other duties

Independent Non-executive Director of Lenovo Group Limited

Experience

Mr. Woo served as Managing Partner, Partner, Senior Manager, Manager and Senior Accountant of Ernst & Young, during the period he concurrently acted as Managing Partner of Ernst & Young's China business, Director and General Manager in Ernst & Young Hua Ming and member of Ernst & Young's China Management Committee. Mr. Woo took positions in Rongxing Securities Co., Ltd. and served as Lecturer in the Department of Business Administration in the University of Hong Kong. Mr. Woo worked in PwC Canada and PwC Hong Kong.

Mr. Cai Haoyi Independent Non-executive Director**Main duties**

Mr. Cai has been Independent Nonexecutive Director of the Bank since August 2018.

Educational background and professional qualification

Mr. Cai obtained his Doctoral degree in Economics from the Financial Research Institute of the People's Bank of China in 2001.

Researcher

Mr. Cai enjoyed special government allowances of the State Council.

Experience

Mr. Cai served as Chairman of the Board of Supervisors in China Everbright Bank and Non-executive Director in Bank of China. Mr. Cai held various positions in PBOC, including Secretary General of the Monetary Policy Committee, Deputy Head of the Research Bureau, Deputy Head of the Financial Research Institute, and Deputy Director, Division Chief and Deputy Division Chief of the Graduate Department of the Financial Research Institute.

Mr. Shi Lei Independent Non-executive Director**Main duties**

Mr. Shi has been Independent Nonexecutive Director of the Bank since December 2019.

Mr. Shi serves as Professor and Doctoral Supervisor of the School of Economics of Fudan University, and Director of the Public Economic Research Centre of Fudan University.

Educational background and professional qualification

Mr. Shi obtained his Doctoral degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993.

Mr. Shi enjoyed special government allowances of the State Council.

Other Duties

Mr. Shi serves as Independent Nonexecutive Director of Hangzhou Meideng Technology Co., Ltd.

Experience

Mr. Shi served as Director of the China Centre for Economic Studies of Fudan University, and Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd.

Mr. Zhang Xiangdong Independent Non-executive Director**Main duties**

Mr. Zhang has been Independent Nonexecutive Director of the Bank since August 2020.

Educational background and professional qualification

Mr. Zhang obtained his Master's degree in Law from Renmin University of China in 1990.

Senior Economist

Experience

Mr. Zhang served as Non-executive Director of Bank of China Limited, Non-executive Director and Chairman of the Risk Management Committee of the Board of Directors of China Construction Bank Corporation (during which period Mr. Zhang concurrently served as member of the China International Economic and Trade Arbitration Commission). Mr. Zhang also served as Inspector and Deputy Director General of the General Affairs Department of the State Administration of Foreign Exchange. He served as Executive Vice President of Haikou Branch of the People's Bank of China and Deputy Director General of Hainan Branch of the State Administration of Foreign Exchange concurrently. Mr. Zhang concurrently served as Member of the Issuance Approval Committee of China Securities Regulatory Commission.

Ms. Li Xiaohui Independent Non-executive Director**Main duties**

Ms. Li has been Independent Non-executive Director of the Bank since November 2020.

Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics.

Educational background and professional qualification

Ms. Li obtained her Doctoral degree in Economics from Central University of Finance and Economics in 2001.

Certified Public Accountant

Other duties

Independent Non-executive Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., Poly Culture Group Co., Ltd, and BBMG Corporation.

External Supervisor of Bank of Beijing Co., Ltd.

Member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants.

Member of the Audit Committee of the Accounting Society of China.

Member of the Audit Standards Committee of the China Internal Audit Association.

Experience

Ms. Li worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li previously served as Independent Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd., Camel Group Co., Ltd., Jizhong Energy Resources Co., Ltd., Kailuan Energy Chemical Co., Ltd. and China U-Ton Holdings Limited.

CORPORATE GOVERNANCE

Mr. Ma Jun Independent Non-executive Director**Main duties**

Mr. Ma has been Independent Non-executive Director of the Bank since August 2020.

Mr. Ma serves as the president of Beijing Green Finance Association and the Institute of Finance and Sustainability.

Other duties

Mr Ma serves as Independent Director of China Taiping Life Insurance (Hong Kong), Independent Director of Postal Savings Bank of China Ubank, Director of the Green Finance Committee of China Society for Finance, Co-Chairman of the Steering Committee of the “Belt and Road” Green Investment Principles, President of the Beijing Green Finance Association (Beijing Emissions Trading Association), Chairman of the Hong Kong Green Finance Association.

Experience

Mr. Ma served as a member of the Monetary Policy Committee of the People’s Bank of China, Co-Chairman of the G20 Sustainable Finance Working Group, Director of the Center for Finance and Development under Tsinghua National Institute of Financial Research, Chief Economist of the Research Bureau of the People’s Bank of China, Chief Economist, Investment Strategist and Managing Director of Deutsche Bank Greater China, Senior Economist at the World Bank, Economist at the International Monetary Fund, and also worked at the Development Research Center of the State Council.

Educational background and professional qualification

Mr. Ma obtained his Ph.D. in Economics from Georgetown University in 1994.

(II) Members of the Board of Supervisors

The Bank currently has 9 supervisors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Xu Jiming	Chairman of the Board of Supervisors and Shareholder Supervisor	Male	56	October 2021 – date of 2024 Annual General Meeting
Wang Xueqing	Shareholder Supervisor	Male	55	June 2017 – the same as above
Li Yao	External Supervisor	Male	52	October 2017 - October 2023
Chen Hanwen	External Supervisor	Male	55	June 2019 – date of 2024 Annual General Meeting
Su Zhi	External Supervisor	Male	45	June 2022 – the same as above
Guan Xingshe	Employee Supervisor	Male	58	October 2018 – the same as above
Lin Zhihong	Employee Supervisor	Female	54	December 2020 – the same as above
Feng Bing	Employee Supervisor	Female	48	December 2020 – the same as above
Po Ying	Employee Supervisor	Female	51	November 2021 – the same as above

Note: Term of office of supervisors begins from the date of election at General Meeting and the Employee Representative Meeting. Term of office of re-elected supervisors begins from the initial date of term of office.

Mr. Xu Jiming Chairman of the Board of Supervisors and Shareholder Supervisor**Main duties**

Mr. Xu has been Chairman of the Board of Supervisors and Shareholder Supervisor of the Bank since October 2021.

Chairman of the Labour Union.

Educational background and professional qualification

Mr. Xu obtained his Doctoral degree in EHESS (École des hautes études en sciences sociales) in 1995.

Senior Auditor

Other duties

Standing committee member of the 14th Shanghai Committee of the Chinese People's Political Consultative Conference

Experience

Mr. Xu served as the Standing committee member of the 13th Shanghai Committee of the Chinese People's Political Consultative Conference. Mr. Xu served as Head of the Discipline Inspection and Supervision Group, and Head of the Discipline Inspection Group of the Party Leadership Group. Mr. Xu also held various positions in the National Audit Office, including Director of the General Office, Director of the Department of Administration Institutions Audit, Director of the Department of Foreign Funds Application Audit, Director of the Audit Cadre Training Centre, Director and Deputy Director of the Audit Bureau of Health and Drugs, Deputy Director of the Department of Foreign Funds Application Audit, Assistant to the Special Commissioner of Kunming Resident Office (Division Chief Level), Division Chief of the First Division of the Department of Foreign Funds Application Audit, Division Chief of the Comprehensive Division of the Department of Foreign Funds Application Audit, and Deputy Division Auditor of the Second Division of the Department of Foreign Funds Application Audit.

Mr. Wang Xueqing Shareholder Supervisor**Main duties**

Mr. Wang has been Shareholder Supervisor of the Bank since June 2017.

Mr. Wang serves as Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau), a substantial shareholder of the Bank.

Educational background and professional qualification

Mr. Wang obtained his Master's degree in Accounting from Tianjin University of Finance and Economics in 2002.

Professoriate Senior Accountant

Other duties

Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. Chairman of the Board of Directors of Daqing Energy (Hong Kong) Co. Ltd. Director of DPS Indonesia Co. Ltd. Director of China Petroleum Halfaya Co., Ltd. Vice President of the Sixth Council of China Association of Plant Engineering.

Experience

Mr. Wang served as Director of the Finance Department, Director of Financial Assets of the First Department, Director and First Deputy Director of the Accounting Department (Centre) of the Financial Assets Department in Daqing Oilfield Company. Mr. Wang concurrently served as Chairman of the Board of Supervisors of PTINDOSPECENERGY, Director of Qingdao Qingxin Plastic Co., Ltd. and Chairman of the Board of Supervisors of Daqing Oilfield Powerlift Pump Industry Co., Ltd.

CORPORATE GOVERNANCE

Mr. Li Yao External Supervisor**Main duties**

Mr. Li has been External Supervisor of the Bank since October 2017.

Mr. Li serves as Professor and Chairman of the Professor Committee of the School of Finance, Shanghai University of Finance and Economics.

Experience

Mr. Li served as Vice President of the School of Finance, Shanghai University of Finance and Economics. During the period, Mr. Li also served as Visiting Professor in the Sino-US Fulbright Scholar Program at Boston College. Mr. Li was appointed as Visiting Professor of CSC Scholarship Youth Cultivation Program in the Centre for Management Buy-Out & Private Equity Research of Nottingham University Business School. Mr. Li served as Vice Professor in the Canada-China Scholars Exchange Programme (CCSEP) of Rotman School of Management at the University of Toronto.

Educational background and professional qualification

Mr. Li obtained his Doctoral degree in Economics from East China Normal University in 1998.

Mr. Chen Hanwen External Supervisor**Main duties**

Mr. Chen has been External Supervisor of the Bank since June 2019.

Mr. Chen serves as Professor of Nanjing Audit University.

Other duties

Professor, Doctoral Supervisor and contact of the Postdoctoral Research Station of University of International Business and Economics. Chair Professor of China Business Executives Academy, Dalian. Co-editor in Chief of China Journal of Accounting Studies (publication of the Accounting Society of China). Member of Editorial Board of Auditing Research (publication of the China Audit Society). Member of the Senior Professional Rank Evaluation Committee of the National Audit Office. Member of the Specialised Guidance Committee of the Chinese Institute of Certified Public Accountant. Executive Council Member of the China Audit Society. Independent Non-executive Director of China Shenhua Energy Company Limited, Beijing Tri-Prime Gene Pharmaceutical Co., Ltd., Shenwan Hongyuan Group Co., Ltd., Dalian Wanda Commercial Management Group Co., Ltd. and Shanghai Fuiou Payment service limited company.

Experience

Mr. Chen held various positions in Xiamen University, including Vice President of the School of Management, Vice President of the Graduate School, Director of the Accounting Department and Secretary-General of the Academic Committee. Mr. Chen was Independent Director of Xiamen Bank Co., Ltd. and Xiamen International Bank in the past three years.

Educational background and professional qualification

Mr. Chen obtained his Doctoral degree in Economics from Xiamen University in 1997.

Mr. Su Zhi External Supervisor**Main duties**

Mr. Su has been External Supervisor of the Bank since June 2022.

He is currently the Special Appointed Professor of “Longma Scholars”, the Double Appointed Professor and the Tutor for Doctoral Students of the School of Statistics and Mathematics and the School of Finance, as well as the first Chief Dean of the Department of Financial Technology at Central University of Finance and Economics.

Other duties

Executive Director of Central University of Finance and Economics & University of Electronic Science and Technology of China Joint Research Data Center. Deputy Director of the Academic Committee of Institute of International Technology Development of Research Center of the State Council of China. Professional Consultant in Financial Technology of Beijing Xicheng District Government; the Special Appointed Expert of “Sci-Tech Finance Expert Think Tank” of Beijing Haidian District Financial Services Office; the Special Researcher of the International Monetary Institute of Renmin University of China, the Special Appointed Professor of the Business Model Innovation Center of Tsinghua University School of Economics and Management; the Senior External Expert of Centralized Procurement Management Committee of Industrial and Commercial Bank of China; the Guiding Expert of Postdoctoral Fellow of Shenzhen Stock Exchange; the Co-Tutor of Postdoctoral Fellow of JD Finance; the Supervisor of Bank of Guizhou Co., Ltd.; as well as the Independent Directors of Shanghai Haohai Biological Technology Co., Ltd., Fujian Start Group Co., Ltd. and Changzhou Kaneken Steel Section Co., Ltd.

Educational background and professional qualification

Mr. Su obtained his Doctoral degree in Quantitative Economics from Jinlin University in 2006.

Mr. Guan Xingshe Employee Supervisor**Main duties**

Mr. Guan has been Employee Supervisor of the Bank since October 2018.

Mr. Guan serves as Director of the Office of the Board of Supervisors of the Bank.

Experience

Mr. Guan held various positions in the Bank, including General Manager of the Department of General Affairs of the Bank, during the period he concurrently served as Executive Director and Chief Executive Officer of Shanghai Jiaoyin Service Corp., Executive Vice President of the Henan Branch (Zhengzhou) and Senior Credit Executive, Division Chief of the Finance and Accounting Department of the Zhengzhou Branch (During the period, he served a temporary position as Deputy Division Chief in the Internal Audit Control Division at the Bank’s Head Office) and Deputy Division Chief (in charge of overall work) of the Finance and Accounting Department of the Zhengzhou Branch, Deputy Division Chief of the Internal Audit Control Division (in charge of overall work) and Deputy Division Chief of the Finance and Accounting Department, serving the Bank for 28 years. Mr. Guan served as Deputy Division Chief of the Financial Audit Department of the Zhengzhou Audit Bureau.

Educational background and professional qualification

Mr. Guan obtained his Master’s degree in Economics from Xiamen University in 1999.

Senior Auditor

CORPORATE GOVERNANCE

Ms. Lin Zhihong Employee Supervisor**Main duties**

Ms. Lin has been Employee Supervisor of the Bank since December 2020.

Ms. Lin serves as Director of the Audit and Supervision Bureau of the Bank.

Ms. Lin serves as Supervisor of BOCOM Financial Asset Investment Co., Ltd.

Experience

Ms. Lin served as Non-executive Director of BOCOM International Holdings Co., Ltd. Ms. Lin held various positions in the Bank, including General Manager of the Financial Service Centre (Business Department) of the Head Office, General Manager of the Budget and Finance Department (Data and Information Management Centre), General Manager, Deputy General Manager and Senior Budget Manager of the Budget and Finance Department, and Division Chief and Deputy Division Chief of Financial Division of Finance and Accounting Department, serving the Bank for 32 years.

Educational background and professional qualification

Ms. Lin obtained her EMBA degree from Shanghai University of Finance and Economics in 2010.

Intermediate Accountant

Ms. Feng Bing Employee Supervisor**Main duties**

Ms. Feng has been Employee Supervisor of the Bank since December 2020.

Educational background and professional qualification

Ms. Feng obtained her Master's degree in Economics from University of Shanghai for Science and Technology in 2000.

Senior Economist

Other duties

Executive Director of the Seventh National Council of China Financial Sports Association. Member of the Presidium of the Second National Committee of China Financial Federation of Literary and Art Circles.

Experience

Ms. Feng held various positions in the Bank, including Director of the Office of Labour Union, Executive Vice President of Labour Union, Secretary of Youth League Committee, President of Labour Union of the Head Office, Deputy Director of Organisation Department, Deputy General Manager, Senior Manager of Structural Planning, Senior Manager of Performance Management (During the period, she served a temporary position in the Jiaying Branch of the Bank as Executive Vice President) and Deputy Senior Manager of Performance Management of the Human Resource Department of the Bank's Head Office, serving the Bank for 22 years.

Ms. Po Ying Employee Supervisor**Main duties**

Ms. Po has been Employee Supervisor of the Bank since November 2021.

Ms. Po serves as Director of Shanghai Audit Supervision Branch of the Bank.

Ms. Po serves as Chairman of the Board of Supervisors of Bank of Communications International Trust Co., Ltd.

Ms. Po serves as Non-executive Director of BOCOM International Holdings Company Limited.

Educational background and professional qualification

Ms. Po obtained her Master's degree in Economics from Southwestern University of Finance and Economics in 1996.

Senior Accountant

Experience

Ms. Po held various positions in the Bank, including General Manager of the Equity and Investment Management Department and General Manager of Strategic Investment Department of the Bank, Non-executive Director of Bank of Communications Financial Leasing Co., Ltd., Non-executive Director of Bank of Communications (Brazil) Co., Ltd., Deputy General Manager of the Budget and Finance Department (Data and Information Management Centre) of the Bank's Head Office, Executive Vice President of the Suzhou Branch, Senior Manager of Management Accounting, Senior Manager of Management Accounting and Pricing Management, Senior Manager of Management Accounting and Pricing of the Budget and Finance Department of the Bank's Head Office, Deputy Division Chief of the Management Accounting Division of the Finance and Accounting (Budget Finance) Department of the Head Office, Deputy Division Chief of Financial Division of Finance and Accounting Department of the Head Office, Deputy Division Chief and Assistant to Division Chief of the Planning Division of the Nanning Branch, serving the Bank for 26 years.

(III). Profile of Senior Management

The Bank currently has 8 senior managers as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Liu Jun	President	Male	51	July 2020 –
Yin Jiuyong	Executive Vice President	Male	55	September 2019 –
Huang Hongyuan	Executive Vice President	Male	58	December 2022 –
Zhou Wanfu	Executive Vice President	Male	57	July 2020 –
Hao Cheng	Executive Vice President	Male	51	March 2021 –
Qian Bin	Executive Vice President, Chief Information Officer	Male	50	July 2021 –
Tu Hong	Chief Business Officer (Interbank and Market Business)	Male	57	September 2018 –
Lin Hua	Chief Risk Officer	Male	54	June 2021 –

Notes:

1. Term of office of senior management begins from the approval appointment date by the CBIRC.
2. Term of office of Mr. Liu Jun refers to his term of office as President of the Bank.
3. Mr. Gu Sheng resigned from the Bank's Secretary of the Board of Directors on 28 February 2023, Mr. Ng Siu On resigned from the Bank's BoCom-HSBC Strategic Cooperation Consultant on 29 March 2023.

CORPORATE GOVERNANCE

Mr. Liu Jun Vice Chairman of the Board of Directors, Executive Director and President

(Please refer to details in “Members of the Board of Directors”)

Mr. Yin Jiuyong Executive Vice President**Main duties**

Mr. Yin has been Executive Vice President of the Bank since September 2019.

Educational background and professional qualification

Mr. Yin obtained his Doctoral degree in Agriculture from China Agricultural University in 1993.
Senior Economist

Experience

Mr. Yin held various positions in Agricultural Development Bank of China, including Executive Vice President, Director of the General Office, President of the Henan Branch, General Manager and Deputy General Manager of the First Customer Department (During the period, Mr. Yin served a temporary position as Deputy Manager of Business Department of the Baoding Branch and Executive Vice President of the Baoding Branch), Deputy Director of the First Credit Department, Division Chief of the Comprehensive Division, Deputy Division Chief of Comprehensive Division of the First Industrial and Commercial Credit Department, and Deputy Division Chief of Purchase and Sale Division of the Industrial and Commercial Credit Department.

Huang Hongyuan Executive Vice President**Main duties**

Huang Hongyuan has been Executive Vice President of the Bank since December 2022.

Educational background and professional qualification

Mr Huang obtained his Bachelor's degree in Electronic Engineering from Shanghai Jiaotong University in 1986.

Mr Huang obtained his Master of Finance degree from the PBC School of Finance, Tsinghua University in 1992.

Mr Huang obtained his Master of Finance degree from Imperial College London in 2001.

Mr Huang obtained his Ph.D.in Economics from the School of Finance of Renmin University of China in 1998.

Experience

Mr Huang served as the Chairman, General Manager and Deputy General Manager of the Board of Governors of Shanghai Stock Exchange; Director of Institutional Supervision Department and Director of Risk Control Office of Securities Companies under China Securities Regulatory Commission, Deputy Director of Shanghai Regulatory Bureau under China Securities Regulatory Commission, and Commissioner of Shanghai Securities Regulatory Commissioner's Office, Deputy Director of Shanghai Securities Regulatory Office, Member of Planning and Development Committee under China Securities Regulatory Commission, Deputy Director of Fund Supervision Department under China Securities Regulatory Commission, Chief of Overseas Listing Division of Overseas International Business Department under China Securities Regulatory Commission, Deputy Chief of Overseas Listing Division of Overseas Listing Department under China Securities Regulatory Commission.

Mr. Zhou Wanfu Executive Vice President**Main duties**

Mr. Zhou has been Executive Vice President of the Bank since July 2020.

Educational background and professional qualification

Mr. Zhou obtained his Master's degree in Economics from the Graduate School of the People's Bank of China in 1988. Mr. Zhou obtained his MBA degree from Nanyang Technological University in Singapore in 2003.

Experience

Mr. Zhou held various positions in Agricultural Bank of China, including Secretary of the Board of Directors, General Manager of the Strategic Planning Department, President of Tianjin Training Institute, Executive Vice President of Chongqing Branch, General manager of the Asset and Liability Management Department, Deputy General Manager of the Planning and Finance Department, Deputy General manager of the Asset and Liability Management Department, Executive Vice President of the Ningbo Branch, Division Chief of the Comprehensive Planning Department of the Asset and Liability Management Division and Deputy Division Chief of the Development and Planning Department of the Business Planning Division of the Head office.

Mr. Hao Cheng Executive Vice President**Main duties**

Mr. Hao has been Executive Vice President of the Bank since March 2021.

Mr. Hao has concurrently been Chairman of the Board of Directors and Non-executive Director of the Bank of Communications (Hong Kong) Limited since February 2023.

Educational background and professional qualification

Mr. Hao obtained his Doctoral degree in Management from Beijing Jiaotong University in 2009.

Senior Engineer

Experience

Mr. Hao held various positions in China Development Bank, including President of the Jilin Branch, Deputy Director of the Personnel Bureau of the Head Office, Executive Vice President of the Tianjin Branch, Division Chief of the Comprehensive Division of the Personnel Bureau of the Head Office, Division Chief of the Policy Division of the Personnel Bureau of the Head Office, Deputy Division Chief of the Second Credit Management Division and the Fourth Credit Management Division of the Credit Management Bureau of the Head Office, Deputy Division Chief of the Credit Management Division of the Review and Hearing Bureau of the Head office.

CORPORATE GOVERNANCE

Mr. Qian Bin Executive Vice President, Chief Information Officer**Main duties**

Mr. Qian has been Executive Vice President of the Bank since July 2021.

Mr. Qian has been Chief of Information Officer of the Bank since October 2022.

Educational background and professional qualification

Mr. Qian obtained his MBA degree of the cooperative cultivation programme between Fudan University and the University of Hong Kong in 2004.

Senior Engineer

Experience

Mr. Qian held various positions in the Industrial and Commercial Bank of China, including General Manager and Principal of the Internet Finance Department, General Manager of Data Centre (Shanghai), Deputy General Manager of the Private Banking Department, Deputy General Manager of the Information Technology Department, General Manager of the Information Technology Department and Director of the Technology Security Centre, Deputy General Manager of the Information Technology Department and Assistant to General Manager of the Information Technology Department of the Shanghai Branch of the Industrial and Commercial Bank of China.

Mr. Tu Hong Chief Business Officer (Interbank and Market Business)**Main duties**

Mr. Tu has been Chief Business Officer (Interbank and Market Business) since September 2018.

Mr. Tu has concurrently been the President of the Shanghai Branch since April 2022.

Educational background and professional qualification

Mr. Tu obtained his Master's degree in Economics from Fudan University in 1998.

Experience

Mr. Tu concurrently held various positions in the Bank, including Chairman of the Board of BOCOM Wealth Management Co., Ltd., the General Manager of the Financial Institution Department of the Bank's Head Office, during which period he concurrently served as Chief Executive Officer of the Asset Management Business Centre, Chief Executive Officer of the Financial Market Business Centre, Chief Executive Officer of the Financial Market Business Centre/Precious Metal Business Centre, General Manager of the Financial Market Department, General Manager of the New York Branch, Deputy General Manager of the International Business Department of the Bank's Head Office, Executive Vice President of the Guangzhou Branch, Division Chief of the General Administration of Foreign Exchange Business of the Beijing Branch, Deputy Manager of the Foreign Exchange Credit Department and Executive Vice President of the Sanyuan Sub-branch, serving the Bank for 33 years.

Mr. Lin Hua Chief Risk Officer**Main duties**

Mr. Lin has been Chief Risk Officer of the Bank since June 2021.

Mr. Lin has concurrently been General Manager of the Risk Management Department and Director of Internal Control and Crime Prevention Office since August 2021.

Educational background and professional qualification

Mr. Lin obtained his MBA degree from Shanghai University of Finance and Economics in 2004.

Senior Economist

Experience

Mr. Lin held various positions in the Bank, including President of the Jiangsu Branch, President and Executive Vice President (on behalf, performed the duties of the President) of the Jiangxi Branch, Executive Vice President and Senior Credit Executive of the Shanghai Branch, Senior Manager of the Credit Department, Division Chief of the Credit Management Division, Director and Deputy Director (in charge of overall work) of the General Office, Assistant to Manager of the Marketing Department and Assistant to Division Chief of the Credit Division of the Shanghai Branch, serving the Bank for 34 years.

(IV) Changes in Directors, Supervisors and Senior Management**1. Newly elected/appointed directors, supervisors and senior management**

Name	Position	Change
Mu Guoxin	Non-executive Director	Elected
Luo Xiaopeng	Non-executive Director	Elected
Ma Jun	Independent Director	Elected
Su Zhi	External Supervisor	Elected
Huang Hongyuan	Executive Vice President	Appointed

Notes:

- The Bank's 2023 First Extraordinary General Meeting of Shareholders reviewed and approved the proposal on electing Mr. Yin Jiuyong as executive director and the proposal on electing Mr. Zhou Wanfu as executive director. The qualifications of Mr. Yin Jiuyong and Mr. Zhou Wanfu to serve as executive directors of the Bank are yet to be approved by the regulatory authority.
- The Bank's 6th Meeting of the 10th Board of Directors approved the proposal on electing Mr. He Zhaobin as Secretary of the Board of Directors, Mr. Lin Hua as Chief Business Officer (Retail and Private Business), Mr. Liu Jianjun as Chief Risk Officer, Mr. Wang Wenjin as Chief Business Officer (Corporate and Institution Business). Those proposals above are yet to be approved by the regulatory authority. The Bank's 6th Meeting of the 10th Board of Directors also approved the proposal on electing Mr. CHO, KWOK HUNG ARTHUR as BoCom-HSBC Strategic Cooperation Consultant, and the term of office of Mr. CHO begins after resigning the relative responsibilities from other institutes.

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2. Resigned/Retired directors, supervisors and senior management

Name	Ex-position	Change	Beginning and ending dates of term
Song Hongjun	Ex-Non-executive Director	Retired (change of term)	August 2019-June 2022
Liu Haoyang	Ex-Non-executive Director	Retired (change of term)	August 2016-June 2022
Yang Zhiwei	Ex-Independent Director	Retired (change of term)	October 2016-June 2022
Zhang Minsheng	Ex-Shareholder Supervisor	Resigned (due to personal work arrangement)	March 2020-January 2022
Xia Zhihua	Ex-External Supervisor	Retired (change of term)	June 2016-June 2022
Ju Jiandong	Ex-External Supervisor	Retired (change of term)	June 2020-June 2022
Guo Mang	EX-Executive Vice President	Retired (Retirement)	July 2018-October 2022
Gu Sheng	Ex-Board Secretary	Retired (Retirement)	July 2018-February 2023
Wang Feng	Ex-Chief Business Officer (Retail and Private Business)	Retired (due to job change)	August 2021-January 2022
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	Retired (Retirement)	March 2013-March 2023

The current directors, supervisors and senior managers of the Bank and those who left during the Reporting Period have not been punished by the securities regulatory authority in the past three years.

(V) Changes in Information of Directors, Supervisors and Senior Management

Mr. Liao, Yi Chien David, Non-executive Director of the Bank, ceased to serve as the executive director of HSBC Group.

Mr. Mu, Guoxin, Non-executive Director of the Bank, serves as a full-time Working Director of the National Council for Social Security Fund, a substantial shareholder of the Bank and ceased to serve as the Department Head of the National Council for Social Security Fund.

Mr. Shi Lei, Independent Director of the Bank, serves as Independent Director of the Hangzhou Meideng Technology Co.,Ltd.

Ms. Li Xiaohui, Independent Director of the Bank, serves as Independent Director of the Poly Culture Group Corporation Limited.

Mr. Ma Jun, Independent Director of the Bank, no longer served as Co-Chairman of the G20 Sustainable Finance Study Group.

Mr. Xu Jiming, Chairman of the Board of Supervisors and Shareholder Supervisor, serves as Director of the Labour Union of the Bank.

Mr. Chen Hanwen, External Supervisor of the Bank, serves as Independent Director of the Shanghai Fuiou Payment Services Co.,Ltd. and no longer served as Independent Director of the Xiamen International Bank Co., Ltd.

Ms. Lin Zhihong, Employee Supervisor, no longer served as Non-executive Director of BOCOM International Holdings Co., Ltd.

Ms. Feng Bing, Employee Supervisor, no longer served as Director of the Labour Union Office and Executive Vice Chairman of the Labour Union, Secretary of Youth League Committee, and Chairman of the Labour Union of the Bank.

Ms. Po Ying, Employee Supervisor, serves as Director of Shanghai Audit Supervision Branch of the Bank. She no longer served as General Manager of Equity and Investment Management Department of the Bank, Non-executive Director of the Bank of Communications Financial Leasing Co., Ltd., Non-executive Director of the Bank of Communications (Brazil) Co., Ltd.

Mr. Hao Cheng, Executive Vice President, concurrently serves as Chairman of the Board of Directors and Non-executive Director of the Bank of Communications (Hong Kong) Limited.

Mr. Qian Bin, Executive Vice President, concurrently serves as Chief Information Officer of the Bank.

Mr. Tu Hong, Chief Business Officer (Interbank and Market Business), concurrently serves as the President of the Shanghai Branch. He no longer served as the Chairman of the Board of BOCOM Wealth Management Co., Ltd.

(VI) Emoluments and Shareholdings of Directors, Supervisors and Senior Management

1. Details of emoluments and shareholdings

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (share)	Number of shares held at the end of the Reporting Period (share)	Reason for changes
		Emoluments	Other benefits	Total						
Ren Deqi	Chairman of the Board of Directors and Executive Director	65.63	24.76	90.39	No	A share H share	0 300,000	0 100,000	0 400,000	- Purchased from secondary market
Liu Jun	Vice Chairman of the Board of Directors, Executive Director and President	65.63	23.40	89.03	No	A share H share	0 0	0 0	0 0	- -
Li Longcheng	Non-executive Director	-	-	-	No	A share H share	0 0	0 0	0 0	- -
Wang Linping	Non-executive Director	-	-	-	No	A share H share	0 0	0 0	0 0	- -
Chang Baosheng	Non-executive Director	-	-	-	No	A share H share	0 0	0 0	0 0	- -
Liao, Yi Chien David	Non-executive Director	-	-	-	Yes	A share H share	0 0	0 0	0 0	- -
Chan Siu Chung	Non-executive Director	-	-	-	Yes	A share H share	0 49,357	0 0	0 49,357	- -
Mu Guoxin	Non-executive Director	-	-	-	Yes	A share H share	0 0	0 0	0 0	- -

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Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)				Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason for changes
		Emoluments	Other benefits	Total							
Chen Junkui	Non-executive Director	-	-	-	No	A share H share	0 0	0 0	0 0	- -	
Luo Xiaopeng	Non-executive Director	-	-	-	Yes	A share H share	0 0	0 0	0 0	- -	
Woo Chin Wan, Raymond	Independent Non-executive Director	31	-	31	No	A share H share	0 0	0 0	0 0	- -	
Cai Haoyi	Independent Non-executive Director	-	-	-	No	A share H share	0 0	0 0	0 0	- -	
Shi Lei	Independent Non-executive Director	31	-	31	No	A share H share	0 0	0 0	0 0	- -	
Zhang Xiangdong	Independent Non-executive Director	-	-	-	No	A share H share	0 0	0 0	0 0	- -	
Li Xiaohui	Independent Non-executive Director	33	-	33	No	A share H share	0 0	0 0	0 0	- -	
Ma Jun	Independent Non-executive Director	11.18	-	11.18	No	A share H share	0 0	0 0	0 0	- -	
Xu Jiming	Chairman of the Board of Supervisors and Shareholder Supervisor	65.63	23.40	89.03	No	A share H share	0 0	0 0	0 0	- -	
Wang Xueqing	Shareholder Supervisor	-	-	-	Yes	A share H share	0 0	0 0	0 0	- -	
Li Yao	External Supervisor	28.00	-	28.00	No	A share H share	0 0	0 0	0 0	- -	
Chen Hanwen	External Supervisor	26.70	-	26.70	No	A share H share	0 0	0 0	0 0	- -	
Su Zhi	External Supervisor	13.22	-	13.22	No	A share H share	0 0	0 0	0 0	- -	
Guan Xingshe	Employee Supervisor	101.04	23.93	124.97	No	A share H share	40,000 0	60,000 0	100,000 0	Purchased from secondary market -	
Lin Zhihong	Employee Supervisor	83.04	23.93	106.97	No	A share H share	30,000 0	10,000 0	40,000 0	Purchased from secondary market -	
Feng Bing	Employee Supervisor	83.04	23.93	106.97	No	A share H share	0 0	0 0	0 0	- -	
Po Ying	Employee Supervisor	100.99	24.05	125.04	No	A share H share	65,000 0	70,044 0	135,044 0	Purchased from secondary market -	
Yin Jiuyong	Huang Hongyuan	59.07	23.40	82.47	No	A share H share	0 0	0 0	0 0	- -	

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)				Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Increase (or decrease) in shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason for changes
		Emoluments	Other benefits	Total							
Huang Hongyuan	Executive Vice President	14.77	6.45	21.21	No	A share H share	0 0	0 0	0 0	– –	
Zhou Wanfu	Executive Vice President	59.07	23.40	82.47	No	A share H share	0 0	0 0	0 0	– –	
Hao Cheng	Executive Vice President	59.07	23.40	82.47	No	A share H share	0 0	0 0	0 0	– –	
Qian Bin	Executive Vice President and Chief Information Officer	59.07	24.76	83.83	No	A share H share	0 0	0 0	0 0	– –	
Tu Hong	Chief Business Officer (Interbank and Market Business)	100.00	24.76	124.76	No	A share H share	0 50,000	0 0	0 50,000	– –	
Lin Hua	Chief Risk Officer	100.00	24.76	124.76	No	A share H share	132,100 0	0 0	132,100 0	– –	
Resigned/Retired Directors, Supervisors and Senior Management											
Song Hongjun	Ex-Non-executive Director	–	–	–	Yes	A share H share	0 0	0 0	0 0	– –	
Liu Haoyang	Ex-Non-executive Director	–	–	–	Yes	A share H share	0 0	0 0	0 0	– –	
Yeung Chi Wai, Jason	Ex-Independent Non-executive Director	15.5	0	15.5	No	A share H share	0 0	0 0	0 0	– –	
Zhang Minsheng	Ex-Shareholder Supervisor	–	–	–	Yes	A share H share	0 0	0 0	0 0	– –	
Xia Zhihua	Ex-External Supervisor	0	0	0	No	A share H share	0 0	0 0	0 0	– –	
Ju Jiandong	Ex-External Supervisor	0	0	0	No	A share H share	0 0	0 0	0 0	– –	
Guo Mang	Ex-Executive Vice President	54.15	21.35	75.49	No	A share H share	50,000 0	0 0	50,000 0	– –	
Gu Sheng	Ex-Secretary of the Board of Directors	100.00	21.35	121.35	No	A share H share	66,100 21,000	0 0	66,100 21,000	– –	
Wang Feng	Ex-Chief Business Officer (Retail and Private Business)	8.33	1.97	10.30	No	A share H share	239,335 140,000	0 (131,000)	239,335 9,000	– Purchased from secondary market	
Ng Siu On	Ex-BoCom- HSBC Strategic Cooperation Consultant	–	–	–	Yes	A share H share	0 30,000	0 0	0 30,000	– –	

CORPORATE GOVERNANCE

Notes:

1. In 2022, for the Bank's Directors, Supervisors and Senior Management personnel managed by the Central Government, the remuneration was strictly determined in accordance with central financial enterprise remuneration measurement specifications for person in charge. According to related regulations, the final remuneration of them in 2022 are now subject to confirmation and the rest will be disclosed when confirmed.
2. Employee Supervisors of the Bank received remunerations as employees of the Bank, while receiving no remuneration from the Bank as Employee Supervisors.
3. In this table, the total pre-tax remuneration received by all directors, supervisors and senior management personnel (excluding resigned/retired Directors, Supervisors and Senior Management) during the Reporting Period was 16.2982 million.

Additionally, Mr. Chan Siu Chung, Director of the Bank, held 98 H shares of BOCOM International Holdings Company Limited. Save as disclosed above, as at the end of the Reporting Period, none of the Bank's directors, supervisors or chief executives had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register as kept pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Bank and the Hong Kong Stock Exchange.

2. Remuneration decision-making process and the deciding factors

The remuneration plan for Directors and Senior Management was drafted by Personnel & Remuneration Committee and was submitted to the Board of Directors for review. Furthermore, the Directors' remuneration was required to be submitted to the Shareholders' General Meeting for review and approval. Supervisors' remuneration plan was submitted to the Board of Supervisors for review by Nomination and Remuneration Committee of the Board of Supervisors. After the review by the Board of Supervisors, such plan was submitted to the Shareholders' General Meeting for final review and approval.

The annual performance-based remuneration for Directors, Supervisors and Senior Management was determined in accordance with relevant requirements of the government and the Bank's performance measurement. For the Bank's directors, supervisors and senior management personnel managed by the central government, the remuneration was strictly determined in accordance with central financial enterprise remuneration measurement specifications for person in charge. For the Bank's senior management who were not managed by the central government but receiving remuneration from the Bank, the remuneration consisted of the basic annual salary, annual performance bonus and other benefits. In order to balance the incentives and risk constraints, certain portion of the annual performance bonus was subject to deferred payment in the next three years, which was supposed to be paid by 1/3 each year.

V. BOARD OF DIRECTORS AND SPECIAL COMMITTEES

The Bank has developed complete and sound procedures for the nomination and election of Directors, which are specified in Articles of Association. The Bank understands and recognises the importance of diversification of members of the Board of Directors, which the Bank views as the vital aspect to improve the effectiveness of corporate governance and to achieve the sustainable development of the Bank. During the process of nominating and appointing members of the Board of Directors, the Bank fully considers the objectives and requirements of diversity from the perspective of strengthening the capacity building of the Board of Directors, and a comprehensive assessment of the expertise, experience and background of the candidates is required to ensure that the strategic decision-making of the Board of Directors is scientific in professional and diversified points of views. The Board of Directors of the Bank would try to appoint at least one female director as far as possible (As at the end of the Reporting Period, Ms. Li Xiaohui served as the Independent Director of the Bank). The term of office of the Directors of the Bank is 3 years. Directors can be re-elected upon expiry of the term of office and Independent Non-executive Directors' accumulated tenure in the Bank cannot exceed 6 years.

As at the end of the Reporting Period, the Board of Directors comprised 16 members, including 2 Executive Directors, namely Mr. Ren Deqi and Mr. Liu Jun. Mr. Ren Deqi and Mr. Liu Jun were appointed as the Chairman and the Vice Chairman of the Board of Directors respectively. The Board of Directors comprised 8 Non-executive Directors, namely Mr. Li Longcheng, Mr. Wang Linping, Mr. Chang Baosheng, Mr. Liao, Yi Chien David, Mr. Chan Siu Chung, Mr. Mu Guoxin, Mr. Chen Junkui and Mr. Luo Xiaopeng, and 6 Independent Non-executive Directors, namely Mr. Woo Chin Wan, Raymond, Mr. Cai Haoyi, Mr. Shi Lei, Mr. Zhang Xiangdong Ms. Li Xiaohui and Mr. Ma Jun.

The Bank ensures that all directors adhere to high ethical standards. The Executive Directors, who have extensive professional knowledge and business management experience of banking, are engaged in the operation and management of commercial banks. With years of experience in fiscal, economic, financial, auditing, and business management sectors, the Non-executive Directors have developed in-depth understanding of policies and practical experience in management. As experts and scholars in domestic and overseas economic, financial, auditing and legal fields, the Independent Non-executive Directors are familiar with domestic and overseas regulatory requirements, laws and regulations, corporate governance, operation and management of commercial banks. The number of Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the regulations.

Constitution of the Board of Directors

Type of Directors	Executive Director	Non-executive Director	Independent Non-executive Director
	2	8	6
Location	China	Hong Kong	
	12	4	
Age	Below 50	50-60	Over 60
	2	10	4
Gender	Male	Female	
	15	1	
The term of office of the Directors	Over 3 years	Below 3 years	
	6	10	

CORPORATE GOVERNANCE

(II) Responsibilities of the Board of Directors

The Board of Directors, the decision-making institution of the Bank, is responsible for the Shareholders' General Meeting and takes ultimate responsibilities for business management. The Board of Directors exercises powers and performs duties within the terms of reference as stipulated under the laws, regulations and the Articles of Association of the Bank and as authorised by the Shareholders' General Meetings to protect the legitimate interests of the Bank and its shareholders. The main responsibilities include convening and reporting to Shareholders' General Meetings; executing resolutions of Shareholders' General Meetings, determining business plans and investment proposals, developing profit distribution plan, determining the establishment of legal entity, significant equity investments, significant debt investments, significant asset acquisition, significant asset disposals and significant asset written-off within the scope authorised by Shareholders' General Meetings, formulating amending plans for Articles of Association and listening to work reports from the President.

During the Reporting Period, the Board continuously improved the structure and system of corporate governance while accelerating the construction of a governance mechanism for modern financial enterprises that operates and balances coordinately with statutorily defined transparent authorities and responsibilities. We adhered to the general keynote of "seeking progress while maintaining stability", earnestly implemented the "three tasks" of financial work, coordinated epidemic prevention and control with business development, strived to overcome difficulties and steadily pushed forward various reform and development work. The Bank kept and consolidated the development status of maintaining stability with progress made and quality improved.

During the Reporting Period, the Board of Directors primarily focused on six areas. The first was to actively serve national strategies and promote high-quality development. The second was to strengthen strategic leadership and implement the 14th Five-Year Plan. The third was to improve the modern financial enterprise system and continuously enhance corporate governance. The fourth was to strengthen comprehensive risk management and effectively prevent financial risks. The fifth was to strengthen investor relations management and enhance the quality and effectiveness of information disclosure. The last was to carry out social responsibility and actively fulfill the responsibility of a large state-owned bank.

During the Reporting Period, in strict accordance with laws, regulations and supervisory rules such as the Company Law, the Code of Corporate Governance of Listed Companies and the Corporate Governance Standards for Banking and Insurance Institutions as well as the Articles of Association of the Bank, Directors of the Bank faithfully, diligently, conscientiously and prudently fulfilled their duties, conscientiously attended at the Shareholders' General Meeting, meetings of the Board of Directors and Special Committees under the Board of Directors and at other meetings held by the Board of Directors and carefully reviewed various proposals. The Directors made decisions on the strategic management, risk management, internal control, profit distribution, nomination and compensation, major investments, equity financing, bond issuance, related party transactions and other major issues of the Bank, and raised no objection to the resolutions of the Board of Directors. The senior management of the Bank attached great importance to and actively adopted opinions or suggestions proposed by the Directors, regularly formed the Report on Implementation of Directors' Opinions and submitted it to the Board of Directors for review and implemented these item by item.

In addition, the Bank's corporate governance functions specified in article A.2.1 of the Corporate Governance Code are also performed by the Board of Directors. During the Reporting Period, the work carried out by the Board of Directors in this regard included regular inspection and evaluation of the implementation of the corporate governance system, inspection of the Bank's policies and practices in compliance with legal and regulatory provisions and review of the Bank's compliance with the Corporate Governance Code and its disclosure in this section.

(III) Meetings of the Board of Directors

The Bank formulated Rules of Procedures for the Board of Directors Meetings, which specified stringent requirements regarding the convening manner, notice, procedures, agendas and minutes of the Board's meetings. During the Reporting Period, the Board of Directors of the Bank held seven meetings, including six on-site meetings and one written circular. The meeting reviewed and approved 72 proposals such as Periodical Performance Announcement, Annual Business Plan, Board of Directors re-election plan, Board Renewal, Amendments of companies' regulations, Profit Distribution Plan, Fixed Assets Investment Plan, Issuance of financial bonds; The Special Committees under the Board of Directors held 22 meetings, reviewed and approved 119 relevant proposals and reports. All of the above meetings were held in accordance with the requirements of the Articles of Association, Rules of Procedures for Board of Directors Meetings and the Code of Corporate Governance. Attendance of Directors of the Bank at the Shareholders' General Meeting, meetings of the Board of Directors and Special Committees under the Board of Directors during the Reporting Period is set out as follows:

Attendance at on-site meetings in person/Number of on-site meetings should be attended

Special Committees under the Board of Directors							
	Shareholders' General Meeting	The Board of Directors	Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transaction Control Committee	The Personnel & Remuneration Committee	Social Responsibility (Environmental, Social and Governance, ESG) and Consumer Protection Committee
Executive Director							
Ren Deqi	4/4	6/6	6/6	–	–	–	–
Liu Jun	4/4	6/6	6/6	–	–	–	3/3
Non-executive Director							
Li Longcheng	4/4	6/6	–	5/5	–	4/4	–
Wang Linping	4/4	6/6	2/2	–	4/4	–	1/1
Chang Baosheng	4/4	6/6	4/4	5/5	–	–	2/2
Liao, Yi Chien David	4/4	5/6	–	–	–	3/4	–
Chan Siu Chung	1/4	6/6	–	–	–	–	3/3
Mu Guoxin	3/3	2/2	2/2	–	2/2	–	–
Chen Junkui	4/4	6/6	6/6	5/5	–	–	–
Luo Xiaopeng	3/3	2/2	2/2	–	–	–	2/2
Independent Non-executive Director							
Woo Chin Wan, Raymond	4/4	5/6	–	5/5	–	4/4	–
Cai Haoyi	3/4	6/6	–	–	4/4	4/4	–
Shi Lei	1/4	6/6	–	2/2	2/2	4/4	–
Zhang Xiangdong	4/4	6/6	–	5/5	4/4	–	–
Li Xiaohui	4/4	6/6	–	5/5	4/4	–	–
Ma Jun	–	1/1	1/1		1/1		

Note: Directors who are unable to attend meetings of the Board of Directors or Special Committees under the Board of Directors in person have entrusted other directors to attend and exercise voting rights on their behalf.

CORPORATE GOVERNANCE

The meeting of the Board of Directors is as follows:

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
The 24th Meeting of the 9th Board of Directors	16 January 2022	3 proposals including the 2022 Business Plan	All Approved	The official website of the Bank The SSE website The website of the Hong Kong Stock Exchange
The 25th Meeting of the 9th Board of Directors	25 March 2022	18 proposals including the 2021 Work Report of Board of Director	All Approved	The same as above
The 26th Meeting of the 9th Board of Directors	29 April 2022	7 proposals including the 2022 First Quarter Performance Report	All Approved	The same as above
The 1st Meeting of the 10th Board of Directors	28 June 2022	16 proposals including the Appointment of Mr. Ren Degi as Chairman of the Board	All Approved	The same as above
The 2nd Meeting of the 10th Board of Directors	26 August 2022	16 proposals including the 2022 Interim Report and Performance Announcement	All Approved	The same as above
The 3rd Meeting of the 10th Board of Directors	28 October 2022	11 proposals including the 2022 Third Quarter Performance Report and Results Announcement	All Approved	The same as above
The 4th Meeting of the 10th Board of Directors	23 December 2022 - 31 December 2022	Matters related to the management of subsidiary institutions of Bank of Communications Co., Ltd	All Approved	The same as above

(IV) Special Committees under the Board of Directors

The Board of Directors set up Strategy Committee (Inclusive Finance Development Committee), Audit Committee, Risk Management and Related Party Transaction Control Committee, Personnel & Remuneration Committee and Social Responsibility (ESG) and Consumer Protection Committee. Including: the Strategy Committee and Inclusive Finance Development Committee perform duties in combination. The Risk Management and Related Party Transaction Control Committee assumed the responsibilities of the US Risk Management Committee. And the Personnel & Remuneration Committee performed the functions both nomination and remuneration.

As at the date of performance disclosure, Special Committees under the Board of Directors were as follows:

Board of Directors/ Special Committees under the Board of Directors	Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transaction Control Committee	Personnel & Remuneration Committee	Social Responsibility (ESG) and Consumer Protection Committee
Ren Deqi	Chairman				
Liu Jun	Member				Chairman
Li Longcheng		Member		Member	
Wang Linping	Member		Member		
Chang Baosheng		Member			Member
Liao, Yi Chien David				Member	
Chan Siu Chung					Member
Mu Guoxin	Member		Member		
Chen Junkui	Member	Member			
Luo Xiaopeng	Member				Member
Woo Chin Wan, Raymond		Member		Member	
Cai Haoyi			Member	Chairman	
Shi Lei		Member		Member	
Zhang Xiangdong		Member	Chairman		
Li Xiaohui		Chairman	Member		
Ma Jun	Member		Member		

During the Reporting Period, the performance results of each committee of Board of Directors were as below:

1. Strategy Committee (Inclusive Finance Development Committee). The Strategy Committee is primarily responsible for deliberating and studying the Bank's development strategy, medium and long-term development plans and financial technology plans, data governance plans, etc., inspecting, monitoring and evaluating the implementation; analyzing and evaluating the Bank's assets management, deliberating and studying capital planning and capital replenishment plans; deliberating and studying the Bank's significant investment plans (including Significant equity investment); deliberating and studying the Bank's annual business plans, formulating and reviewing the strategic plans for the development of inclusive financial business, operating plan, basic policy system, etc. deliberating and studying the establishment of internal functional departments of the Bank and the establishment plans of domestic first-tier branches, overseas branches and domestic and foreign subsidiaries; inspecting and evaluating the implementation of the Bank's corporate governance, monitoring and evaluating the compliance and effectiveness of corporate governance.

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During the Reporting Period, Strategy Committee (Inclusive Finance Development Committee) held 5 meetings on 24 January, 24 March, 28 April, 27 June, 25 August and 27 December respectively, reviewed and approved 29 proposals, presented professional recommendations to the Board of Directors. Among them, the committee effectively played a strategic leading role, reviewed and approved Proposal Concerning Outline on Development Plan (Revised draft) for the “14th Five-Year Plan” Period (2021-2025), Development Plan on FinTech (Revised draft) for the “14th Five-Year Plan” Period (2021-2025), further improved the development plan; regularly learn about the situation of implementation of strategies and development of inclusive financial business, accelerated the construction of digitalised new BoCom and created business features based on taking advantages of Shanghai Base, proposing opinions on the inclusive financial services system with characteristics of BoCom. The committee further improved the construction of corporate governance system, monitored and evaluated the implantation of authorised operations for the year, reviewed and amended Articles of Association, Procedures for the Board of Directors Meetings, Rules of procedure for the Shareholders’ general meeting and Working rules for senior management.

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointments, reappointments or removal of the Bank’s auditors who conduct regular statutory audits for the Bank’s financial reports and is responsible for specific implementation matters. The committee monitors and evaluates the relationship between the Bank and external auditors and the work of external auditors; guiding, assessing and evaluating internal audit work, internal audit system and implementation; coordinating the communication between the Bank’s senior management, internal audit department, relevant departments and external audit institutions; reviewing the Bank’s financial information and its disclosure, inspecting accounting policies and practices, supervising financial status and financial reporting procedures, and express opinions on financial reports; supervise and evaluate the effectiveness of the Bank’s internal controls, and examine internal controls (including financial controls) system and its implementation.

During the Reporting Period, The Audit Committee held 5 meetings on 23 March, 28 April, 27 June, 25 August and 27 October respectively, reviewed and approved 31 proposals. Among them, the Committee strictly complied with the listing rules and accounting standards, monitored and reviewed regular reports, regularly communicated with the senior management and external auditors, expressed opinions on the authenticity, completeness and accuracy of the Bank’s financial information. The Bank performed well in the replacement of external auditors and handover of work, urged the predecessor and the successor auditors to carry out their work in strict accordance with the handover plan and timetable, and established an efficient communication and handover work mechanism to achieve a smooth transition. We attached great importance to internal audit work; resolved and approved the internal audit development plan (2022-2025); approved a pilot programme for optimising the work mechanism of the audit departments of eight branches; listened to the annual work plan of internal audit and quarterly reports on internal audit; evaluated our internal audit; made suggestions to facilitate the digital transformation of audit; stepped up the formulation of a digital audit team; improved the internal audit workflow chart and important risk control points; strengthened the role of internal audit in revealing and warning risks, improving system and process deficiencies and promoting the assertion of responsibility for non-performing assets; continuously monitored and reviewed the Bank’s internal control system; reviewed annual internal control evaluation reports; assessed the effectiveness of the supervisory internal control system; listened to reports on the rectification of problems notified by supervision; strengthened the supervision of the rectification of problems identified by supervision; put forward suggestions such as establishing a dynamic improvement mechanism for the problem list and database; and integrating compliance management into daily business activities.

3. Risk Management and Related Party Transaction Control Committee. Committee is primarily responsible for reviewing and revising the Bank's risk strategy, risk management policies, risk appetite, comprehensive risk management framework and internal control system based on the Bank's overall strategy; monitoring and commenting on the Bank's comprehensive risk management; supervising the senior management to effectively identify, measure, monitor, control and deal with various risks in a timely manner; regularly reviewing the Bank's annual risk appetite, setting scientific and reasonable risk preference statement, risk tolerance and risk limit; assuming the responsibilities of the US Risk Management Committee; reviewing and amending the Bank's basic system for management of related party transactions, reviewing and amending the policies of consolidated statements management; establishing the goal of building the Bank's money laundering risk management culture; promoting a robust risk culture; reviewing the Bank's significant fixed asset investment, asset disposal, bad debt write-off, asset mortgage or external guarantee, etc.

During the Reporting Period, the Risk Management and Related Party Transaction Control Committee held 4 meetings on 23 March, 28 April, 25 August and 27 October respectively, reviewed and approved 31 proposals and presented professional recommendations to the Board of Directors. In particular, the Committee supervised the overall risk management on an ongoing basis and reviewed the comprehensive risk assessment report on a quarterly basis to assess the effectiveness of risk management including credit risk, liquidity risk, market risk, internal control and operational risk, compliance and anti-money laundering, country risk, etc. We supervised the risk management system on an ongoing basis; reviewed annual risk appetite and risk policies; formulated management practices for asset impairment provision; revised management practices for connected transactions and risk reserve management policies; and listened to reports on consolidated statement management, anti-money laundering, connected transactions, compliance risk management and risk assessment of branches in the US. In the course of reviewing the resolution, suggestions were made to strengthen the Group's unified risk management and risk awareness, make forward-looking judgments and risk plans for key areas with high pressure of non-performing rebound such as hidden debts of local governments, real estate business, environmental climate, large group customers and credit card business, strengthen the level of digitalisation and intelligence of risk management, and facilitate the construction of digital risk management projects. With regard to the risk management of the Group's overseas business and the business of our subsidiaries, the Group proposed to strengthen the research and evaluation of overseas risks and country risks, build an effective quantitative evaluation model for country risks, and effectively integrate subsidiaries and overseas institutions into the Group's unified risk system.

4. Personnel & Remuneration Committee. The Personnel & Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the operating results, the scale of assets and the structure of shareholding, approving and amending the policies on diversification of members of the Board of Directors, making recommendations to the Board of Directors on formulating the selection procedures and assessment criteria for the Bank's directors and senior management personnel, reviewing the basic systems and policies of remuneration management and putting forward suggestions on the salary distribution plan of directors and senior managers and then submitting it to the Board of Directors for deliberation. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and a Remuneration Committee.

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The Personnel & Remuneration Committee's nomination procedures for the directors and senior management of the Bank are as follows: Firstly, understand the Bank's demands for directors in time. Secondly, extensively search for candidates of directors according to the demands. Thirdly, determine the initial candidates. The office of the board of directors collects and organizes the resumes of initial candidates and form written materials. Fourthly, obtain initial candidates' agreements or they can not be the candidates of directors. Fifthly, convene the meetings of the Personnel & Remuneration Committee to conduct examinations for the qualification of the initial candidates based on the Bank's employment conditions for directors. Sixthly, propose to the Board of Directors about the election of new director and report written deliberation opinions to the board of directors. Seventhly, implement other following duties based on decisions and feedbacks of the Board of Directors.

During the Reporting Period, the Personnel & Remuneration Committee held 4 meetings on 23 March, 28 April, 25 August and 27 October respectively, reviewed 16 proposals including Board of Directors Re-election Plan, 2021 Director's and Senior Management's Remuneration Plan, Renewal or Appointment of Senior Management, Administrative Measures on Deferred Payment, Resource and Deduction of Performance Wages, and presented professional recommendations to the Board of Directors.

5. Social Responsibility (ESG) and Consumer Protection Committee. The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies and fulfilling plans and measures of social responsibilities; Researching, formulating, evaluating and improving the effectiveness of the Bank's performing social responsibilities; reviewing the strategies, policies and goals on protecting the consumers' rights; studying key issues and significant policies on consumer's rights protection; being responsible for green finance work, establishing and implementing green development concepts such as economizing, low-carbon, environmental protection, and sustainable development in the Bank; approving external donations according to the authorisation of the Board of Directors, submitting to the Board of Directors or general meeting of shareholders for approval of additional external donations; monitoring and evaluating the implementation of the Bank's social responsibilities, ESG, consumer protection, green finance strategies, policies, plans, measures, etc.

During the Reporting Period, the Committee held 3 meetings on 24 March, 25 August, and 27 October respectively, reviewed and approved 12 proposals, and presented professional recommendations to the Board of Directors. The Committee constantly promoted the development of green finance of the Bank and considered and passed the Action Plan for Achieving Carbon Peak and Carbon Neutrality of the Bank of Communications. The bank clearly clarified the specific objectives and key tasks to serve the national strategy of carbon peak and carbon neutrality, and propose to make "green" the distinctive "color" of the Group's business development and the management of each unit of the Group; The bank considered the annual report on the work of green finance and put forward opinions and suggestions on improving the assessment and evaluation system of green finance, accelerating the innovation of green financial products and realizing the scale effect, and increasing the training of green financial talents. The bank attaches great importance to and continuously strengthens consumer rights protection work, and regularly hears reports on the status of consumer rights protection work, regulatory circulars and notifications of consumer complaints in the banking industry, and promotes the implementation of consumer rights protection work and rectification and implementation, put forward suggestions to improve the governance system of consumer rights protection and enhance the sharing ability of the integration of the Group's customers, products, services and channels. Actively fulfill the responsibility of a large state-owned bank by considering external donation plans, strengthening the evaluation of the implementation of donation budgets, and submitting additional external donations to the Board of Directors for approval.

During the Reporting Period, the Directors of the Bank did not raise objections to the proposals of the Board of Directors and the Special Committees of the Board of Directors.

(V) Independent Non-Executive Directors

The Bank placed emphasis on the role of the independent non-executive directors in corporate governance to ensure that independent views and opinions are available to the Board. According to *the Articles of Association of the Bank*, the independent non-executive directors should express objective and impartial independent opinions on matters review by the Shareholders' General Meeting or the Board of Directors, particularly on material related-party transactions, profit distribution plans, nomination, appointment or dismissal of directors, appointment or dismissal of senior management personnel, remuneration of directors and senior management personnel, and appointment or dismissal of accounting firms. During the reporting period, the independent non-executive directors expressed independent opinions on 11 motions considered by the Board of Directors.

As at the end of the Reporting Period, the Bank had 6 independent directors, which met the requirements of domestic and overseas regulations about the proportion of independent directors in the Board of Directors. Their qualifications were in compliance with the domestic and overseas regulatory regulations. The independence of the independent non-executive directors was effectively safeguarded as they did not have any businesses or financial interests in the Bank or its subsidiaries and they did not assume any executive positions in the Bank. The Bank received annual independence confirmation letters from all independent non-executive directors and considered that each of the independent non-executive directors was independent.

During the Reporting Period, the time that each independent non-executive director devoted to the work of the Bank was in compliance with the requirements of *the Articles of Association* and *the Working Practice of Independent Directors* of the Bank. The Special Committees under the Board of Directors, namely Audit Committee, Risk Management and Related Party Transactions Control Committee and Personnel & Remuneration Committee, were all chaired by independent non-executive directors. The independent non-executive directors actively voiced their comments or suggestions in the Board's meetings. The Board of Directors paid great attention to comments or suggestions proposed by independent non-executive directors and required senior management to study them. In addition to attending meetings, each independent non-executive director communicated with senior management effectively through various channels including on-site research and discussion sessions. The Chairman of the Board of Directors also meets the independent directors in the absence of the executive directors and the non-executive directors every year.

Details about the fulfilment of duty of independent non-executive directors of the Bank during the Reporting Period were disclosed in *the Work Report of the Independent Non-executive Directors for 2022* published on the website of the SSE and the website of HKEX News of the Hong Kong Stock Exchange.

(VI) Participation in Training and Research by Directors during the Reporting Period

The Bank constantly emphasised improving the capabilities of the directors by actively conducting research and participating in training. During the reporting period, taking into account the economic and financial situation and the focus of the Bank's business development, the non-executive directors and independent directors of the Bank visited a number of branches including Fujian Branch, Gansu Branch, Yunnan Branch, Anhui Branch, Guizhou Branch, Guangxi Branch and other branches and relevant departments of the Head Office to conduct research activities. The topics of the survey include serving the real economy, implementing the 14th Five-Year Plan, green finance, financial technology, financing for small and medium-sized enterprises, risk management and internal control and compliance management, etc. The directors prepared a number of high-quality research reports for the Board of Directors and senior management's reference, which contributed to the improvement of the Bank's operation and management. During the reporting period, the Bank actively organized directors to participate in various forms of training, both online and offline, to help them improve their ability to perform their duties.

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Major trainings:

1. Training on 64th Seminar on Enhancing Continuing Professional Development for Corporate Governance Professionals (Training for Directors and Supervisors) of Hong Kong Chartered Governance Institute (Directors participating in the Report Period: Li Longcheng, Wang Linping, Chang Baosheng, Mu Guoxin, Chen Junkui, Luo Xiaopeng, Jason, Woo Chin Wan, Raymond, Shi Lei, Zhang Xiangdong, Li Xiaohui, Ma Jun)
2. Training on the topic of Earnings Presentation of Listed Companies of China Listed Companies Association (Directors participating in the Report Period: Ren Deqi, Liu Jun)
3. Training on Corporate Governance of Listed Companies of China Listed Companies Association (Directors participating in the Report Period: Ren Deqi, Liu Jun)
4. Training on directors' responsibilities, management of insider information, connected transactions, etc. by DLA Piper (Directors participating in the Report Period: All Directors)
5. Specialised Business Training of Anti-money Laundering (Directors participating in the Report Period: All Directors)

(VII) Responsibility of the Board of Directors for the Financial Statements

The directors are responsible for monitoring the preparation of annual financial statements to give a true and fair view of the Group's financial condition, operating results and cash flows in the corresponding accounting period. In preparing for the financial statements for the year ended 31 December 2022, the directors ensured that appropriate accounting policies were adopted and consistently applied, and they also made reasonable and prudent accounting judgements and estimates. The directors acknowledged their responsibility for the preparation of financial statements, and the auditor's statement of reporting responsibility for their report is set out in the Auditor's Report.

(VIII) Specific Notification and Independent Opinion of the Independent Non-Executive Directors on External Guarantees Provided by the Bank

The independent non-executive directors of the Bank considered that the provision of external guarantees was in the ordinary course of the Bank's businesses as approved by the regulatory authorities. The Bank developed prudent risk management and monitoring policies, particularly on the standard of the credit assessment of guarantee, as well as operational and credit approval procedures, so as to effectively manage the risks of its external guarantee business.

VI. BOARD OF SUPERVISORS AND SPECIAL COMMITTEES UNDER THE BOARD OF SUPERVISORS

(I) Composition of the Board of Supervisors and performance of duties

The Board of Supervisors is the Bank's supervisory body and is responsible for the Shareholders' General Meeting. The Board of Supervisors executes its authority within the scope of laws and regulations, regulatory provisions, as well as the terms of reference granted by *the Bank's Articles of Association* and the General Meeting of Shareholders. The duties of the Board of Supervisors include the supervision of the company's development strategy, business decisions, risk management, internal control and other areas.

As of the date of this report, there were 9 members on the Board of Supervisors, including 2 shareholder supervisors, 3 external supervisors and 4 employee supervisors. The proportion of external supervisors and employee supervisors among the members of the Board of Supervisors is in line with the regulatory requirements. The members of the Board of Supervisors are well versed in the operation and management rules of the financial industry, and their experience covers large state-owned enterprises, financial universities and commercial banks, and they have profound theoretical background and rich experience in the fields of finance, auditing and accounting, which can provide sharp judgment and broad vision for the Board of Supervisors.

During the reporting period, the Supervisory Board held meetings in compliance with the law and held five meetings of the Supervisory Board by way of on-site meetings on 24-25 March, 29 April, 28 June, 26 August and 28 October, respectively, and considered and passed 29 motions. Mainly includes the four periodic reports of the Bank, the profit distribution plan for 2021, the internal control evaluation report for 2021, the consolidated management report for 2021, the financial accounts report for 2021, the corporate social responsibility (ESG) report for 2021, the work report of the Supervisory Board for 2021, the Supervisory Board's opinion on the performance of the Board of Directors and its members for 2021, the Supervisory Board's on the evaluation of the performance of the senior management and its members in FY2021, the self-evaluation of the performance of the Supervisory Board and its members in FY2021, the amendment of the Articles of Association, the amendment of the Rules of Procedure of the Supervisory Board, the remuneration package of the Supervisory Board in FY2021, the report on the implementation of the strategy in the first half of FY2022, and the evaluation results of the audit assessment in FY2021. Reviewing reports on comprehensive risk management, financial inclusion, data governance, green finance, consumer protection, fixed asset investment, capital adequacy, internal audit, compliance risk, anti-money laundering, assessment and remuneration mechanism, and connected transactions, etc., and informing the supervisory opinions and the rectification of problems, the meeting deliberates, reviews and informs the content of comprehensive coverage of statutory matters to ensure the effective performance of supervisory duties.

(II) Composition and performance of special committees

The Supervisory Board of the Bank has 3 special committees, namely, the Performance Due Diligence Committee, the Nomination Committee and the Financial and Internal Control Supervision Committee, with the following composition:

Board of Directors/Special Committees under the Board of Directors	Performance and Due Diligence Committee	Nomination Committee	Financial and Internal Control Supervision Committee
Xu Jiming	Chairman		
Wang Xueqing		Member	
Li Yao		Chairman	Member
Chen Hanwen	Member		Chairman
Su Zhi	Member		Member
Guan Xingshe	Member		Member
Lin Zhihong			Member
Feng Bing		Member	
Po Ying		Member	

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The special committees of the Supervisory Board held 12 meetings in 2022 and considered 37 motions and reports, giving full play to their supervisory support role. Among them, the Performance and Due Diligence Supervisory Committee is mainly responsible for carrying out daily supervision and comprehensive evaluation of the performance of the Bank's Board of Directors, senior management, Supervisory Board and its members and reporting to the Supervisory Board. The Nomination Committee is responsible for formulating the procedures and criteria for the selection and appointment of supervisors, conducting preliminary review of the qualifications of candidates for supervisors and making recommendations to the Supervisory Board; supervising the selection and appointment procedures of directors and other important personnel; and supervising the scientific and reasonable nature of the Bank's performance appraisal system, remuneration management system and policies and remuneration packages for senior management. The Finance and Internal Control Supervisory Committee is mainly responsible for drawing up supervision plans for the Bank's financial activities, information disclosure, etc. and implementing relevant inspections, and its main responsibilities include financial supervision, capital supervision, internal control and compliance supervision, and risk supervision.

(III) Participation of supervisors

All supervisors of the Bank perform their duties faithfully and diligently in strict accordance with *the Company Law*, *the Code of Corporate Governance for Banking and Insurance Institutions*, the Guidelines for the Work of the Supervisory Board of Commercial Banks and other laws, regulations and rules, as well as the provisions of the *Articles of Association of the Bank*, attend meetings of the shareholders' meeting, the Board of Supervisors and its special committees, attend relevant meetings of the Board of Directors and senior management, carefully consider the proposals, review and refer to relevant materials and listen to important reports. They also attended the meetings of the Board of Directors and senior management, reviewed and referred to the relevant materials, listened to important reports and put forward constructive opinions and suggestions. During the reporting period, all supervisors of the Bank complied with the relevant regulatory requirements in terms of the length of their duties and the number of meetings attended.

Supervisors	Position	Attendance at meetings in person	Attendance in person percentage (%)
Incumbent Supervisors			
Xu Jiming	Chairman of the Board of Supervisors and Shareholder Supervisor	5/5	100
Wang Xueqing	Shareholder Supervisor	5/5	100
Li Yao	External Supervisor	5/5	100
Chen Hanwen	External Supervisor	5/5	100
Su Zhi	External Supervisor	5/5	100
Guan Xingshe	Employee Supervisor	5/4	80
Lin Zhihong	Employee Supervisor	5/4	80
Feng Bing	Employee Supervisor	5/5	100
Po Ying	Employee Supervisor	5/5	100
Departing Supervisors			
Zhang Minsheng	Former Shareholder Supervisor	0/0	/
Xia Zhihua	Former External Supervisor	2/2	100
Ju Jiandong	Former External Supervisor	2/2	100
Average attendance in person percentage			96.36

(IV) Research and training of supervisors

The Board of Supervisors of the Bank actively organises supervisors to conduct special research and write a series of high-quality research reports for submission to the Board of Directors and senior management, as follows:

Research Projects	Departments and agencies involved
1. Supervision and Research on BoCom 's Service to Beijing-Tianjin-Hebei Synergistic Development Strategy	Relevant departments of the head office, Beijing Branch, Tianjin Branch, Hebei Branch, Hebei Xiongan Branch
2. Supervisory Research on BoCom 's Strategy to Serve the Construction of Guangdong-Hong Kong-Macao Greater Bay Area	Relevant departments of Head Office, Guangdong Branch, Shenzhen Branch, Hong Kong Branch, Hong Kong Sub-Branch, Macau Branch
3. Supervision and research on BoCom 's support for the construction of Hainan Free Trade Port	Relevant departments of the head office and Hainan branch
4. Supervision and research on the construction strategy of the 'Shanghai main site'	Relevant departments of the head office, Shanghai branch, BoCom Leasing, BoCom Investment and other subsidiaries
5. Bank-wide Risk Management Oversight Study	Relevant departments of the head office, Beijing branch, Shanghai branch, Guangdong branch and other places
6. Supervision and Research on Serious Financial Discipline	Relevant departments of the head office, Shanghai Branch, Jiangsu Branch, Zhejiang Branch, Jiangxi Branch

The Bank continues to enhance the capacity of supervisors to perform their duties and organizes supervisors to attend a series of professional trainings by combining internal and external resources, the main trainings are as follows:

Training Programs	Participants
1. Training on risk governance system building situation	Xu Jiming, Wang Xueqing, Li Yao, Chen Hanwen, Su Zhi, Guan Xingshe, Feng Bing, Po Ying
2. Shanghai Stock Exchange 2022 5th Initial Training for Directors, Supervisors and Executives of Listed Companies	Su Zhi
3. Corporate Governance Training	Xu Jiming, Wang Xueqing, Li Yao, Chen Hanwen, Su Zhi, Lin Zhihong, Feng Bing, Po Ying
4. Anti-money laundering regulatory situation analysis and training on new regulations	Xu Jiming, Wang Xueqing, Li Yao, Chen Hanwen, Su Zhi, Guan Xingshe, Lin Zhihong, Feng Bing, Po Ying

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VII. SENIOR MANAGEMENT

The Bank's senior management comprised president, executive vice president, chief business officers, BoCom-HSBC Strategic Cooperation consultant, and other management personnel as approved by the Board of Directors. The Bank adheres to a system under which President, as the ultimate responsible officer, reports to the Board of Directors, while all functional departments, branches, offices and other senior management report to President. President has the authority to conduct the Bank's business operations in compliance with the relevant laws and regulations, the Articles of Association and authorisation from the Board of Directors, with primary responsibilities including but not limited to day-to-day operating management of the Bank and report to the Board of Directors, implementation of the resolutions of the Shareholders' General Meetings and meetings of the Board of Directors, preparation and implementation of annual business plan and investment plan after the approval of the meetings of the Board of Directors and Shareholders' General Meeting, preparation of annual financial budget plans, financial plans and profit distribution plans, drafting the proposal for setting up internal management department, basic management policies and specific regulations of the Bank.

During the Reporting Period, senior management of the Bank conducted business operations within the scope authorised by *the Articles of Association* and the Board of Directors, carefully implemented resolutions of the Shareholders' General Meeting and the Board of Directors and successfully achieved the annual business targets determined by the Board of Directors as required. The Board of Directors was satisfied with the financial performance of senior management for the year 2022.

VIII. HUMAN RESOURCE MANAGEMENT

(I) Basic Information of Employees

As at the end of the Reporting Period, the Group had a total of 91,823 employees, of whom 85,405 employees were based in domestic banking institutions and 2,556 were local employees in overseas branches (subbranches). The number of employees of the Bank's subsidiaries was 3,862, excluding staff dispatched from the Head Office and branches. The number of retired employees that the Bank had the obligation to bear the cost to was 2,416. Among the employees of the Group, 44.83% were male and 55.17% were female. The Bank adhered to equal employment opportunity and equal pay for equal work, as well as paying attention to protect the rights of female employees and eliminating discrimination of any act.

For employees in domestic banking institutions, 27,729 employees held professional and technical qualifications, of which 554 employees held senior professional and technical qualifications, accounting for 0.65%. 15,048 employees held intermediate professional and technical qualifications, accounting for 17.62%. 12,127 employees held junior professional and technical qualifications, accounting for 14.20%. The number of employees with master's degree and above was 13,814, accounting for 16.17%. The number of employees with bachelor's degree was 61,402, accounting for 71.90%. The number of employees with associate's degree and below was 10,189, which accounted for 11.93%.

Structure of position categories of domestic employees

Category of position	Number of employees	Proportion (%)
Sales Development	29,394	34.42
Financial Operation	23,912	28.00
Operating and Management	7,787	9.12
Service Assurance	6,256	7.33
Risk Compliance	5,595	6.55
FinTech	5,277	6.18
Audit and Supervision	1,461	1.71
Others	5,723	6.70
Total	85,405	100.00

Note: FinTech headcount includes the personnel of FinTech Department and various personnel from different business departments empowering the business with science and technology.

Distribution of assets, entities and employees by region as at the end of the Reporting Period

	Assets		Entities		Employees	
	Amount (in millions of RMB)	Proportion (%)	Number of entities	Proportion (%)	Number of employees	Proportion (%)
Yangtze River Delta	3,195,976	24.60	705	24.16	25,146	28.59
Pearl River Delta	1,234,660	9.50	318	10.90	9,401	10.69
Bohai Rim Economic Zone	1,889,591	14.54	484	16.59	13,432	15.27
Central China	1,410,944	10.86	527	18.06	13,966	15.88
Western China	971,233	7.48	481	16.48	11,138	12.66
North Eastern China	459,731	3.54	333	11.41	8,446	9.60
Overseas	1,147,589	8.83	69	2.36	2,556	2.91
Head Office	4,949,397	38.09	1	0.03	3,876	4.41
Eliminated and unallocated assets	(2,266,702)	(17.44)	–	–	–	–
Total	12,992,419	100.00	2,918	100.00	87,961	100.00

Note: The number of employees in the Head Office excluded the employees in the Pacific Credit Card Centre, the financial service centres/ business department and the staff dispatched from the Head Office.

(II) Remuneration Policy

The Bank allocated the remuneration based on risk-adjusted returns. We reinforced the positive correlation between resource allocation and value creation, stroke a balance between fairness and efficiency, and fulfilled high-quality development requirements. The Bank's remuneration package for 2022 was formulated in compliance with relevant laws and regulations, regulatory requirements and corporate governance requirements, and strictly followed the internal decision-making process. The total remuneration of the Bank was approved on the basis of our efficiency and assessment, and the annual remuneration was approved by the Board of Directors of the Bank. The remuneration packages and annual totals were filed with the relevant authorities as required. The Bank's economic, risk and social responsibility indicators were completed well during the Reporting Period.

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In response to the reform and development requirements, the Bank improved the performance appraisal and remuneration system whereby “salary is determined by post and bonus granted upon performance”. The Bank adhered to the consistency of value creation with fairness, optimised the allocation of remuneration resources, guided and maximised value creation of operating units, and improved capabilities of pursuing high-quality development. Besides, the Bank insisted on responsibility orientation, grass-root orientation and performance orientation, and focused on positive incentives. In order to improve the incentive and restraint mechanism and give full play to the guiding role of compensation in business management, the bank has formulated and improved the Management Measures for Delayed Payment and Recovery of Performance-based Pay of Bank of Communications Co., Ltd. The bank has established a delayed payment and recovery system for performance-based pay for senior management and key position personnel within the group, and implemented delayed payment of over 40% of their performance-based pay, with a deferment period of no less than three years. In future years, payment will be stopped and recovery will be made in case of abnormal exposure to risk, and violations of laws, regulations, and discipline. During the Reporting Period, the Bank stopped payment and recovered corresponding periods of performance-based pay for personnel who received punishment or accountability in accordance with the regulations.

In addition to basic social pension and insurance, the Bank cared about the welfare of staff and implemented the supplementary benefits such as annuity. Please refer to Note 14. Staff costs and benefits in the Notes to the Consolidated Financial Statements for details of staff costs and benefits of the Bank for this Reporting Period.

(III) Training Management

During the Reporting Period, the Bank continuously held various training classes for cadres and staff, including one seminar on political skills, one training session for main leaders of directly affiliated agencies on implementing the spirit of the 20th National Congress of the Communist Party of China, two special training sessions for deputy heads of departments at the head office, two special training sessions for leaders of directly affiliated agencies on digital transformation and high-quality development, three training sessions for young and middle-aged cadres, three training sessions for senior managers, three training sessions for outstanding young branch managers, and carried out special trainings on digital transformation and digital leadership for management cadres at all levels. Meanwhile, the Bank paid great attention to professional trainings and held various professional training courses around corporate businesses, FinTech businesses, international businesses, inclusive finance business, credit granting businesses and interbank businesses. In addition, the Bank conducted various trainings including enhancement trainings for account managers to improve their business operating abilities in corporate businesses, retail businesses, inclusive finance business and interbank businesses, risk compliance and anti-money laundering training, green finance training as well as rural revitalisation training, in order to enhance staff's professional abilities.

The Bank paid great attention to professional ethics training and anti-corruption warning education for employees, and continuously strengthened the anti-corruption awareness of cadres and employees. During the Reporting Period, the Bank educated cadres and employees to take lessons from corruption, resist corruption and guard against degeneration by printing special case study materials, holding warning education conferences, and playing warning education films.

As for means of training, the Bank flexibly utilized its own learning platform e-campus, as well as other platforms such as Xuexi.cn APP, Huawei Video, and Tencent Meeting to conduct online training. During the Reporting Period, the Bank organized training for nearly 1.04 million cadre and staff, including face-to-face training for over 0.1 million people and online training for over 0.94 million people.

(IV) Talent Training and Reserve

During the Reporting Period, the Bank adhered to the belief that “Talent is the First Resource”, strengthened the top-level design, coordination, overall promotion and implementation of the Bank’s talent-related work and talent team construction, and strived to build a financial talent team with strong political awareness, good working styles, proficiency in businesses and reasonable structure. The Bank issued the *Working Rules for the Leading Group of Talent Work of Bank of Communications*, and the *Opinions on Further Strengthening the Construction of the Bank’s Talent Team*, clarified the normalization mechanism for the meetings of the talent work leading group, and implemented the responsibility system for talent work at all levels of the Party committees, and continuously deepened the reform of the talent development system and mechanism. The Bank optimised the overall management mechanism of recruitment and made every effort to promote the implementation of the plan of Ten Thousand People Technology Engagement. In 2022, the proportion of newly recruited science and technology graduates in the Bank increased to 67%. The Bank also established a talent service team to support policies and selected 22 business backbone members to go to difficult areas such as Qinghai and Xinjiang to exchange and assist in building branches. The Bank also increased its efforts to build a talent team in key areas, focusing on key areas such as financial technology, risk compliance, investment and trading, and cross-border services. In the past year, the Bank successfully introduced two high-level leading talents and sent eight backbone members to participate in the Shanghai Financial Talent Practice Base. The Bank actively supported the construction of Shanghai International Financial Center and high-level talent highlands. Currently, a total of 38 outstanding talents from the Bank have been selected for the “Financial Talents of Shanghai”, including 1 listed as overseas financial talents of Shanghai, 15 listed as leading financial talents of Shanghai, and 22 talents listed as young financial talents of Shanghai.

IX. INTERNAL CONTROLS

(I) Statement of the Board of Directors on Internal Controls Responsibility

The objective of the internal controls of the Bank is to ensure the faithful implementation of the relevant laws, regulations and rules of the State, the realization of the development strategies and operational objectives, the effectiveness of risk management, and the truthfulness, accuracy, completeness and timeliness of the business records, accounting information, financial information and other management information of the Bank.

It is the Board of Directors’ responsibility to establish, improve and effectively implement internal controls, assess the effectiveness of internal controls and truthfully disclose the internal controls assessment report. Internal control system aims to manage rather than eliminate the risk of failing to achieve the business targets, and it can only make reasonable rather than absolute assurance over items with no material misrepresentation or loss. The Board of Supervisors supervises the establishment and implementation of internal controls by the Board of Directors and senior management. Senior management is responsible for organizing and leading the day-to-day operation of internal controls within the enterprise. The Board of Directors set up Audit Committee and Risk Management and Related Transactions Control Committee to perform the corresponding internal controls functions. Senior management set up Comprehensive Risk Management and Internal Controls Committee to take charge of coordinating and promoting the internal controls systems construction, reviewing the basic policies of internal controls, organizing and implementing significant events of internal controls.

CORPORATE GOVERNANCE

(II) Statement of Effectiveness of Internal Controls

In 2022, the Group continued to strengthen the internal control concept of “realizing information-based, streamlined, and systematic management”, and constructed an internal controls system that is suitable for the business scope, organizational structure, business scale, and risk situation. During the reporting period, the Group strengthened the organization and leadership of internal control construction, continuously improved the internal control system, strengthened internal control measures and safeguards, and promoted the joint management of business departments, internal control management functional departments, and internal audit departments. The Group continued to carry out line inspections, special governance, internal audit, and other inspection and supervision work, strengthened the rectification of internal control problems, and promoted the improvement of management quality and effectiveness. The Group promoted the digital transformation of internal control supervision, integrated internal control, audit, and operational risk management systems based on the principles of “bottom-level unification, self-construction of differences, line linkage, and intelligent assistance,” and created an enterprise-level digital supervision and management main system to realize online, automatic, intelligent, and differentiated supervision and management. The Group continued to strengthen the construction of internal control compliance culture, formulated opinions on the construction of internal control compliance culture, strengthened top-level design, clarified objectives and measures, and carried out various education and publicity activities throughout the bank, such as “President talking about internal control and compliance ” and “openminded talking about internal control and compliance.” The Group also created an “internal control and compliance case prevention education base” and continued to create a clean and law-abiding business environment.

With a focus on its internal controls objectives, the Bank established a stringent internal controls system for financial reporting. During the Reporting Period, the Board of Directors ensured the effectiveness of the risk management and internal control systems of the Bank and its subsidiaries on many important aspects including financial monitoring, operation monitoring and compliance monitoring. Besides, the Board of Directors ensured the adequacy of resources, staff qualifications and experiences as well as the adequacy of training courses staff attended and related budgets to achieve the Group’s accounting, internal audit and financial reporting function.

(III) Organization Structure and Main Duties of Audit Supervision

The Bank’s audit work was led by the Board of Directors, who assumed the ultimate responsibility for the independence and effectiveness of the internal audit. According to the size and complexity of the Bank’s businesses, the Board of Directors provided the followings: sufficient and stable internal auditors, sufficient audit funds included in the financial budget, support for the informatization of the audit work, and necessary guarantees for independence and objectivity of the internal audit. The Board of Directors set up an Audit Committee to monitor, assess and evaluate the internal audit work on an ongoing basis, review important systems and reports such as the Internal Audit Charter, approve the annual audit plan, and receive the report on relevant audit results. The Bank set up a 3-level audit supervision system of Head Office Audit Supervision Bureau, regional Sub-bureaus of Audit Supervision and Audit Departments of provincial and directly-managed branches, carrying out a vertical and unified management. The Bank’s Audit Departments consistently promoted full-spectrum audit, insisted on risk-oriented audit, reviewed and urged the improvement of the Bank’s business operation, risk management, internal control and compliance, and corporate governance results, and promoted the steady development of the Bank and the achievement of the Board of Director’s strategic goals.

(IV) Management and Control over Subsidiaries

In line with the strategic plan of the “14th Five-Year Plan”, the Bank strengthened its coordination with its subsidiaries, and enhanced the Group’s comprehensive service capability across industries, borders and markets. The Bank promoted subsidiaries to improve the governance structure and procedures including “Shareholders’ Meeting, Board of Directors, Board of Supervisors and Senior Management”, strengthened the management of subsidiaries’ equity, and ensured subsidiaries’ independent decision-making on operations. The Bank incorporated subsidiaries into the Group’s consolidation management system and comprehensive risk management and internal control system. Under the Group’s overall policy framework, each subsidiary formulated its own risk appetite and limits in light of the local regulatory requirements and its own business operations, established a risk governance structure with robust organizational structure and well-defined responsibilities, and improved specific risk management policies, systems and implementation rules.

(V) Self-Assessment Report on Internal Controls and Auditor’s Report on Internal Controls

The Bank disclosed the assessment report on internal controls and auditor’s report on internal controls along with the Annual Report.

In 2022, the Bank continued to improve the comprehensiveness and effectiveness of internal control assessment. The internal control assessment was jointly carried out by the business department and the internal audit department organized by the internal control management functional department. The assessment was carried out on the headquarters of the Bank, domestic and foreign branches and subsidiaries in dimensions including various business lines, audit, and problem rectification. The assessment effectively promoted the joint management of the “three lines of defence”, timely identified and rectified internal control deficiencies, and consolidated the foundation of high-quality development. The Board of Directors conducted an annual assessment on the effectiveness of internal controls of the Bank as at 31 December 2022 (as the base date of the assessment report on internal controls). Based on the Bank’s criteria for evaluating deficiencies of internal controls over financial reporting, there was no material weakness or significant deficiencies of internal controls over financial reporting as at the base date of the assessment report on internal controls. The Bank maintained effective and adequate internal controls over financial reporting in all material respects. In accordance with the Bank’s internal controls on the identification of non-financial reporting deficiencies, no material weakness or significant deficiencies were identified in the internal controls of non-financial reporting. The Bank proactively put efforts in improving and monitoring items with rooms for improvement, which did not pose any substantial impacts on the soundness and effectiveness of internal controls and reliability of financial reporting. Comprehensive Risk Management and Internal Controls Committee of the Bank heard periodical reports on the results of rectification for the internal controls problems identified in either internal or external review processes and pushed forward the implementation of the rectification of the relevant problems.

No events influencing the effectiveness of internal controls assessment were identified from the base date of reporting to the issuance date of the internal controls assessment report.

CORPORATE GOVERNANCE

The Bank engaged KPMG Huazhen LLP (Special General Partnership) to perform audit procedures on its internal control. The Bank's conclusion on the effectiveness of internal controls for the purpose of financial reporting is consistent with Audit opinion on internal controls. And the disclosure of material deficiency of internal controls, which is not for the purpose of financial reporting, is consistent with the disclosure of the Bank's internal audit assessment report.

For details on the Group's assessment report on internal controls and auditor's report on internal controls, please refer to the announcements of the Bank published on the website of the SSE, the website of HKEX News of Hong Kong Stock Exchange and the Bank's official website.

X. ACCOUNTABILITY MECHANISM OF MATERIAL MISTAKES IN INFORMATION DISCLOSURE OF ANNUAL REPORT

The Bank strictly complied with the regulatory requirements and BoCom's policies, such as *the Administrative Measures of Information Disclosure*, *the Administrative Measures for Report with Major Information* and *the Administrative Measures for Suspension and Exemption of Information Disclosure*, attended the information disclosure training, clarified internal control points of information disclosure in aspects of information reporting, preparing and review, improved position responsibilities, implemented accountabilities for errors and prevented the material disclosure error. During the Reporting Period, there was no material mistake in information disclosure of the Annual Report of the Bank.

XI. MANAGEMENT OF INSIDE INFORMATION

The Bank strictly adhered to *the Securities Law and Insider Registration Policy and Administrative Measures for the Confidentiality of Insider Information*, to establish a system for registration and administration of people with access to the insider information and ensure the confidentiality of the insider information. In addition, the Bank strictly controlled the range of persons with access to inside information with a timely registration system, especially in the periods of performance announcements and other significant events. Unless the relevant information falls within the scope of the safe harbour provision referred by the *Guidelines on Insider Information Disclosure* of the Hong Kong Securities and Futures Commission, the Bank will disclose such inside information to the public as soon as reasonably practicable. During the Reporting Period, there was no leakages of inside information. For the details of the Bank's *Insider Registration Policy*, please refer to the Bank's website at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of HKEX News of the Hong Kong Stock Exchange at www.hkexnews.hk.

XII. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank required that the directors, supervisors and senior management of the Bank should strictly adhere to *the Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such shares* issued by the CSRC and *the Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix X of the Hong Kong Listing Rules. Also, the Bank adopted a set of standards not less strict than those mentioned above for the securities transactions of the directors, supervisors and senior management. According to the checking results, all the directors, supervisors and senior management of the Bank confirmed that the securities transactions conducted by them were in compliance with the above rules during the Reporting Period.

XIII. CHAIRMAN AND PRESIDENT

According to *the Articles of Association* of the Bank, the functions of Chairman and President of the Bank should be segregated. During the Reporting Period, the Chairman of the Bank is Mr. Ren Deqi and the President of the Bank is Mr. Liu Jun.

XIV. APPOINTMENT OF AUDITORS

According to the regulations of the Ministry of Finance's *Management Measures for the Selection of Accounting Firms by State-owned Financial Enterprises* (Cai Jin [2020] No. 6), the original engagement periods of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers have reached the maximum consecutive engagement period of 8 years after completing the service terms approved by the Bank's 2020 Annual General Meeting.

Upon approval at the 2021 Annual General Meeting of the Bank in relation to the appointment of auditors for the year of 2022 KPMG Huazhen LLP (Special General Partnership) was engaged by the Bank to perform the audit for financial statements under CAS, internal controls of the Bank and other related professional services. While, KPMG was appointed by the Bank to perform the audit for financial statements under IFRSs and other related professional services. The engagement period commenced from the date of approval at the 2021 Annual General Meeting of the Bank and will end upon the conclusion of the 2022 Annual General Meeting. In 2022, KPMG and its network member firms were paid a professional audit service fee of RMB61.456 million by the Group for the audit of the financial statements of the Group (including the Group's subsidiaries and overseas branches), which included financial statement audit fees of RMB53.059 million, internal controls audit fees of RMB1.849 million and RMB6.548 million for related professional services.

The Audit Committee of the Board of Directors of the Bank expressed its satisfaction with the work, independence and objectivity of KPMG and its network member firms.

XV. ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The performance assessment of the Bank's senior management is conducted in accordance with relevant national requirements and the Bank's assessment method for annual business performance of senior management.

During the Reporting Period, the Bank did not implement any share incentive scheme.

XVI. INVESTOR RELATIONS

The Bank adhered to the concept of maximizing the value for investors and was committed to constantly diversifying the channels and forms of communication with investors, value promotion to investors and value recognition by investors, so as to create value for investors. The Bank attached great importance to protecting the legitimate rights and interests of investors, carried out information disclosure in strict compliance with regulations, strived to build and maintain benign and harmonious investor relations, and continued to consolidate the Bank's good image as an honest, open and responsible large-scale state-owned listed bank.

CORPORATE GOVERNANCE

(I) Promote communication with the capital market through improving diversified communication channels

The Bank's senior management attached great importance to investor relations work and personally participates in major investor relations activities. During the reporting period, the Bank held 4 periodical performance announcements via a flexible combination of Internet video live streaming, video conferences, and telephone conferences, and separately held a third quarter performance network briefing for small and medium-sized investors. The Bank's senior management communicated and interacted with more than 200,000 investors, analysts, and media reporters. During the reporting period, the Bank held its first annual performance roadshow for overseas investors online and continued to conduct roadshows for domestic investors. The Bank's senior management has conducted roadshows and communication exchanges with 18 Hong Kong-funded institutions, 10 European and American investment institutions, and 23 domestic investment institutions. Take the advantageous of the outstanding leadership of the senior management in investor relations work and the innovative format of performance release meetings, Ren Deqi, the Chairman of the Board, was awarded "Best IR Chairman," and the Bank was awarded "Performance Presentation Innovation Award" in a joint selection by Quanjing.com and Nankai University. In the selection by the China Listed Companies Association, the Bank's annual performance presentation meeting won the "Best Practice Award."

Under the regular Pandemic prevention and control in 2022, the Bank maintained close daily communication with investors and the market through a combination of "going out" and "inviting in," online and offline methods. During the reporting period, the Bank's investor relations team hosted a total of 52 on-site and online surveys for investors and analysts, and communicated with more than 700 domestic and foreign investors and analysts. The Bank also used online platforms such as the Shanghai Stock Exchange e-Platform, online reception days, investor hotlines, and investor email to maintain communication with small and medium-sized investors.

(II) Strictly Adhere to the bottom line of legal compliance and standardize information disclosure

To comply with the principle of "True, Accurate, Complete, Timely and Fair" to carry out statutory information disclosure, the Bank strengthens proactive communication with the market, and issued a total of 141 regular reports and various temporary announcements throughout the year, while maintaining good transparency. During the reporting period, the Bank enriched the content of regular reports around the focus of the market, continued to promote the development strategy, demonstrated the effectiveness of Shanghai's main venue construction and digital transformation, as well as the four major business characteristics of inclusive finance, trade finance, technology finance, and wealth management, and increased disclosure of environmental and social responsibility. The Bank also actively responded to market hot issues, improving the effectiveness of information transmission. It was rated as a Class A company for information disclosure by the SSE for nine consecutive years.

(III) Effectively safeguard the Rights and Interests of the Investors and maintain stable dividend levels

During the Reporting Period, upon approval by the Shareholders' General Meeting, a cash dividend of RMB0.355 (tax inclusive) was distributed to each ordinary share, totaling RMB26.363 billion, accounting for 32.16% of the net profit distributable to shareholders of the Bank. The dividends of domestic preference shares distributed by the Bank were RMB1.832 billion. During the Reporting Period, the Bank regularly convened two Shareholders' General Meetings, using on-line voting, small and medium investors voting on major events with independent vote counting to ensure the equality and fairness of legal rights of large and small shareholders. Strictly abiding by the "Shareholders' Communication Policy" of the Hong Kong Stock Exchange, the Bank listened to the opinions and suggestions from shareholders through investor mailbox, investor hotline, SSE e-Interaction Platform and other channels, and made announcement to publicly collect concerns from investors before releasing annual and semi-annual performance, so as to strengthen communication with shareholders and ensure their right to know. The Shareholder Communication Policy is effective.

XVII. ADHERENCE TO THE CORPORATE GOVERNANCE CODE

The Board of Directors of the Bank confirmed that, during the Reporting Period ended 31 December 2022, the Bank had complied with the principles and code provisions contained in the Corporate Governance Code all the time, and complied with the majority of the recommended best practices.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year 2022.

I. PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. Please refer to the section of “Management Discussion and Analysis” for a review of the Group’s business during the Reporting Period. Please refer to the section of “Significant Events” for the important events of the Group that occurred since the end of the Reporting Period.

II. SUMMARY OF FINANCIAL INFORMATION

Please refer to the section of “Financial Highlights” for the summary of the operating performance, assets, and liabilities for the past five years.

III. RESULTS AND PROFIT DISTRIBUTION

- (I) Please refer to the Consolidated Statement of Profit or Loss and Other comprehensive Income for the operating performance of the Group during the Reporting Period.
- (II) Please refer to Note 36. Other reserves and retained earnings to the Consolidated Financial Statements for the details of the Group’s undistributed profits as at the end of the Reporting Period.

(III) The formulation, implementation or adjustment of the cash dividend policy.

The Bank’s Articles of Association clearly stated that the Bank may distribute dividends in cash or shares. The profit distribution of the Bank should focus on the reasonable return for investors. The profit distribution policy should maintain its continuity and stability. Unless under special circumstances, the Bank should distribute dividends mainly in cash if it records profit in the year and the accumulated undistributed profits are positive. The total profit distributed in cash for each year should not be less than 10% of the Group’s net profit that are attributable to shareholders of the Bank.

During the Reporting Period, the Bank distributed a cash dividend of RMB0.355 (tax inclusive) per share to ordinary share holders, which amounted to a total of RMB26.363 billion, accounting for 32.16% of the net profit attributable to ordinary shareholders of the Bank. The profit distribution policy is in compliance with the Articles of Association as well as the resolutions of Shareholders’ General Meeting. The plan, to which independent consent was expressed by 6 independent directors, is clear in terms of the standard and ratio of dividend distribution with adequate decision-making procedures and mechanism, which fully protects the legitimate rights and interests of medium and small investors, enabling them to fully express their opinions and demands. In March 2023, the Board of Directors of the Bank deliberated and approved the distribution of a cash dividend of RMB0.373 (tax inclusive) per share to ordinary shareholders, which amounted to RMB27.700 billion, accounting for 32.72% of the net profit attributable to ordinary shareholders of the Bank.

The withholding and reduction of taxes related to dividends were carried out in accordance with relevant national laws and regulations. For details, please refer to dividend distribution implementation announcement issued by the Bank.

Please refer to the section of “Changes in Shares and Shareholders” for the result of preference share dividend distributions.

IV. CAPITAL RESERVE

Please refer to Consolidated Statement of Changes in Equity for the details on the movements of capital reserve of the Group during the Reporting Period.

V. CHARITABLE DONATIONS

Charitable donations made by the Group during the Reporting Period amounted to RMB60,438.0 thousand⁹.

VI. FIXED ASSETS

Please refer to Note 25. Property and equipment to the Consolidated Financial Statements for the details of changes in the Group's fixed assets during the Reporting Period.

VII. PUBLIC FLOAT

During the Reporting Period and for the period up to the latest practicable date prior to the publication of this Annual Report, the Bank kept on fulfilling the public float requirements in compliance with the Hong Kong Listing Rules, based on public information and knowledge of the directors.

VIII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

None of the directors or supervisors of the Bank entered into any service contracts with the Bank, which would entail compensation if terminated by the Bank within one year (other than statutory compensation).

IX. INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Other than the information disclosed in the section of "Continuing Connected Transactions" in the report of the Board of Directors, during the Reporting Period or as at the end of the Reporting Period, neither the Bank's directors or supervisors, nor their connected entities had any direct or indirect material interests in any transactions, arrangements or contracts of significance set up by the Bank or any of its subsidiaries.

X. MANAGEMENT CONTRACT

During the Reporting Period, the Bank neither entered into nor held any contracts concerning the management and administration of the whole or any substantial part of the Bank's businesses.

XI. INTERESTS OF DIRECTORS IN COMPETING BUSINESS OF THE BANK

Except as disclosed in the section of "Corporate Governance", none of the directors of the Bank held any interests among the businesses that directly or indirectly competed or were likely to compete with the Bank.

XII. REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to the section of "Remuneration Decision-making Process and the Deciding Factors".

⁹ Including personal donations of employees.

REPORT OF THE BOARD OF DIRECTORS

XIII. RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no financial relationship, business relationship, family relationship or any other significant relationship subject to disclosure among directors, supervisors and senior management of the Bank.

XIV. PRE-EMPTIVE RIGHTS, SHARE OPTION ARRANGEMENTS, AND ISSUANCE OF BONDS

There were no provisions regarding pre-emptive rights of the shareholders under the Articles of Association or relevant laws and regulations of the People's Republic of China, and the Bank did not have any arrangements with respect to the share options. Please refer to "IV Issuance, Listing, Trading and Redemption/Payment of Securities" set out in the section of "Changes in Shares and Shareholders" for the issuance of bonds by the Bank during the Reporting Period.

XV. RIGHTS OF DIRECTORS AND SUPERVISORS TO SUBSCRIBE FOR SHARES OR DEBENTURES

During the Reporting Period or as at the end of the Reporting Period, the Bank or its subsidiaries did not enter into any agreements or arrangements which enabled the directors or supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other legal entities.

XVI. MAJOR CUSTOMERS

During the Reporting Period, the total interest income and other operating income from the 5 largest customers of the Group accounted for less than 30% of the sum of the Group's interest income and other operating income.

XVII. CONNECTED TRANSACTIONS

During the Reporting Period, the Bank strictly followed the regulations of the CBIRC, the CSRC and the listing rules of Shanghai and Hong Kong, implemented standardised management on related party transactions, adhered to commercial principles, and conducted related party transactions on conditions not superior to similar transactions with non-related parties. During the Reporting Period, there were no unfair related party transactions.

(I) Related party transactions under the CBIRC standards

According to the *Administrative Measures on Related-party Transactions of Banking and Insurance Institutions* issued by the CBIRC, the Bank's on- and off-balance sheet net credit amount to all related parties was 275.455 billion under the CBIRC standards, accounting for 24.9305% of the Bank's net capital. Bocom Leasing Management Hong Kong Company Limited had the largest net credit, with the on- and off-balance sheet net credit amount of 55.357 billion, accounting for 5.0102% of the Bank's net capital. Among the groups of affiliated legal persons, the Bank of Communications Financial Leasing Co., Ltd. and its subsidiaries had the largest net credit, with the on- and off balance sheet net credit amount of 127.542 billion, accounting for 11.5434% of the Bank's net capital. All the above balances are in compliance with the CBIRC's requirements on credit proportion.

At the end of the Reporting Period, the net value of the transactions with affiliated legal persons or unincorporated organisations was RMB274.253 billion, mainly included loans and advances to customers (trade financing included), securities investment, due from and placements with banks and other financial institutions and other on balance sheet credits, as well as the off-balance sheet businesses such as letter of guarantee, letter of credit and bank acceptance notes. The counterparties mainly included Bocom Leasing Management Hong Kong Co Ltd, Bank of Communications Financial Leasing Co., Ltd, Industrial Bank Co.,Ltd., Bank of Communications (Hong Kong) Limited, BOCOM Financial Asset Investment Co., Ltd., Bank of Beijing Co., Ltd., China CITIC Bank Co., Ltd., HSBC Holdings plc, BANCO BOCOM BBM S.A. and Rong Kong United Finance Co., Ltd.

At the end of the Reporting Period, the balance of loans for related natural persons of the Bank was RMB708 million, and the overdraft limit of credit cards (including the credit undrawn) and the balance of consumption loans under credit cards amounting to RMB494 million.

During the Reporting Period, with asset transfer transaction amounting to RMB18.9 billion, service-based amounting to RMB2.699 billion, deposits amounting to RMB6.711 billion and others amounting to RMB6.766 billion¹⁰.

(II) Related party transactions under the standards of the CSRC and the SSE

According to the CSRC's *Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 26 – Special Provisions on Information Disclosure by Commercial Banks* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – Contents and Formats of Annual Reports (2021 Revision)*, the total on- and off-balance sheet credit granted to all related parties by the Bank under the standards of the CSRC and SSE at the end of the Reporting Period was RMB16.421 billion.

At the end of the Reporting Period, the Bank's credit balance with affiliated legal persons or unincorporated organisations was RMB16.412 billion. The transactions with affiliated legal persons or unincorporated organisations mainly included the on-balance sheet businesses such as loans, securities investment, other on-balance sheet credit, irrevocable commitments and contingent liabilities. The counterparties included Bank of Beijing Co., Ltd., BBMG Corporation, the Hongkong and Shanghai Banking Co., Ltd., Lenovo Group Ltd., Xiamen International Bank, China Life Insurance Co., Ltd., HOLITECH Technology Co., Ltd., Poly Culture Group Co., Ltd., HSBC Bank (China) Co., Ltd., and Bank of Guizhou Co., Ltd.

At the end of the Reporting Period, the balance of loans of the Bank to affiliated legal persons was RMB1.2727 million, the overdraft limit of credit cards (including the credit undrawn) and the balance of consumption loans under credit cards amounting to RMB7.9038 million.

During the Reporting Period, the accumulated services between the Bank and related parties were RMB15.3376 million, and the other transactions between the Bank and the related parties were RMB7.1961 million.

¹⁰ During the Reporting Period, the applicable supervisory regulations of related party transactions under the standards of the CBIRC changed. The Bank collected and summarised related party transactions in accordance with the supervisory regulations and relevant summarizing requirements.

REPORT OF THE BOARD OF DIRECTORS

(III) Continuing connected transactions under the standards of Hong Kong Stock Exchange

HSBC is a substantial shareholder of the Bank. According to the Hong Kong Listing Rules, HSBC together with its subsidiaries and associates is the connected person of the Bank. The Group is regularly engaged in various transactions in the normal course of banking businesses with HSBC Group, including but not limited to the interbank loan and borrowing transactions, and the transactions of securities, money market, foreign currency, other financial assets, swaps and options. To regulate the continuing transactions mentioned above, the Bank renewed the Agreement with HSBC on 29 May 2020 for another three years – from 1 June 2020 to 31 May 2023. The terms and conditions of the Agreement are not substantially different from those of the Interbank Transactions Master Agreement renewed on 28 April 2017.

The parties agreed that each intended transaction under the Agreement shall be carried out in accordance with interbank market practices and normal commercial terms: if there are applicable laws and regulations, or provisions and notices issued by regulatory authorities fixing the prices or rates, such fixed price or rate shall be adopted. If there is no fixed price or rate, reference will be made to the prevailing market prices for open market transactions. For other types of transactions (e.g. over-the-counter transaction), it shall be determined with reference to the prices or rates (if applicable) the parties would quote to each other or to the independent counterparties with equivalent credit worthiness with respect to the particular type of transaction concerned as well as the risk management policies of both parties with respect to the transactions concerned.

The annual caps for the continuing connected transactions under the Agreement in 2021 are: 1. the annual caps for realised gains and losses and unrealised gains and losses (depending on the situation) are all RMB11.623 billion; and 2. The aggregate cap for fair value of the foreign currency transactions, other financial assets transactions and swap and option transactions (regardless whether recorded as assets or liabilities) is RMB17.400 billion. During the Reporting Period, the continuing connected transactions under the Agreement were: 1. Realised gains, realised losses, unrealised gains and unrealised losses (depending on the situation) were RMB5.118 billion, RMB7.084 billion, RMB6.457 billion and RMB4.164 billion respectively; 2. The fair value of the foreign currency transactions, other financial assets transactions and swap and option transactions (regardless whether recorded as assets or liabilities) was RMB6.761 billion.

Pursuant to Rule 14A.87(1) and Rule 14A.90 of the Hong Kong Listing Rules, the interbank loan and borrowing transactions contemplated under the Agreement are exempted from the requirements of reporting, annual review, announcement and independent shareholders' approval.

Upon detailed review of the continuing connected transactions in 2022, all of the independent non-executive directors of the Bank considered that the continuing connected transactions were: 1. In the ordinary course of businesses of the Group. 2. Under normal or more favourable commercial terms. 3. In accordance with the Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

The auditors had issued a letter to the Board of Directors in respect of the continuing connected transactions in 2022 confirming the following: 1. Such transactions were approved by the Board of Directors. 2. Such transactions were in accordance with the pricing policies of the Bank. 3. Such transactions were conducted in accordance with the terms of the Agreement. 4. The actual transaction amount of the non-exempt continuing connected transactions in 2022 did not exceed their respective caps.

The Bank confirmed that the specific agreements under the continuing connected transactions during the Reporting Period were entered into and executed in accordance with the pricing principles of such continuing connected transactions.

Save as disclosed above, no related party transaction or continuing related party transaction set out in Note 47. Related party transactions to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction required to be disclosed under the Hong Kong Listing Rules. Regarding the non-exempt connected transaction and continuing connected transactions, the Bank complied with the disclosure requirements as specified in Chapter 14A of the Hong Kong Listing Rules.

(IV) Please refer to Note 47. Related Party Transactions in the Notes to the Consolidated Financial Statements for related party transactions prepared in accordance with the accounting standards.

XVIII. PERMITTED INDEMNITY PROVISION

Subject to the applicable laws and the coverage of insurance of directors' liabilities of the Bank placed for the directors, each director of the Bank will be entitled to be indemnified against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto. Such provisions were in force during the Reporting Period and remained in force as of the date of this Annual Report.

XIX. ENVIRONMENT POLICIES AND PERFORMANCE

Please refer to the section of "Environmental and Social Responsibility" in this report for the details.

XX. COMPLIANCE WITH LAWS AND REGULATIONS

The Group needs to comply with various laws and regulation, mainly including Company Law of the People's Republic of China, Commercial Bank Law of the People's Republic of China, Civil Code of the People's Republic of China, domestic and overseas securities laws and exchange regulations, and other regulations and legal documents.

The Group ensures its adhering to the laws, regulations and legal documents that are closely related to operation and management through internal control, compliance management, employee training and other measures. The Group will notify related employees and operating teams in an appropriate manner if there are significant changes in laws, regulations and legal documents.

During the Reporting Period, to the knowledge of the Bank's directors, the Group had no violation of related laws and regulations which would have significant effects on the Group's operation and management.

REPORT OF THE BOARD OF DIRECTORS

XXI. RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group is devoted to maintaining the long-term sustainable development, continuously creating value for employees and customers and keeping good relationship with suppliers. The Group clearly understands that employees are valuable assets. For details regarding the training management of employees, talent cultivation and reserve and remuneration policy, please refer to “Human Resource Management” set out in the section of “Corporate Governance” in this report.

Emphasising on supplier selection, the Group encourages fair and public competition and intends to establish the long-term cooperation relationship with high quality suppliers based on mutual trust. Based on the core value of integrity, the Group is devoted to providing better financial services and creating a reliable service environment for customers. During the Reporting Period, the Group had no important and material dispute with its suppliers and/or customers.

XXII. LIST OF DIRECTORS

Please refer to “Members of the Board of Directors” in the section of “Corporate Governance” for the list of directors during the Reporting Period and as at the date of this Annual Report (unless otherwise stated).

The aforementioned sections, reports and notes form an integrated part of the Report of the Board of Directors.

By order of the Board of Directors

Chairman

Ren Deqi

30 March 2023

REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, in accordance with relevant national laws, regulations, regulatory requirements and the Bank's Articles of Association, the Board of Supervisors closely followed the important decisions and deployments of the State on economic and financial work, with the aim of protecting the legitimate rights and interests of the Bank, shareholders, employees, creditors and other stakeholders, performed its supervisory duties in a compliant, efficient and accurate manner, and effectively leveraged its important role in the Bank's corporate governance system.

I. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS

In 2022, the Board of Supervisors proactively responded to the increasingly complicated internal and external challenges, strictly standardised the basic operation of the Board of Supervisors around the Bank's strategic development priorities during the 14th Five-Year Plan period, continuously innovated supervision methods and intensified the effectiveness of precise supervision at the corporate governance level. In the selection of the practice cases of the board of supervisors held by the China Association for Public Companies, we were awarded the "2022 Best Practice Award for the Board of Supervisors of Public Companies".

- (I) Continue to standardise the operation of the Board of Supervisors to ensure compliant and efficient performance of duties.
 - 1. Hold the meetings in compliance with the laws and regulations. Throughout the year, 5 meetings of the Board of Supervisors, 12 meetings of the three special committees, and 3 meetings with external auditors were held, and the content of the deliberations, reviews, notifications and references comprehensively covered the statutory matters as required by the duties of the Board of Supervisors.
 - 2. Elect the new Board of Supervisors. New members of the Board of Supervisors were elected in strict accordance with legal procedures and in the meantime, the 10th Board of Supervisors together with its special committees were also established. In the process of nominating and appointing members of the Board of Supervisors, on the basis of ensuring that the proportion of various supervisors met the statutory requirements, the Bank also fully considered other factors such as their educational background, industry experience, performance efforts and value philosophy, so as to drive the supervision quality and efficiency of the Board of Supervisors with a professional and diversified membership structure.
 - 3. Improve the supervisory systems in a timely manner. In accordance with the latest laws, regulations and various regulatory requirements, the Bank's basic systems for the Board of Supervisors to perform their duties were scientifically revised, covering the relevant contents of the Board of Supervisors in *the Articles of Association*, *the Rules of Procedure of the Board of Supervisors* and the working rules of its special committees, so as to focus on clarifying the contents about "strengthening the Party's leadership" and "functions and powers of the Board of Supervisors" in the new period, and further define the boundaries of the responsibilities of the Board of Supervisors.

REPORT OF THE BOARD OF SUPERVISORS

4. Carry out supervision and evaluation of performance of duties in a solid manner. Taking the latest regulatory regulations and previous work practices into account, based on the supervision work throughout the year, through attending important meetings of the Board of Directors and senior management, we understood the daily performance of directors and executives from multiple dimensions, such as through their speeches. We conducted duty performance interviews, in-depth communications in relevant important areas, which laid a foundation for further performance evaluation. According to the different types of directors and supervisors and the different responsibilities of the special committees where they belonged, we designed a differentiated evaluation system by classification, and completed the performance evaluation for the Board of Directors and senior management and self-evaluation on the Board of Supervisors in terms of the performance of duties for 2021, as well as the performance evaluation on 16 directors, 9 senior executives and 9 supervisors.

(II) Establish the working mechanism for the “three special areas” to effectively improve the quality and efficiency for performance of duties

By focusing on the year’s work highlights and core areas of supervision, we make use of the working mechanism for the “three special areas”, which complement and integrate with each other, and promote the formation of all-round supervision system by combining the “dots, lines and spheres” matrix mode.

1. Explore the depth of supervision through special research. Focusing on the year’s supervision priorities, and based on the six research topics identified, we conducted on-site research for relevant departments, some branches and subsidiaries of the head office, led by our supervisors together with a flexible team comprised of the business backbone of the head office and branches. During the research, the supervisors insisted on pragmatic and efficient work style, deeply analysed the key core issues at the front line of business and grassroots operation units, discovered the shortcomings at the level of institutional mechanism using the bottom-up approach, so as to respond to the difficulties and problems faced by the Bank of Communications in terms of high-quality development. After systematic analysis, summary and refinement, we prepared special supervision and research reports with constructive and targeted supervision suggestions which were submitted to the Board of Directors and the senior management, so as to promote the proactive implementation of the Central Government’s requirements, strengthen the implementation of strategies and respond to the concerns of the grassroots at all levels.
2. Broaden the horizon of supervision through specialist seminars. In the supervision and research projects related to our country’s major regional strategies, local development and reform commissions, state-owned assets supervision and administration commissions and regulatory authorities were selected to carry out specialist seminars in coordination to communicate and discuss the key points of regional strategic deployment, implementation difficulties and financial support services needed, so as to fully understand the external environment and policy supply faced by the Bank of Communications and broaden the vision of supervision.

3. Strengthen the construction of the Board of Supervisors with special trainings. On the basis of the original regular training, a series of special trainings were also incorporated, and the Chief Risk Officer of the Bank of Communications was invited to carry out special trainings on the construction of risk governance system, so as to help us gain an in-depth understanding of the Bank's practical experience in establishing and improving the risk management system; we jointly organised corporate governance training with the Board of Directors to strengthen the systematic understanding of regulatory requirements such as information disclosure, insider information management, related party transactions and risk prevention; we also carried out special trainings such as anti-money laundering regulatory analysis and introduction to new regulations, for the purpose of improving our ability in performing duties.

For more specific information on the meetings of Board of Supervisors, research by and training for the members of the Board of Supervisors, please refer to "Board of Supervisors and Its Special Committees" under the "Corporate Governance" section.

(III) Always focus on core responsibilities and deepen the supervision in key areas.

1. Deepen the strategic supervision. We incorporated the main line of supervision work into the Bank's strategic planning and development priorities during the 14th Five-Year Plan period, followed up the quality and efficiency of the Bank's support for key areas and weak sectors in the real economy, paid attention to the formulation, implementation and evaluation of the Bank's strategy, and strengthened supervision in key areas such as sci-tech finance, green finance and people's livelihood. We selected branches in our country's major regional strategic locations to carry out special research on the coordinated development of Beijing-Tianjin-Hebei, the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, and the construction of the Hainan Free Trade Port, and followed up the progress in key areas. Based on the strategic advantages of "Shanghai base", we conducted in-depth analysis on the top-level design, promotion mechanism, implementation effectiveness and strategic synergy of the Bank's strategic management system, and systematically evaluated the scientificity, rationality and soundness of the Bank's development strategy.
2. Promote capital and financial supervision. We followed up the Bank's major financial decisions and implementation, and kept abreast of financial statements, significant investments and financings and asset write-offs, capital management, equity management, performance assessment, remuneration management, incentive and constraint mechanisms, etc. We conducted dynamic quarterly supervision of the quality and efficiency of operation and management reflected in regular reports, and analysed in detail the changes of key indicators such as asset scale, profitability level, and capital adequacy ratio. We also carried out special research on the governance of financial discipline to evaluate the financial compliance of the Bank.
3. Carry out risk supervision systematically. The Board of Supervisors followed up the Bank's management of risks such as credit risk, market risk, liquidity risk, operational risk and reputation risk, focused on the progress of the Bank's battle against asset quality issues, risks in key areas such as real estate and credit cards, and kept abreast of consolidation management, expected credit loss, stress testing and other aspects. We focused on risk management when carrying out special research, and analysed the risk control responsibility mechanism, tool use, talent team construction, etc. We dynamically followed up systemic and emerging problems and carried out special supervision based on various internal and external information.

REPORT OF THE BOARD OF SUPERVISORS

4. Improve supervision on internal control and compliance. Combined with the issues identified from the supervision and inspection by the People's Bank of China, the China Banking and Insurance Regulatory Commission and the National Audit Office, we focused on the weak links in the Bank's internal control, which were promptly incorporated into our supervision vision accordingly. We also strengthened the supervision of internal and external audit performance by carrying out the assessment and evaluation of internal audit work, as well as emphasising the handover of external audit work. Furthermore, we followed up the construction of the Bank's internal control system, anti-money laundering management, related party transactions, compliance of overseas institutions, case prevention and employee behaviour management, consumer rights protection and information disclosure, etc., conducted special supervision of compliance and major cases, and also followed up the implementation and rectification of regulatory opinions.

II. INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

(I) Compliance with Applicable Laws

During the Reporting Period, the Bank undertook its businesses pursuant to laws and its decision-making process was in compliance with laws, regulations and *Articles of Association*.

(II) Authenticity of the Periodic Reports

The periodic reports truly and fairly presented the financial position and financial performance of the Bank. KPMG Huazhen LLP and KPMG respectively issued unqualified auditor's report on the Bank's financial statements for the year of 2022 and the Board of Supervisors has no objection to the report.

(III) Profit Distribution

The Board of Directors believed that the approval procedures for the 2022 Profit Distribution Plan of the Bank were in compliance with laws, regulations and Articles of Association of the Bank, and the distribution plan was in line with the actual situation of the Bank and the need of sustainable and stable development, and there was no intentional damage to the interests of investors.

(IV) Use of Proceeds Raised

During the Reporting Period, the Bank used the proceeds raised according to the purposes as disclosed in the Prospectus.

(V) Acquisition and Disposal of Assets

During the Reporting Period, the Board of Supervisors was not aware of any acquisition or disposal of assets by the Bank which may harm the interests of the shareholders, or which may cause impairment to the Bank's assets.

(VI) Related Party Transactions

During the Reporting Period, the Board of Supervisors was not aware of any related party transactions that would damage the interests of the Bank.

(VII) Implementation of Information Disclosure

During the Reporting Period, the Board of Supervisors did not identify false records, misleading statements or material omissions.

(VIII) Related Proposals

The Board of Supervisors considered that the Board of Directors well performed the resolutions of the Shareholders' General Meeting and had no objection to the proposals submitted to the Shareholders' General Meetings.

The Bank was committed to the continuous development and improvement of its internal control system.

The Board of Supervisors had no objection to the Internal Controls Self-Appraisal Report for 2022 of the Bank. The Bank vigorously performed its social responsibility. The Board of Supervisors had no objection to the Corporate Social Responsibility (ESG) Report for 2022 of the Bank.

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ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

The Bank implemented the new development concept, served to the construction of the new development pattern, and took “creating shared value” as its mission. Also, the Bank integrated the concepts social responsibility and sustainable development into business development, improved the ESG governance system and promoted the enhancement of corporate sustainable development. The Bank was awarded the “2022 ESG Best Practice Case for A-Share Listed Companies” by the China Association for Public Companies. The Bank’s MSCI ESG rating was rated A, which was at leading level in the domestic banking industry. For further information on the fulfilment of social responsibilities by the Bank, please refer to the *Social Responsibility (ESG) Report 2022 of Bank of Communications Co., Ltd.* on the SSE Website and the website of HKEx News of Hong Kong Stock Exchange.

I. ENVIRONMENTAL PROTECTION

(I) Green Finance

The Bank increased financial support for the construction of a beautiful China, helping promote the green development and the harmonious coexistence between human and nature. Based on the “14th Five-Year Plan”, the Bank placed more emphasis on the development of green finance at the strategic level, taking “green” as the foundation of the Group’s business operation and development. Besides, the Bank focused on key sectors and key regions, enhanced green financial support to serve the real economy, promoted the synergistic development of green finance and four business features, so as to better meet financial demands of various entities in green investment, green consumption and low-carbon transformation. The Bank highlighted the underlying green financial services in terms of product and services, policy procedures as well as risk management and control.

1. Governance structure

The Board of Directors, the Bank’s highest decision-making body for green finance, was responsible for establishing and promoting the green concepts such as conservation, low-carbon, environmental protection and sustainable development throughout the Bank. The Board of Directors also reviewed and approved the green finance development strategies and important systems formulated by the senior management. The Social Responsibility (ESG) and Consumer Protection Committee under the Board of Directors was responsible for the green finance and the regular reviewing on green financial reports submitted by senior management. Moreover, The Social Responsibility (ESG) and Consumer Protection Committee was also responsible for monitoring and evaluating the implementation of green finance strategies, reviewing the credit policies related to environmental and sustainable development, and putting forward recommendations to the Board of Directors. During the Reporting Period, the Board of Directors approved the issuance of green financial bonds, carbon neutral bonds and other varieties to provide financial support for the development of green finance, approved the *Action Plan of Bank of Communications Co., Ltd. to Serve the Target of “Carbon Peak and Carbon Neutrality”*, for the purpose of improving the quality and efficiency of the Bank’s green and low-carbon development and the service level of “carbon peak and carbon neutrality”. The Social Responsibility (ESG) and Consumer Protection Committee specified the specific objectives and key tasks of achieving “carbon peak and carbon neutrality”, and proposed to take “green” as the distinctive “underlying colour” of the Group’s business development as well as the management of each unit within the Group; it also reviewed the annual report on green finance and made suggestions on improving the assessment and evaluation system of green finance, accelerating the innovation of green financial products and realising the scale effect, and enhancing the talent cultivation for green finance.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

In accordance with the Group's green finance development strategy, the senior management and its Green Finance Development Committee formulated the Bank's objectives and work initiatives for the purpose of promoting the development of green finance and the achievement of "carbon peak and carbon neutrality", and appropriately submitted major green finance plans to the Board of Directors for approval. During the Reporting Period, the Bank clearly set green finance as an important direction for business expansion, focused on serving key sectors and major projects supported by the country, made good use of the support tools of the People's Bank of China and proactively built up the advantages of green finance.

2. Policy system

The Bank formulated the *Green Finance Policy Package of BoCom (2022 version)* to drive the development of green finance business. Serving the national target of "carbon peak and carbon neutrality", the Bank promoted the high-quality development of green credit business, strengthened customer risk management on environmental, social and governance, continuously improved the Bank's environmental, social and governance performance, and also formulated the *Green Credit Implementation Measures of BoCom*.

With the distribution of the *Action Plan of Bank of Communications Co., Ltd. to Serve the Target of "Carbon Peak and Carbon Neutrality"*, the Bank closely followed the target requirements and implementation process of national "carbon peak and carbon neutrality" strategy, clarified the specific objectives and key tasks for three stages of 2025, 2030 and 2060, and accelerated the formation of positive interaction between high-quality development of green finance and high-level service of carbon peak and carbon neutral. Specifically, the Bank attempts to achieve the balance of green loan not less than 800 billion, and aiming at 1 trillion by the end of the "14th Five-Year Plan" period.

During the Reporting Period, the Bank added the special credit strategy guidelines for clean energy industrial chain and new energy vehicle industrial chain, as well as the approval guidelines for wind power projects, photovoltaic power generation projects and photovoltaic manufacturing industrial chain. In addition, the Bank integrated the requirements of green and low-carbon development into the credit policies in key sectors such as energy, manufacturing, urban and rural construction, transportation and other "carbon peak and carbon neutrality" sectors. The Bank also increased credit support for sectors with significant carbon emission reduction effect, such as clean energy, energy conservation and environmental protection, etc.

- (1) Energy sectors: The Bank focused on supporting the investment and financing demands in the field of modern energy system construction, and tilted the credit resources towards the construction of new power system dominated by clean energy under the premise of ensuring the energy supply.

- (2) Manufacturing sectors: In combination with the carbon peak plans for key high-carbon-emission industries such as iron and steel, non-ferrous metals, construction materials, petrochemicals and chemicals, the Bank implemented differentiated credit policies with reference to selected projects and customers with standard energy consumption and energy efficiency, and adhered to the implementation of capacity replacement and the elimination of outdated production capacity arrangements.
- (3) Urban and rural construction sectors: The Bank advanced the concept of green development, seized opportunities such as green upgrade of urban and rural infrastructure, green transformation of consumer industry, rural ecological environmental protection as well as reasonable and moderate development, and enhanced support for key areas and high-quality projects.
- (4) Transportation sectors: The Bank followed up the trend of new energy and clean energy applications in transportation sectors, focused on supporting the electrification and low-carbon transformation of public transportation service systems, and supported infrastructure construction projects such as power charging and switching, supporting power grids, refuelling (gas) stations, etc.

The Bank continuously focused on the biodiversity protection. Under the Green Credit Implementation Measures of BoCom, the Bank explicitly supported investment and financing demands in sectors such as biodiversity protection. Based on the Action Plan of Bank of Communications Co., Ltd. to Serve the Target of “Carbon Peak and Carbon Neutrality”, the Bank proactively supported major projects for ecological protection and restoration of forests, grasslands, wetlands and oceans. Besides, the Bank served the ecological priority green development of the Yangtze River Economic Belt, and promoted the ecological protection and high-quality development in the Yellow River Basin.

3. Practical effects

The Bank strengthened the due diligence, review and approval in ESG sectors for credit customers, fully assessed customers’ ESG performance, benefits and risks, also continuously optimised the allocation of credit resources. The Bank increased support for clean energy, power system renovation, carbon emission reduction technologies, clean and efficient utilisation of coal, etc. Furthermore, the Bank strictly controlled enterprises or projects with high pressure on environmental protection and high energy consumption, adopted various policies based on the classification, and proactively improved the credit structure. The Bank also made good use of the supporting tools for carbon emission reduction as well as supported coal cleaning by efficiently using special loan policy tools.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

During the Reporting Period, the Bank maintained rapid growth in green credit business and outstanding development in green bond business. As at the end of the Reporting Period, the balance of green loans for domestic banks¹¹ was 635.432 billion, representing an increase of 158.669 billion, or 33.28% over the end of the previous year; of which, the clean energy loans was 139.034 billion, representing an increase of 51.423 billion, or 58.69% over the end of the previous year, the growth rates were higher than those of various loans for the same period; the balance of investments in green bonds was 11.904 billion, representing an increase of 7.964 billion, or 202.13% over the end of the previous year. During the Reporting Period, the Bank issued a total of 30 billion of green financial bonds in the interbank market. The proceeds were specially used for green credit projects that met the requirements of Green Bond Endorsed Projects Catalogue (2021 Edition), supporting sectors such as clean energy, green upgrading of infrastructure, energy conservation and environmental protection as well as clean production. The main underwriting of green bonds (including carbon neutral bonds) amounted to 7.165 billion, with a year-on-year increase of 45.93%.

With regard to the implementation of the central bank's structural monetary policy tools, the Bank was approved a total of 13.149 billion in funding for carbon-emission-reduction support tools as at the end of 2022, and 7.889 billion in re-lending was used to support the clean and efficient utilisation of coal. In 2022, a total of 18.605 billion of carbon-emission-reduction loans that met the requirements of PBOC were issued to 332 projects, with a weighted average loan interest rate of 3.48%, resulting in a carbon reduction amount equivalent to 3,647,700 tons of carbon dioxide. Since obtaining the carbon-emission-reduction support tools in 2021, a total of 21.916 billion of carbon-emission-reduction loans were issued to 369 projects, with a weighted average loan interest rate of 3.60%, resulting in a carbon reduction amount equivalent to 4,205,900 tons of carbon dioxide.

The Group's subsidiaries adhered to the concept of green development and proactively carried out the green finance business. Bank of Communications Financial Leasing Co., Ltd. had a balance of 71.184 billion in green leasing assets at the end of the Reporting Period, accounting for 22.47% of its total leasing assets. Bank of Communications Financial Leasing Co., Ltd. focused on supporting the construction and operation of urban and rural public transportation systems, clean energy, intelligent transportation, energy conservation and environmental protection industries as well as railway energy conservation and environmental protection renovation. Besides, Bank of Communications Financial Leasing Co., Ltd. also issued the first ESG free-trade-zone (FTA) offshore bond (Mingzhu Bond), which is also the first FTA bond issued by the financial institution in China. As at the end of the Reporting Period, Bank of Communications International Trust Co., Ltd. had three green asset-backed securitisation project with a total scale of 2.516 billion and five green building funding projects with a total scale of 2.679 billion. BOCOM MSIG Life Insurance Company Limited invested a total of 1.341 billion in green financial products during the Reporting Period, covering businesses such as the clean energy equity investment plan and the green insurance debt investment plan.

11 From the A3327 Statements issued by PBOC.



Case

ACTIVELY SUPPORT THE CLEAN AND EFFICIENT UTILISATION OF COAL

A private corporate group in Ningxia is committed to the high-end, diversified and low-carbon development of the coal chemical industry. This group launched a 500,000-ton/year coal-to-olefin project, which used clean and efficient coal gasification deep-processing technology to achieve the clean conversion of coal.

Adhering to the concept of green development, the Bank immediately took the lead in organising a 9 billion fixed asset syndicated loan after learning about such project, completed credit approval for a new loan line of 4 billion for this group, and coordinated with other participating banks to issue the first 3 billion syndicated loan in May 2022, of which, loans from the Bank was 1.91 billion, which strongly supported the development of “carbon peak, carbon neutrality”, green finance and private economy.



Case

SUPPORT THE BIODIVERSITY PROTECTION AND GOVERNANCE OF PLATEAU LAKES IN YUNNAN

In order to facilitate the success of the 15th Conference of the Parties to the Convention on Biological Diversity (CBD), the Bank had launched the “Clear Waters and Green Mountains guarded by you and me” campaign to protect the biodiversity of Dianchi Lake, and made the following initiatives to the society at large: We call on everyone to go hand in hand, starting from petty things right beside us, for the sake of protecting the biodiversity, building a solid ecological security barrier and jointly guarding our clear waters and green mountains.

In recent years, the Bank protected plateau lakes and water sources such as Dianchi Lake, Erhai Lake and Fuxian Lake in Yunnan, by supporting some water companies in Yunnan Province to perform ecological protection and sewage treatments. Furthermore, the Bank contributed to the protection of the ecological environment and the development of biodiversity, and to the promotion of sustainable economic and social development.

(II) Green services

With the active application of digital technology tools, the Bank developed various online financial service channels to provide green, low-carbon, high-quality and convenient financial services for customers. During the Reporting Period, the channel diversion rate of the Bank’s electronic banking services was 97.96%.

	2022	2021	2020
Channel diversion rate of the Bank’s electronic banking services (%)	97.96	97.90	98.04

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

(III) Green procurement

The Bank integrated the concept of green environmental protection into the procurement systems and processes, strictly conducted the *Administrative Measures for BOCOM on Centralised Procurement (2021 Version)* and the *Administrative Measures for BOCOM on Supplier Management*, required suppliers to pass ISO quality management system certification and ISO environmental management system, and gave priority to the procurement of energy conservation and environmental-friendly products. Since the “Energy Conservation and Environmental Protection” was regarded as one of the scoring factors for the technical performance of the equipment to be purchased, the Bank fully considered the energy consumption indicators such as electricity and water consumption of the equipment to be purchased, advocated the selection of “green lighting” lamps, and actively conveyed the environmental protection ideas to suppliers.

(IV) Green operation

The Bank adhered to the concept of green development, pursued green procurement, advocated green office, popularised environmental awareness, reduced energy consumption in daily operation, reduced pollutant emissions, and promoted energy conservation and carbon reduction through enhanced management, upgrading technologies and equipment renovation. No environmental violations were incurred during the Reporting Period. During the Reporting Period, the Bank performed the carbon inspections throughout the Bank to understand the current status of carbon emission for its own operations. Besides, the Bank formulated own operational carbon emission reduction targets, specified key measures and promoted the implementation. The Head Office implemented the *Green Property Management Plan* according to different characteristics of each building (park). Professional institutions were engaged to perform environmental testing every year to ensure that the environmental indicators of each building (park) meet the specifications and comply with requirements of the ISO 14001 environmental management system. In addition, the Head Office formulated the Energy Measuring Management System, specified the energy measuring targets to enhance the energy measuring management.

	2022	2021	2020
Water consumption at the Head Office ¹² ('0000 tons)	27.04	30.18	27.62
Head Office power consumption ('0000KWh)	12,283.67	11,963.50	10,239.57
Head Office carbon emission (tons CO ₂ e)	58,804.99 ¹³	97,527.63	83,242.71
Head Office energy consumption, equivalent to standard coal (tons)	36,170.16	36,055	31,027

12 The Head Office includes the Bank's five offices in Shanghai, which are respectively located in Lujiazui (BOCOM Building), Zhangjiang, Hongqiao Jinming Building, Gaoke and Caohejing.

13 The default value of the electricity emission factor was adjusted from 7.88 tCO₂/104kWh to 4.2 tCO₂/104kWh from February 2022 when accounting for emissions resulting from the use of purchased electricity, according to the “Notice of Shanghai Ecological Environment Bureau on Adjusting the Values of Emission Factors Related to the Urban Greenhouse Gas Emission Accounting Guidelines”. Previous data has not been adjusted retroactively.

II SOCIAL RESPONSIBILITY

(I) Consumer right protection service

The Bank treated consumers in a fair, equitable and honest manner, integrated consumer right protection requirements into all aspects of its business processes, and protected the legitimate consumer rights. With the distribution of the *Action Plan to Address People's Concerns and Effectively Strengthen Consumer Right Protection, 2022 Business Process Optimisation and Customer Experience Enhancement Plan* and *Consumer Right Protection Review Checklist Version 2.0*, the Bank continuously improved the consumer right protection system, strengthened the management of each aspect, and enhanced the customer experience. Focusing on key groups such as the elderly, the young and new citizens, the Bank held various activities on regulations, including "3.15" Financial Consumer Rights Day, "3.15" Consumer Rights Protection Education Publicity Week, "Popularising Financial Knowledge, Safeguarding Your Money", "Providing Financial Literacy for Thousands of Families in the Financial Literacy Month". Also, the Bank proactively explored and innovated by performing digital financial literacy education and publicity with various online channels, hosted the "Financial Education Publicity Ambassador" competition, and guided consumers to learn financial knowledge in order to raise their risk awareness. Besides, the Bank also continuously promoted consumer financial literacy through the monthly "Jiaojiao & Consumer Protection" regular education and publicity.

During the Reporting Period, the Bank processed 181 thousand complaints from financial consumers, and all the complaints were properly handled. According to the consumer complaint in the banking industry from the first to the fourth quarter of 2022 issued by the China Banking and Insurance Regulatory Commission (CBIRC), 14,001 complaints against the Bank were received by the CBIRC and its designated institutions. On average, the Bank received 4.8 complaints from each business outlet, and 0.8 complaints from per 10,000 customers. The complaints from financial customers mainly involved businesses related to credit cards, debit cards and personal loans and were filed from areas like Shanghai, Guangdong Province, Jiangsu Province and Hubei Province. In 2022, the Bank was engaged in resolution of 3,152 financial disputes in total, of which 1,659 dispute resolutions were at Shanghai Financial Consumer Dispute Resolution Centre, and 1,493 dispute resolutions were at Shanghai Banking Industry Disputes Resolution Centre.

During the Reporting Period, the Bank was awarded A+ in the People's Bank of China Consumer Protection Rating in 2021. The Bank was awarded the "Outstanding Bank for Event Organisation" by the Consumer Right Protection Bureau of CBIRC in the "3•15" Education Awareness Week. The Bank was awarded the "Outstanding Bank for Event Organisation" in the campaign of 2022 "Providing Financial Literacy for Thousands of Families in the Financial Literacy Month, Be a Rational Investor and a Good Financial Netizen" jointly hosted by PBOC, CBIRC, CSRC and Cyberspace Administration of China.

(II) Charitable donations

The Bank actively fulfilled corporate social responsibilities, participated in the social public welfare undertakings, and performed characteristic community welfare activities in the direction of helping the elderly, the disabled, disaster relief and children caring. During the Reporting Period, the charitable donation expenditure amounted to 60.4380 million, focusing on supporting the consolidation of poverty elimination and rural revitalisation, long-term public welfare projects, and sudden emergency donations. A total of 291 public welfare project were carried out by the Bank, and the accumulative volunteer services reached 367,620 hours.

(III) Services for inclusive small and micro enterprises

Please refer to the section of "Business Review".

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

III. RURAL REVITALISATION

(I) Financial Support for Rural Revitalisation

With the objective of improving the production and living conditions in the areas lifted from poverty and increasing the income of the people who have been lifted from poverty, the Bank actively leveraged on our financial expertise and explored deeper into the self-financing capability.

The Bank deepened cooperation with government departments. We facilitated the strategic cooperation agreement with the Ministry of Agriculture and Rural Affairs and the National Rural Revitalisation Administrative on major areas, while actively participating in the Ministry of Agriculture and Rural Affairs' pilot innovation of financial support to create a scalable and replicable credit system for new agricultural business entities and explore a typical model of "digitalisation + intelligence + modelling" financial support for agriculture.

The Bank optimised exclusive products. We continued to optimise the "Xingnong e-Loan" product system to protect the financing needs of agricultural business entities and innovated and launched special products for rural revitalisation scenarios such as farming loans for Jiangsu crab, Xinjiang apple, Yunnan corn and Guizhou cattle. We promoted rural revitalisation theme cards to enable more farmers to enjoy the Bank's financial services. 1,729,500 cards were issued at the end of the Reporting Period, a net increase of 1,611,600 cards from the beginning of the year.

The Bank strengthened financial support in the three key agricultural areas. We strengthened our financial support for key areas such as safeguarding food and important agricultural by-products, seed and seed industry projects, and nine major agricultural infrastructures such as national high-standard farmland and cold chain logistics. At the end of the Reporting Period, the balance of loans for agriculture, forestry and fishery was 65.102 billion, a net increase of 11.072 billion from the beginning of the year.

(II) Paired Assistance

In the strict compliance with the requirements of "abstaining from shirking responsibilities, repealing policies, ceasing assistance, and neglecting regulation" after poverty alleviation, the Bank continued to provide paired assistance to Tianzhu County in Gansu Province, Litang County in Sichuan Province (a state-level key county for rural revitalisation) and Hunyuan County in Shanxi Province. We continued to step up our efforts of paired assistance as well as select, manage and take care of paired assistance cadres to create a group of "leading geese" to lead the masses out of poverty and promote rural revitalisation in a comprehensive manner.

The Bank helped revitalise the industry. We uphold the vision of "one county one industry and one village one product" by developing the special industries of the county in accordance with local conditions, such as focusing on food seed safety in Tianzhu County, strengthening agricultural technology and equipment in Litang County, and developing a new rural collective economy in Hunyuan County.

The Bank innovated the methods of offering assistance. We customised online financial products such as loans for Tianzhu mushroom and Litang cattle. We also launched an online channel for rural revitalisation on the BoCom Credit Card Official APP of our credit card to implement the “Good Products in the Countryside, Bank of Communications Helps Revitalise” campaign, helping farmers increase their income through live-streaming activities and broaden the channels for consumer supporting. As at the end of the Reporting Period, the Group’s balance of agriculture-related loan was 789.029 billion, net increased by 143.1 billion or 22.15% over the beginning of the year. Throughout the year, we invested 25 million in supporting funds, introduced 8.66 million in supporting funds and spent 32,015,500 in supporting funds. We trained 3,783 trainees in the paired assistance counties, invested a balance of 222,982,000 in loans and successfully completed various supporting missions.

I. Financial Services for Rural Revitalisation		(In 100 million of RMB)
Agriculture-related loan		7,890.29
Net increase from the beginning of the year		1,431
Growth rate		22.15%
II. Amount of Investment in Paired Assistance Counties		(In 10 thousand of RMB)
1. Investment in pro bono supporting funds		2,500
Growth rate		
2. Introduction of pro bono supporting funds		866
Growth rate		6.87%
3. Number of grass-roots cadres, rural revitalisation leaders and professionals trained		3,783
Growth rate		23.02%
4. Purchase of agricultural products from paired assistance regions		875.43
Growth rate		6.43%
5. Sales of agricultural products from paired assistance regions		2,146
Growth rate		5.87%
6. Number of assisting projects or enterprises introduced		6
7. Amount of investments introduced		2,950

Note: The “paired assistance” in the table refers to the assistance work conducted by the Bank in areas of Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province.

In 2023, the Bank will continue to maintain the overall stability of our rural revitalisation and paired assistance policies, as well as our teams and capabilities. We will leverage on the advantages of fintech to explore new ways, new models and new methods to continuously improve the quality and effectiveness of rural revitalisation services and consolidate and expand the results of poverty alleviation. We will use our financial strength to “vitalise” the construction of a livable, workable and beautiful countryside.

SIGNIFICANT EVENTS

I. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group was not involved in any material¹⁴ litigation and arbitration. As at the end of the Reporting Period, the Group was involved in certain outstanding litigations/arbitrations as defendant or third party with an amount of approximately 2.017 billion.

II. COMMITMENT

Pursuant to the regulations of the Notice of the State Council on Issuing the Implementation Plan for Transferring Part of State-Owned Capital to Replenish Social Security Funds (Guo Fa (2017) No. 49), the Ministry of Finance transferred 1,970,269,383 A shares of the Bank in December 2019, representing 10% of the Bank's shares to the SSF as a whole. The SSF should fulfil its lock-up period obligations of over 3 years from the date of the transfer. During the Reporting Period, the SSF fulfilled the above commitments.

III. PUNISHMENT

During the Reporting Period, neither the Bank, nor any of its directors, supervisors or senior management was subject to any investigation by competent authorities, any enforcement measures by judiciary authorities, any transferring to the judiciary authorities for criminal responsibilities, any investigation or administrative penalty by the CSRC, any prohibition from access to market or disqualification, any material administrative penalty by administrative departments including environmental, safety supervision and tax departments and any other administrative departments, or any situations of being suspected of serious violations of discipline and law or job-related crimes, being detained by the discipline inspection and supervision organ, being unable to perform duties and being taken administrative supervision measures by the CSRC or disciplinary sanctions by the stock exchange.

IV. INTEGRITY

During the Reporting Period, neither did the Group refuse to execute any court orders nor fail to settle any significant due debts involving litigation.

V. RELATED PARTY TRANSACTIONS

During the Reporting Period, the Bank entered into some significant related party transactions with related parties—Bank of Communications Financial Leasing Co., Ltd. ("Bank of Communications Financial Leasing") and Rong Kong United Finance Co., Limited ("Rong Kong United"), under regulatory standards of the CBIRC. The 3rd meeting of the 10th Board of Directors of the Bank deliberated and approved the above transaction, based on which the independent directors issued written opinions before submitting for deliberation. The six independent directors all believed that the above transactions met the requirements of the regulatory authorities on fairness and compliance of related party transactions and had fulfilled the business review and approval procedures. In accordance with the CBIRC's *Measures for the Administration of Related Party Transactions of Banking and Insurance Institutions*, the Bank shall disclose the transactions one by one on its website within 15 working days after the signing of the contract, and report to the regulator in the meantime. The details are as follows:

¹⁴ based on "Any litigation that commercial banks involved in, each of which the amount exceeded 1% of the equity attributable to shareholders of the Bank from the audited consolidated financial statements of the previous year, shall be announced in a timely manner" from Article 19 of 《Announcement on Promulgation of the Rules No. 26 on the Preparation of Information Disclosure by Companies Offering Securities to the Public—Special Rules on Information Disclosure by Commercial Banks》.

(I) Basic information of related parties

1. Bank of Communications Financial Leasing

Established in December 2007, Bank of Communications Financial Leasing is a wholly-owned subsidiary of the Bank. It has a registered capital of 14.0 billion, with the registered address on Floors 28 and 29, No. 333, Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, and the legal representative is Xu Bing. The company is a non-bank financial institution, and its business scope includes: financial leasing business, accepting lease deposits from lessees, fixed income securities investment business, transferring and accepting financial lease assets, absorbing time deposits (for more than 3 months (inclusive)) of non-bank shareholders, interbank lending, borrowing from financial institutions, overseas borrowing, sale and disposal business of leased properties, economic consulting, setting up project companies in domestic bonded areas to carry out financial leasing business, and providing guarantees for external financing of holding subsidiaries and project companies.

2. Rong Kong United Finance

Established in Hong Kong in February 2015, Rong Kong United Finance is indirectly wholly owned by Bank of Communications Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank. The registered capital is 1 Hong Kong dollar, the registered place is 1/F., Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong, PRC, and the directors of the company are Cai Zichu and Wang Jing.

(II) Related Party Transactions

1. Pursuant to the resolution of the Board of Directors, the Bank has signed five contracts with Bank of Communications Financial Leasing, as follows:
 - (1) RMB credit lending contract. The contract amount is RMB12.5 billion, accounting for about 1.21% of the Bank's net capital at the end of the third quarter of 2022. The pricing follows the market-oriented pricing principle, with the increase in basis points of market interest rate by reference to the Shanghai Interbank Offered Rate (SHIBOR) for other lendings with the same term, or referring to the transaction price or quotation of the same term given by a third party to the Bank of Communications Financial Leasing. The lending interest rate shall be determined by negotiation between the two parties and shall be subject to the contract note.
 - (2) RMB interbank loan contracts. The contract amount is RMB20.0 billion, accounting for about 1.94% of the Bank's net capital at the end of the third quarter of 2022. The pricing follows the market-oriented pricing principle, with the increase in basis points of market interest rate by reference to the Shanghai Interbank Offered Rate (SHIBOR) for other loans with the same term, or referring to the transaction price or quotation of the same term given by a third party to the Bank of Communications Financial Leasing. The loan interest rate shall be determined by negotiation between the parties to the transaction and separately agreed in the withdrawal application.

SIGNIFICANT EVENTS

- (3) USD credit lending contract. The contract amount is USD3.0 billion (equivalent to approximately RMB21.299 billion), accounting for about 2.06% of the Bank's net capital at the end of the third quarter of 2022. The pricing follows the market-oriented pricing principle, with the increase in basis points of market interest rate by reference to the Secured Overnight Financing Rate (SOFR) for USD lendings with the same term, or referring to the transaction price or quotation of USD with the same term given by a third party to the Bank of Communications Financial Leasing. The lending interest rate shall be determined by negotiation between the two parties and shall be subject to the contract note.
 - (4) USD interbank loan contracts. The contract amount is USD1.2 billion (equivalent to approximately RMB8.520 billion), accounting for about 0.82% of the Bank's net capital at the end of the third quarter of 2022. The pricing follows the market-oriented pricing principle, with the increase in basis points of market interest rate by reference to the Secured Overnight Financing Rate (SOFR) for USD loans with the same term, or referring to the transaction price or quotation of USD with the same term given by a third party to the Bank of Communications Financial Leasing. The loan interest rate shall be determined by negotiation between the parties to the transaction and separately agreed in the withdrawal application.
 - (5) Derivative transaction contracts. The principal amount of derivative transactions was RMB2.2 billion, accounting for about 0.21% of the Bank's net capital at the end of the third quarter of 2022. The transaction price is determined by reference to the quotation or curve of the standard variety in the market, and by reference to the quotation for the same structure given by a third party to the Bank of Communications Financial Leasing. The transaction price shall be determined by negotiation between the two parties, and the transaction confirmation shall prevail.
- 2 According to the resolution of the Board of Directors, the Bank signed an interbank loan contract with Rong Kong United Finance, with the contract amount of USD3.0 billion (equivalent to approximately RMB21.299 billion), accounting for about 2.06% of the Bank's net capital at the end of the third quarter of 2022. The pricing follows the market-oriented pricing principle, with the increase in basis points of market interest rate by reference to the Secured Overnight Financing Rate (SOFR) for USD loans and EURIBOR for Euro loans with the same term, or referring to the transaction price or quotation of USD with the same term given by a third party to the Bank of Communications Financial Leasing. The loan interest rate shall be determined by negotiation between the parties to the transaction and separately agreed in the withdrawal application.

VI. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(I) Material Trust, Sub-contract and Lease

During the Reporting Period, the Bank did not hold in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

(II) Material Guarantees

The provision of guarantees was one of the off-balance sheet businesses carried out by the Bank in its ordinary and usual course of business. During the Reporting Period, the Bank did not provide any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by the regulatory authority.

VII. THE BOARD OF DIRECTORS' STATEMENT ON CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR ACCOUNTING METHODS

Please refer to Note 2(3). Summary of significant accounting policies to the Consolidated Financial Statements for major changes in accounting policies during the Reporting Period.

VIII. OTHER SIGNIFICANT EVENTS

- (I) The Bank intended to inject capital of 5.0 billion to BOCOM Financial Asset Investment Co., Ltd., a wholly-owned subsidiary of the Bank, which had been approved by relevant regulatory authorities. For related details, please refer to the announcement the Bank published on 24 January 2022.
- (II) The Bank issued 80 billion of tier-2 capital bonds in the national interbank bond market. For related details, please refer to the announcement the Bank published on 25 February 2022 and 15 November 2022.
- (III) The Bank fully redeemed 30 billion 10-year tier-2 capital bonds issued in April 2017. For related details, please refer to the announcement published by the Bank on 19 April 2022.
- (IV) The Bank intended to amend the Articles of Association, the Procedural Rules of the Shareholders' General Meeting and the Procedural Rules of the Board of Directors and the Procedural Rules of the Board of Supervisors of the Bank, and the relevant proposals were considered and approved at the General Meeting of Shareholders and the Class Meeting of Shareholders of the Bank. The revised Articles of Association will become effective upon approval by the CBIRC and the revised Procedural Rules of the Shareholders' General Meeting and the Procedural Rules of the Board of Directors and the Procedural Rules of the Board of Supervisors will also become effective at the same time. For related details, please refer to the announcements the Bank published on 7 July 2022 and 25 August 2022.
- (V) Bank of Communications Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank, intended to transfer 6 billion of undistributed profits to increase its registered capital (without providing cash option to shareholders). After the transfer, the registered capital of Bank of Communications Financial Leasing Co., Ltd. will be 20 billion, and the Bank will continue to maintain its wholly-owned control over the company. For related details, please refer to the announcement the Bank published on 26 August 2022.

The above announcements were published on the websites of Shanghai Stock Exchange and the HKEX News of the Hong Kong Stock Exchange.

ORGANISATION CHART AND LIST OF INSTITUTIONS



Note: 1. ● The primary unit of the Head Office ▲ The deputy departmental level institution of the primary unit

○ The departmental level institution of the primary unit

2. Differentiated management on BOCOM Financial Technology Co., Ltd. as a first-tier subsidiary.

Domestic Branches

38 provincial branches directly managed
by the head office

214 branches managed
by provinces

2,849 business outlets

Overseas Branches and Subsidiaries

Hong Kong Branch /
Bank of Communications (Hong Kong) Limited

New York Branch

San Francisco Branch

Tokyo Branch

Singapore Branch

Seoul Branch

Frankfurt Branch

Macau Branch

Ho Chi Minh City Branch

Sydney Branch

Brisbane Branch

Melbourne Branch

Taipei Branch

London Branch

Toronto Representative Office

Luxembourg Branch /
Bank of Communications (Luxembourg) S.A.

Bank of Communications (Luxembourg) S.A. Paris Branch

Bank of Communications (Luxembourg) S.A. Rome Branch

Banco BoCom BBM S.A.

Prague Branch

Johannesburg Branch

Major Holdings Companies

Bank of Communications Financial
Leasing Co., Ltd.

Bank of Communications Schroder Fund
Management Co., Ltd.

BOCOM Wealth Management Co., Ltd.

BOCOM Financial Asset Investment Co., Ltd.

Bank of Communications International
Trust Co., Ltd.

BOCOM MSIG Life Insurance Company Limited

BOCOM International Holdings Company Limited

China BOCOM Insurance Co., Ltd.

Rural Banks

Dayi BoCom Xingmin Rural Bank

Zhejiang Anji BoCom Rural Bank

Xinjiang Shihezi BoCom Rural Bank

QingDao Laoshan BoCom Rural Bank

ORGANISATION CHART AND LIST OF INSTITUTIONS

LIST OF DOMESTIC PROVINCIAL BRANCHES AND DIRECTLY MANAGED BRANCHES OF HEAD OFFICE

Region	Name	Address
Yangtze River Delta	Shanghai Branch	No. 200 Jiangxi Middle Road, Huangpu District, Shanghai
	Jiangsu Provincial Branch	No. 218 Lushan Road, Jianye District, Nanjing City, Jiangsu Province
	Suzhou Branch	No. 28 Suhui Road, Suzhou Industrial Park, Suzhou City, Jiangsu Province
	Wuxi Branch	No. 8 Second Jinrong Street, Binhu District, Wuxi City, Jiangsu Province
	Zhejiang Provincial Branch	No. 1-39 Juyuan Road, Jianggan District, Hangzhou City, Zhejiang Province
	Ningbo Branch	No. 455 Haiyan North Road, Yinzhou District, Ningbo City, Zhejiang Province
	Anhui Provincial Branch	Intersection of Huizhou Avenue and Jialingjiang Road, Baohe District, Hefei City, Anhui Province
Pearl River Delta	Fujian Provincial Branch	No. 116 Hudong Road, Gulou District, Fuzhou City, Fujian Province
	Xiamen Branch	No. 9-1 Hubin Middle Road, Siming District, Xiamen City, Fujian Province
	Guangdong Provincial Branch	No. 11 Xiancun Road, Tianhe District, Guangzhou City, Guangdong Province
	Shenzhen Branch	No.3018 Shennan Middle Road, Futian District, Shenzhen City, Guangdong Province
Bohai Rim Economic Zone	Beijing Branch	No. 22 Jinrong Street, Xicheng District, Beijing
	Tianjin Branch	No. 7 Youyi Road, Hexi District, Tianjin City
	Hebei Provincial Branch	No. 26 Ziqiang Road, Qiaoxi District, Shijiazhuang City, Hebei Province
	Shandong Provincial Branch	No. 98 Gongqingtuan Road, Shizhong District, Jinan City, Shandong Province
	Qingdao Branch	No. 6 Zhongshan Road, Shinan District, Qingdao City, Shandong Province
Central China	Shanxi Provincial Branch	No. 5 Qingnian Road, Yingze District, Taiyuan City, Shanxi Province
	Jiangxi Provincial Branch	No. 199 Huizhan Road, Honggutan New District, Nanchang City, Jiangxi Province
	Henan Provincial Branch	No. 11 Zhenghua Road, Jinshui District, Zhengzhou City, Henan Province
	Hubei Provincial Branch	No. 847 Jianshe Avenue, Jiangnan District, Wuhan City, Hubei Province
	Hunan Provincial Branch	No. 447 Wuyi Avenue, Furong District, Changsha City, Hunan Province
	Guangxi Zhuang Autonomous Region Branch	No. 228 Renmin East Road, Xingning District, Nanning City, Guangxi Zhuang Autonomous Region
	Hainan Provincial Branch	No. 45 Guomao Avenue, Longhua District, Haikou City, Hainan Province

ORGANISATION CHART AND LIST OF INSTITUTIONS

Region	Name	Address
Western China	Inner Mongolia Autonomous Region Branch	No. 18 Xinhua East Street, Saihan District, Hohhot, Inner Mongolia Autonomous Region
	Chongqing Branch	No. 3 Jiangbei City West Street, Jiangbei District, Chongqing City
	Sichuan Provincial Branch	No. 211 West Yulong Street, Qingyang District, Chengdu City, Sichuan Province
	Guizhou Provincial Branch	East Third Tower, Financial City, Guanshanhu District, Guiyang City, Guizhou Province
	Yunnan Provincial Branch	No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province
	Tibet Autonomous Region Branch	101 and 102, 1st floor, south of National Road 318 and west of Financial Road, Jinxiyuan, Dunzhu Financial City, Tibet Autonomous Region
	Shaanxi Provincial Branch	No. 88 Xixin Street, Xincheng District, Xi'an City, Shaanxi Province
	Gansu Provincial Branch	No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province
	Ningxia Hui Autonomous Region Branch	No. 64 Ning'an Street, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region
	Xinjiang Uygur Autonomous Region Branch	No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
North Eastern China	Qinghai Provincial Branch	No. 67 Wusi West Road, Chengxi District, Xining City, Qinghai Province
	Liaoning Provincial Branch	No. 258-1 Shifu Road, Shenhe District, Shenyang City, Liaoning Province
	Dalian Branch	No. 6 Zhongshan Square, Zhongshan District, Dalian City, Liaoning Province
	Jilin Provincial Branch	No. 3535 Renmin Street, Chaoyang District, Changchun City, Jilin Province
	Heilongjiang Provincial Branch	No. 428 Youyi Road, Daoli District, Harbin City, Heilongjiang Province

Note: For the address and contact information of the business outlets of the Bank, please visit the Bank's official website and click on "Branch Inquiry" for relevant information.

LIST OF OVERSEAS BANKING INSTITUTIONS

Name	Address
Hong Kong Branch/Bank of Communications (Hong Kong) Limited	Unit B B/F & G/F, Unit C G/F, 1 – 3/F, 16/F Room 01 & 18/F, Wheelock House, 20 Pedder Street, Central, Hong Kong
New York Branch	ONE EXCHANGE PLAZA 55 BROADWAY, 31ST & 32ND FLOOR, NEW YORK NY 10006-3008, U.S.A.
San Francisco Branch	575 MARKET STREET, 38th FLOOR, SAN FRANCISCO, CA 94105, U.S.A.
Tokyo Branch	SANYO Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan
Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower, Singapore 048623
Seoul Branch	6th DouZone Tower. #29, Eulji-ro, Jung-Gu, Seoul, 04523, Korea
Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
Macau Branch	16th Floor, AIA Tower, No. 251A-301, Avenida Commercial De Macau

ORGANISATION CHART AND LIST OF INSTITUTIONS

Name	Address
Ho Chi Minh City Branch	17th floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC, VN
Sydney Branch	Level 23, 60 Martin Place, Sydney NSW2000, Australia
Brisbane Branch	Level 35, 71 Eagle Street, Brisbane QLD4000, Australia
Melbourne Branch	Level 34 Rialto South Tower, 525 Collins Street, Melbourne VIC, 3000, Australia
Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, Taipei (101 Tower), Taiwan
London Branch	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
Luxembourg Branch/Bank of Communications (Luxembourg) S.A.	7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg
Bank of Communications (Luxembourg) S.A. Paris Branch	90, Avenue des Champs-Elysees, 75008, Paris, France
Bank of Communications (Luxembourg) S.A. Rome Branch	3rd floor, Piazza Barberini 52, Rome. 00187, Italy
Banco BoCom BBM S.A.	Av Barão de Tefé, 34-20th, Rio de Janeiro, Brazil, 20220-460
Prague Branch	7th floor, RUSTONKA R2, Rohanske nabrezi 693/10, Prague 8, 186 00, Czech Republic
Johannesburg Branch	140 West St, Sandown, Sandton, 2196, Johannesburg, South Africa
Toronto Representative Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3, Canada

LIST OF MAJOR SUBSIDIARIES

Name	Address
Bank of Communications Schroder Fund Management Co., Ltd.	No. 8 Century Avenue, Pudong New District, Shanghai
Bank of Communications International Trust Co., Ltd.	No. 847 Jianshe Avenue, Wuhan
Bank of Communications Financial Leasing Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BOCOM MSIG Life Insurance Company Limited	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BOCOM International Holdings Company Limited	No. 68 Des Voeux Road Central, Central, Hong Kong
China BoCom Insurance Co., Ltd.	No. 8 Cotton Tree Drive, Central, Hong Kong
BoCom Financial Asset Investment Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
BoCom Wealth Management Co., Ltd.	8-9/F, No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
Dayi BoCom Xingmin Rural Bank Co., Ltd.	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province
Zhejiang Anji BoCom Rural Bank Co., Ltd.	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province
Xinjiang Shihezi BoCom Rural Bank Co., Ltd.	No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region
Qingdao Laoshan BoCom Rural Bank Co., Ltd.	Room 101, Building 1, No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong

APPENDIX – INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Communications Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 171 to 299, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("the Code"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Expected credit impairment allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees

Refer to the accounting policy in “Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL”, and “Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk” to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group uses an expected credit loss (“ECL”) model to measure the loss allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees in accordance with International Financial Reporting Standard 9, Financial instruments.</p> <p>The determination of ECL allowance of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees is subject to the application of a number of key parameters and assumptions, including the credit risk staging, probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Extensive management judgment is involved in the selection of those parameters and the application of the assumptions.</p>	<p>Our audit procedures to assess ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees included the following:</p> <ul style="list-style-type: none">• with the assistance of KPMG’s IT specialists, understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the credit approval, recording, monitoring, the credit risk staging, ECL model update and the measurement of ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees.• with the assistance of KPMG’s financial risk management specialists, assessing the appropriateness of the ECL model used to determine the loss allowances and the appropriateness of the key parameters and assumptions in the model, which included credit risk staging, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other adjustments, and assessing the appropriateness of related key management judgment.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)***Expected credit impairment allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)**

Refer to the accounting policy in “Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL”, and “Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk” to the consolidated financial statements.

The Key Audit Matter**How the matter was addressed in our audit**

The determination of the ECL allowance is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The ECL allowance for corporate loans and advances, financial investments at amortised cost, credit related commitments to corporates and financial guarantees are derived from estimates including historical losses, internal and external credit grading and other factors. The ECL allowance for personal loans and advances and credit related commitments to individuals are derived from estimates whereby management takes into consideration historical overdue data, historical loss experience and other factors.

- for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we inquired the reasons for management's revisions to estimates and input parameters, compared with prior period and considered the consistency of judgement.
- comparing the macroeconomic forward-looking information used in the model with market information to assess whether they were aligned with market and economic development.
- assessing the completeness and accuracy of key data used in the ECL model. For key internal data, we compared the total balance of the loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees used by management to assess the ECL allowance with the general ledger to check the completeness of the data. We also selected samples to compare information of individual loan and advance to customers, financial investment at amortised cost, credit related commitment and financial guarantee with the underlying agreements and other related documentation. In addition, we checked the accuracy of key external data used by management by comparing them with public sources.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Expected credit impairment allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)

Refer to the accounting policy in “Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL”, and “Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk” to the consolidated financial statements.

The Key Audit Matter

How the matter was addressed in our audit

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include the financial situation of the borrower, the guarantee type, the seniority of the claim, the recoverable amount of any collaterals, and repayment sources of the borrower. Management refers to valuation reports of collaterals issued by qualified third party valuers and considers the impact of various factors including the market price, status and use when assessing the value of collaterals. The enforceability, timing and means of realisation of the collateral also have an impact on the recoverable amount of the collateral.

- for key parameters used in the ECL model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved KPMG's IT specialists to assess the logics and compilation of the loans and advances' overdue information on a sample basis.
- evaluating the reasonableness of management's assessment on whether the credit risk of loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees has, or has not, increased significantly since initial recognition and whether the mentioned financial instruments are credit-impaired. We assessed the staging of corporate loans and advances, financial investments at amortised cost, corporate credit related commitments and financial guarantees by industry sectors and used a risk-based approach to select samples in industries which are more vulnerable to the current economic situation and samples which met specific risk criteria. We checked overdue information, made enquiries of the client managers about the borrowers' business operations, inspected borrowers' financial information and researched about borrowers' businesses, to check the credit risk of the borrower, and the reasonableness of the risk stage.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)***Expected credit impairment allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees (Continued)**

Refer to the accounting policy in “Note 2 (5)(a) Financial instrument – Impairment, Note 2 (31)(a) Significant accounting estimates and judgements – Measurement of ECL”, and “Note 21 Loans and advances to customers, Note 22 Financial investments, Note 33 (1) Other liabilities – expected credit impairment allowance of credit related commitments and financial guarantees, Note 10 Credit impairment losses, Note 3 (1) Credit risk” to the consolidated financial statements.

The Key Audit Matter**How the matter was addressed in our audit**

We identified the measurement of ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.

- evaluating the reasonableness of loss given default for corporate loans and advances, financial investments at amortised cost, corporate credit related commitments and financial guarantees. We selected samples to evaluate the recoverable amount by considering the financial situation of the borrower, the guarantee type, the seniority of the claim, the recoverable amount of collateral, and repayment sources of the borrower. Evaluating management's assessment based on the category, condition and use of the collateral. For valuation reports of collateral issued by qualified third party valuers, we evaluated the competence, capabilities and objectivity of the external appraiser. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, considered the viability of the Group's recovery plans.
- selecting samples and assessing the accuracy of the Group's calculation on the ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees.
- assessing the reasonableness of the disclosures in the financial statements in relation to the ECL allowance for loans and advances to customers, financial investments at amortised cost, credit related commitments and financial guarantees against prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Consolidation assessment of structured entities

Refer to the accounting policy in “Note 2 (4)(c) Structured entities, Note 2 (31)(d) Significant accounting estimates and judgements – Consolidation of structured entities”, and “Note 44 Structured entities, Note 45 Unconsolidated structured entities” to the consolidated financial statements

The Key Audit Matter

How the matter was addressed in our audit

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

The Group may acquire an ownership interest in a structured entity, through initiating, managing and/or investing in trust investment plans, asset management plans, funds, Wealth Management Products (“WMPs”) and securitization products. The Group may also retain partial interests in derecognised assets due to guarantees or securitisation structures.

The Group is required to consider the power it possesses, its exposure to variable returns, and its ability to use its power to affect returns to determine whether the Group retain any partial interests in a structured entity or should consolidate a structured entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.

We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and the nature of each entity.

Our audit procedures to assess the measurement of interests in and consolidation of structured entities included the following:

- assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over measurement of interests in and consolidation of structured entities.
- selecting significant structured entities of each key product type and performing the following procedures:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;
 - inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Group's involvement in such an entity;
 - inspecting management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgement over the Group's ability to affect its own returns from the structured entity;
 - assessing management's judgement over whether the structured entity should be consolidated or not.
- assessing the reasonableness of the disclosures in the financial statements in relation to the measurement of interests in and consolidation of structured entities against prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)***Valuation of financial assets measured at fair value classified as level 3**

Refer to the accounting policy in “Note 2 (5) Financial instrument, Note 2 (31)(b) Significant accounting estimates and judgements – Fair value of financial instruments”, and “Note 3 (4) Fair value of financial assets and liabilities” to the consolidated financial statements.

The Key Audit Matter**How the matter was addressed in our audit**

Convertible bonds, unlisted equities, unlisted funds, certain trusts and asset management plans, equity derivatives, etc, held by the Group, whose fair value are determined based on certain unobservable inputs, were classified by the Group as level 3 in fair value measurement.

Management determines the fair value of these financial assets using a variety of techniques. The valuation methods mainly include discounted cash flows and comparable company, involving various unobservable inputs such as objective company's cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and liquidity discounts, etc.

We identified valuation of financial assets measured at fair value classified as level 3 instruments' fair value as a key audit matter because of the amount of these financial assets are significant, and because of the degree of complexity involved in the valuation techniques and significant judgement is required to be exercised by management in determining the inputs used in the valuation models.

Our audit procedures to assess the valuation of financial assets measured at fair value classified as level 3 included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the application of valuation models and front office and back office reconciliations for financial assets measured at fair value classified as level 3.
 - with the assistance of KPMG's financial risk management specialists and on a sample basis, obtaining an understanding of the valuation method used by management (including whether there is any change in the valuation method in this year) and assessing whether the valuation method selected is appropriate with reference to the prevailing accounting standards.
- with the assistance of KPMG's financial risk management specialists and on a sample basis, obtaining inputs independently and assessing the reasonableness of the inputs applied by management by comparing the results of our own valuations with that of management.
- assessing the reasonableness of the disclosures in the consolidated financial statements in relation to financial assets measured at fair value classified as level 3 against prevailing accounting standards, including fair value hierarchy information, etc..

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Siu Tung.

Certified Public Accountants

8 th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2023

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Interest income		418,122	377,646
Interest expense		(248,185)	(215,953)
Net interest income	4	169,937	161,693
Fee and commission income	5	49,339	52,285
Fee and commission expense	6	(4,700)	(4,712)
Net fee and commission income		44,639	47,573
Net gains arising from trading activities	7	17,607	23,344
Net gains arising from financial investments		494	1,311
<i>Including: Net gains on derecognition of financial assets measured at amortised cost</i>		64	46
Share of profits of associates and joint ventures		292	277
Insurance business income	8	18,100	16,515
Other operating income	9	22,459	19,035
Net operating income		273,528	269,748
Credit impairment losses	10	(60,411)	(66,371)
Other assets impairment losses	11	(1,897)	(2,320)
Insurance business expense	12	(19,380)	(17,054)
Other operating expenses	13	(93,625)	(90,044)
Profit before tax		98,215	93,959
Income tax	16	(6,185)	(5,020)
Net profit for the year		92,030	88,939

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity		(7,745)	3,649
Amount reclassified to profit or loss		(669)	(870)
Expected credit losses of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity		1,219	(394)
Amount reclassified to profit or loss		–	–
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity		2,004	891
Amount reclassified to profit or loss		(1,204)	(463)
Translation differences for foreign operations		8,562	(3,450)
Others		136	14
Subtotal		2,303	(623)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on pension benefits		(34)	55
Changes in fair value of equity investments designated at fair value through other comprehensive income		(1,301)	(1,555)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		(133)	(36)
Others		(1)	2
Subtotal		(1,469)	(1,534)
Other comprehensive income, net of tax	42	834	(2,157)
Total comprehensive income for the year		92,864	86,782
Net profit attributable to:			
Shareholders of the parent company		92,149	87,581
Non-controlling interests		(119)	1,358
		92,030	88,939
Total comprehensive income attributable to:			
Shareholders of the parent company		92,607	85,696
Non-controlling interests		257	1,086
		92,864	86,782
Basic and diluted earnings per share for profit attributable to the shareholders of the parent company (in RMB yuan)	17	1.14	1.10

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

	Note	As at 31 December 2022	As at 31 December 2021
ASSETS			
Cash and balances with central banks	18	806,102	734,728
Due from and placements with banks and other financial institutions	19	690,421	632,708
Derivative financial assets	20	69,687	39,220
Loans and advances to customers	21	7,136,677	6,412,201
Financial investments at fair value through profit or loss	22	705,357	638,483
Financial investments at amortised cost	22	2,450,775	2,203,037
Financial investments at fair value through other comprehensive income	22	799,075	681,729
Investments in associates and joint ventures	24	8,750	5,779
Property and equipment	25	194,169	171,194
Deferred income tax assets	26	38,771	32,061
Other assets	27	92,635	114,617
Total assets		12,992,419	11,665,757
LIABILITIES AND EQUITY			
LIABILITIES			
Due to and placements from banks and other financial institutions	28	2,034,894	1,947,768
Financial liabilities at fair value through profit or loss	29	47,949	50,048
Derivative financial liabilities	20	46,804	36,074
Due to customers	30	7,949,072	7,039,777
Certificates of deposits issued	31	1,092,366	892,020
Current income tax liabilities		3,937	4,725
Debt securities issued	32	530,861	503,525
Deferred income tax liabilities	26	1,786	1,889
Other liabilities	33	249,010	212,695
Total liabilities		11,956,679	10,688,521
EQUITY			
Share capital	34	74,263	74,263
Other equity instruments	35	174,790	174,790
<i>Including: Preference shares</i>		<i>44,952</i>	<i>44,952</i>
<i>Perpetual bonds</i>		<i>129,838</i>	<i>129,838</i>
Capital surplus	34	111,429	111,428
Other reserves	36	369,259	346,092
Retained earnings	36	293,668	258,074
Equity attributable to shareholders of the parent company		1,023,409	964,647
Equity attributable to non-controlling interests of ordinary shares		8,873	9,424
Equity attributable to non-controlling interests of other equity instruments		3,458	3,165
Non-controlling interests	38	12,331	12,589
Total equity		1,035,740	977,236
Total equity and liabilities		12,992,419	11,665,757

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 30 March 2023 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

	equity attributable to shareholders of the parent company																	
	Other equity instruments				Other reserves													
	Share capital Note 34	Preference Share Note 35	Perpetual bonds Note 35	Capital surplus Note 34	Statutory reserve Note 36	Discretionary surplus reserve Note 36	Statutory general reserve Note 36	Revaluation reserve and impairment for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation differences for foreign operations	Actuarial changes reserve	Others	Retained earnings Notes 36,37	Attributable to the shareholders of the parent company shares	Non- controlling interests of ordinary shares	Non- controlling interests of other equity instruments Note 35	Total
As at 1 January 2022	74,263	44,952	129,838	111,428	79,967	140,022	130,280	1,531	(24)	(104)	(6,884)	(87)	1,391	258,074	964,647	9,424	3,165	977,236
Total comprehensive income	-	-	-	-	-	-	-	(8,355)	(133)	797	8,048	(34)	135	92,149	92,607	(155)	412	92,864
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,363)	(26,363)	(396)	-	(26,759)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,832)	(1,832)	-	-	(1,832)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,651)	(5,651)	-	-	(5,651)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(119)	(119)
Transfer to reserves	-	-	-	-	8,187	160	14,261	-	-	-	-	-	-	(22,608)	-	-	-	-
Transfer of other comprehensive income to retained earnings	-	-	-	-	-	-	-	101	-	-	-	-	-	(101)	-	-	-	-
Others	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1	-	-	1
As at 31 December 2022	74,263	44,952	129,838	111,429	88,154	140,182	144,541	(6,723)	(157)	683	1,164	(121)	1,526	293,668	1,023,409	8,873	3,458	1,035,740

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2021
(All amounts expressed in millions of RMB unless otherwise stated)

	equity attributable to shareholders of the parent company															Attributable to non-controlling		
	Other reserves																	
	Share capital Note 34	Preference Share Note 35	Perpetual bonds Note 35	Capital surplus Note 34	Statutory reserve Note 36	Discretionary surplus reserve Note 36	Statutory general reserve Note 36	Revaluation reserve and impairment for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation differences for foreign operations	Actuarial changes reserve	Others	Retained earnings Notes 36,37	Attributable to the shareholders of the parent company	Non-controlling interests of ordinary shares	Non-controlling interests of other equity instruments Note 35	Total
As at 1 January 2021	74,263	44,952	88,340	111,428	72,431	139,930	123,163	456	12	(532)	(3,517)	(142)	1,375	214,448	866,607	8,763	3,258	878,628
Total comprehensive income	-	-	-	-	-	-	-	1,019	(36)	428	(3,367)	55	16	87,381	85,696	1,057	29	86,782
Capital contribution to holders of other equity instruments	-	-	41,498	-	-	-	-	-	-	-	-	-	-	-	41,498	-	-	41,498
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,541)	(23,541)	(896)	-	(23,937)
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,755)	(1,755)	-	-	(1,755)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,858)	(3,858)	-	-	(3,858)
Interest paid to non-cumulative subordinated additional tier-1 capital securities holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transferred to reserves	-	-	-	-	7,536	92	7,117	-	-	-	-	-	-	(14,745)	-	-	(122)	(122)
Transfer of other comprehensive income to retained earnings	-	-	-	-	-	-	-	56	-	-	-	-	-	(56)	-	-	-	-
As at 31 December 2021	74,263	44,952	129,838	111,428	79,967	140,022	130,280	1,531	(24)	(104)	(6,894)	(87)	1,391	238,074	964,647	9,424	3,165	977,236

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Cash flows from operating activities:			
Profit before tax:		98,215	93,959
Adjustments for:			
Provision for impairment losses		60,411	66,371
Provision for other assets impairment losses		1,897	2,320
Provision for insurance contracts reserve		13,457	15,518
Depreciation and amortisation		16,150	14,839
Provision/(reversal) for outstanding litigation and unsettled obligation		56	(199)
Net gains on the disposal of property, equipment and other assets		(739)	(454)
Interest income from financial investments		(97,311)	(88,262)
Fair value net losses/(gains)		4,171	(1,474)
Net gains on investments in associates and joint ventures		(292)	(277)
Net gains on financial investments		(494)	(1,311)
Interest expense on debt securities issued		15,807	16,341
Interest expense on lease liabilities		179	176
Operating cash flows before movements in operating assets and liabilities		111,507	117,547
Net (increase)/decrease in balances with central banks		(57,272)	14,515
Net decrease/(increase) in due from and placements with banks and other financial institutions		6,251	(106,359)
Net increase in loans and advances to customers		(740,988)	(776,234)
Net increase in financial assets at fair value through profit or loss		(86,355)	(128,020)
Net increase in other assets		(11,755)	(23,469)
Net increase in due to and placements from banks and other financial institutions		78,740	161,477
Net (decrease)/increase in financial liabilities at fair value through profit or loss		(5,357)	2,317
Net increase in due to customers and certificates of deposits issued		1,012,585	674,635
Net increase in other liabilities		73,605	35,329
Net (decrease)/increase in value-added tax and other taxes payable		(829)	1,431
Income tax paid		(11,911)	(7,944)
Net cash flows generated from/(used in) operating activities		368,221	(34,775)

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

	Note	2022	2021
Cash flows from investing activities:			
Cash payment for investment in subsidiaries, associated ventures and joint ventures		(2,780)	(869)
Cash payments for financial investments		(1,232,873)	(895,518)
Cash received on disposal or redemption of financial investments		879,650	750,323
Dividends received		870	734
Interest received from financial investments		94,863	88,760
Acquisition of intangible assets and other assets		(2,094)	(2,467)
Cash received from the sale of intangible assets and other assets		11	507
Acquisition of property, equipment		(29,561)	(20,480)
Cash received from disposal of property, equipment		7,017	3,462
Net cash flows used in investing activities		(284,897)	(75,548)
Cash flows from financing activities:			
Proceeds from issue of other equity instruments		–	41,498
Proceeds from issue of debt securities		182,492	96,121
Repayment of principals of debt securities issued		(163,432)	(88,834)
Payment of interest on debt securities		(15,384)	(15,350)
Repayment of principal and interest of lease liabilities		(2,581)	(2,413)
Dividends paid		(33,555)	(29,152)
Dividends paid to non-controlling interests		(515)	(564)
Net cash flows (used in)/generated from financing activities		(32,975)	1,306
Effect of exchange rate changes on cash and cash equivalents		4,146	(3,795)
Net increase/(decrease) in cash and cash equivalents		54,495	(112,812)
Cash and cash equivalents at the beginning of the year		194,308	307,120
Cash and cash equivalents at the end of the year	43	248,803	194,308
Net cash flows from operating activities include:			
Interest received		323,377	291,450
Interest paid		(201,693)	(185,593)

The accompanying notes form a part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a national state-owned joint-stock commercial bank, headquartered in Shanghai, which was reorganized on 1 April 1987 upon the approval of Notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and Notice Yin Fa (1987) No. 40 issued by the People’s Bank of China (the “PBOC”).

The Bank possesses the Finance Permit No. B0005H131000001 issued by the China Banking and Insurance Regulatory Commission (the “CBIRC”) of the PRC with the registration number of 9131000010000595XD.

The Bank’s A Shares are listed on the Shanghai Stock Exchange and H Shares are listed on the Hong Kong Stock Exchange, with the stock codes of 601328 and 03328 respectively.

The principal activities of the Bank and its subsidiaries (the “Group”) include corporate and personal banking services, interbank and financial market business, financial leasing, fund management, wealth management, trustees, insurance, overseas securities, debt-to-equity swap and other related financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the “IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 (3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(2) Basis of preparation of the financial statements

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 (31).

The financial statements are presented in RMB, rounded to the nearest million, which is the functional currency of the Group.

(3) Changes in accounting policies

(a) **Standards and amendments effective in 2022 relevant to and adopted by the Group**

The Group has adopted the following amendments to the IFRSs issued by the IASB that are first effective for the financial year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Changes in accounting policies (Continued)

(a) Standards and amendments effective in 2022 relevant to and adopted by the Group (Continued)

		Notes
Amendments to IFRS 3	Reference to the Conceptual Framework	(i)
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	(ii)
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	(iii)
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018-2020	(iv)

(i) Amendments to IFRS 3: Reference to the Conceptual Framework

The amendments have updated IFRS 3 Business combinations, to refer to the 2018 Conceptual Framework for Financial Reporting, and added an exception to the requirement to refer to the 2018 Conceptual Framework to determinate what constitutes an asset or a liability in a business combination. The exception relates to liabilities and contingent liabilities that would have been within the scope of IAS 37 or IFRIC 21. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

(ii) Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

The amendments clarify the meaning of ‘costs to fulfil a contract’ for the purposes of assessing whether a contract is onerous. In particular, the amendments explain that such costs comprise the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments also clarify that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than merely on assets dedicated to that contract.

(iii) Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The amendments also clarify that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset, and that the financial performance of the asset is not relevant to this assessment.

(iv) Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual Improvements to IFRS Standards 2018-2020

The IASB issued amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual Improvements to IFRS Standards 2018-2020, which provides an optional relief for the measurement of cumulative translation differences to certain first-time adopters, clarifies the types of fees to be included when assessing the derecognition of financial liability, amends an illustrative example accompanying IFRS 16, ‘Leases’, and removes the requirement to exclude taxation cash flows when measuring fair value.

The adoption of these standards and amendments does not have a material effect on the Group’s consolidated financial information.

(b) Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2022

The Group has not adopted the following new standards and amendments that have been issued by the IASB but are not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Changes in accounting policies (Continued)

(b) **Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2022** (Continued)

		Effective for annual periods beginning on or after	Notes
IFRS 17	Insurance Contracts	1 January 2023	(i)
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023	(ii)
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023	(iii)
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	(iv)
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024	(v)
Amendments to IAS 1 (2020)	Classification of Liabilities as Current or Non-current	1 January 2024	(vi)
Amendments to IAS 1 (2022)	Non-current Liabilities with Covenants	1 January 2024	(vi)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred indefinitely	(vii)

(i) *IFRS 17: Insurance Contracts*

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. Amendments to IFRS 17 were issued in June 2020 and December 2021 to address stakeholder concerns and implementation challenges. IFRS 17 sets out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

IFRS 17 should be applied to annual reporting periods beginning on or after 1 January 2023, and the amendments should be applied at the same time. The Group will adopt IFRS 17 from 1 January 2023. The Group will change its accounting policies from the beginning of 2023 and disclose its financial statements in accordance with IFRS 17 and its amendments since the first quarterly report of 2023. Based on a preliminary assessment, the Group anticipates that the adoption of IFRS 17 and its amendments will not have a significant impact on the Group's consolidated financial statements.

(ii) *Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies*

The amendments clarify that an entity will be required to disclose its "material" accounting policy information as opposed to "significant" accounting policies and provide additional guidance on how to identify material accounting policy information. The amendments to IFRS Practice Statement 2 provide additional guidance and examples to explain and illustrate the application of the "four-step materiality process" to accounting policy information.

(iii) *Amendments to IAS 8: Definition of Accounting Estimates*

The amendments now define "accounting estimates" as "monetary amounts in financial statements that are subject to measurement uncertainty" and remove the definition of "a change in accounting estimate". The amendments also clarify that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Changes in accounting policies (Continued)

(b) **Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2022** (Continued)

(iv) *Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments specify how entities should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition. As a result, entities will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

(v) *Amendments to IFRS 16: Lease Liability in a Sale and Leaseback*

The amendments add to the requirements explaining how an entity accounts for a sale and leaseback after the date of the transaction. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains, including cases with variable lease payments in the leaseback.

(vi) *Amendments to IAS 1: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants*

The amendments to IAS 1 (2020) concern the requirements on determining if a liability is current or non-current. In particular, the amendments specify the condition of an entity to classify a liability as non-current requires that a right to defer settlement must exist at the end of the reporting period and have substance, and clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement.

The amendments also specify the classification of liabilities that will or may be settled by issuing an entity's own equity instruments. When a liability includes a counterparty conversion option that involves a transfer of the entity's own equity instruments, the classification of such liability is not affected only when the conversion option is recognised separately from the host liability as an equity component under IAS 32.

The amendments to IAS 1 (2022) specify that only covenants with which an entity must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the entity must comply after the reporting date (i. e. future covenants) do not affect a liability's classification at that date. However, an entity is required to disclose information regarding the risk that the non-current liabilities subject to future covenants could become repayable within twelve months after the end of the reporting period.

The 2022 amendments defer the effective date of the 2020 amendments to annual reporting periods beginning on or after 1 January 2024. If an entity applies one of these two amendments for an earlier period, the other amendments should also be applied for that period.

(vii) *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture*

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Except for the above-mentioned impact of IFRS 17 and its amendments, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's consolidated financial information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(4) Consolidation

(a) Subsidiary undertakings

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the acquiree in the case of a bargain purchase, the difference is recognised in profit or loss.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Losses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss and retained earnings.

(c) Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well-defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 44 and 45.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Consolidation (Continued)

(d) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement through a separate entity, and have rights to the net assets of the arrangement based on legal form, contract terms, and other facts and circumstances. Joint control is the contractually agreed sharing of control over an activity, and exists only when the decisions relating to the activity require the unanimous consent of the Group and other parties sharing the control.

The results of an associate or a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised only to the extent of interests in the associate or joint venture that are not related to the Group.

(e) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs an impairment test on goodwill at least once a year.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss for the period. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss for the period when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i. e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The method of determining fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

Measurement methods

Amortised cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i. e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(a) Financial assets

Classification and subsequent measurement

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e. g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i. e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

When, and only when, the Group changes the business model for managing its financial assets, shall it reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective (refer to Note 2 (5)(b)); that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

Impairment

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from credit related commitments and financial guarantees. The Group recognises a loss allowance accordingly at each reporting date.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value, discounted at effective interest rate or the credit-adjusted effective interest rate on purchased or originated credit-impaired financial assets, of all cash shortfalls (i. e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(a) Financial assets (Continued)

Measurement of ECLs (Continued)

The Group's method of measuring ECLs of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months).

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the balance sheet date.

Except for trade receivables and contract assets, the Group measures loss allowance at an amount equal to 12-month ECL for the following financial instruments, and at an amount equal to lifetime ECL for all other financial instruments.

- If the financial instrument is determined to have low credit risk at the balance sheet date;
- If the credit risk on a financial instrument has not increased significantly since initial recognition.

The Group classifies financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on a financial instrument has increased significantly since initial recognition, whether a financial instrument is credit-impaired.

The definition of financial instruments three stages as follows:

Stage 1: Financial instruments without significant increase in credit risk since initial recognition. For these assets, expected credit losses are recognised for the following 12 months.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, expected credit losses are recognised for the remaining lifetime if there is no objective evidence of impairment.

Stage 3: For financial assets with objective evidence of impairment as at the balance sheet date, expected credit losses are recognised for the remaining lifetime.

Financial instruments that have low credit risk

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) Financial assets *(Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

- Principal or interest of the instrument is more than 30 days past due;
- Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow:
 - (i) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards;
 - (ii) The non-retail assets' internal ratings are downgraded by 3 ranks or above upon initial recognition;
 - (iii) Significant adverse issues have negative impacts on obligator's repayment ability;
 - (iv) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk and could cause losses of financial assets to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Definition of credit-impaired and default

At each balance sheet date, the Group assesses whether financial assets carried at amortised cost and debt investments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Principal or interest of the asset is more than 90 days past due;
- The issuer or obligor is in significant financial difficulty, or has already become insolvent;
- It is becoming probable that the obligor will enter bankruptcy;
- An active market for that financial asset has disappeared because of financial difficulties of issuers;
- Other objective evidence indicating impairment of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) Financial assets *(Continued)*

Presentation of allowance for ECL

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income. The Group recognises loss allowances for loan commitments and financial guarantee contracts that are not measured at FVTPL in contingent liabilities. (See Note 33 (1)).

Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(a) Financial assets *(Continued)*

Modification of loans (Continued)

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(a) **Financial assets** (Continued)

Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.
- The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.
- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(b) Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e. g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2 (5)(a); and
- Credit related commitments and financial guarantees (refer to Note 2 (28)).

Derecognition

Financial liabilities are derecognised when they are extinguished (i. e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(b) Financial liabilities (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

- (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and
- (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

(c) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- The economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Financial instruments *(Continued)*

(c) Derivative financial instruments and hedge accounting *(Continued)*

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

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

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

Possible sources of ineffectiveness are as follows:

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

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

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

(i) Fair value hedge

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(ii) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

(d) Offsetting financial assets and financial liabilities

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(6) Interest income and expense

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

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

(7) Fee and commission income

Fee and commission income is recognised when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

(8) Dividend income

Dividends are recognised when the right to receive the dividends is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets purchased under repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

(10) Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

(11) Property and equipment

The Group's property and equipment mainly comprise buildings, construction in progress, equipment and transportation equipment

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

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

Buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated Useful lives	Estimated net Residual value	Annual depreciation rate
Buildings	25 – 50 years	3%	1.94% – 3.88%
Equipment	3 – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 – 8 years	3%	12.13% – 24.25%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Property and equipment (Continued)

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

(12) Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

(13) Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

(14) Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(15) Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(15) Investment property *(Continued)*

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

(16) Impairment of assets

The Group determines the impairment of assets, other than the impairment of deferred tax assets and financial assets, with the following methods:

The Group assesses at the balance sheet date whether there is any indication that assets may be impaired. If any indication that an asset may be impaired exists, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount based on the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets, and the cash inflows generated by a CGU are largely independent from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) Testing CGU with goodwill for impairment

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group at least annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. Under such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. Under such circumstances, the Group tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Impairment of assets (Continued)

(c) Reversing an impairment loss

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(17) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

(a) The Group as Lessee

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

The Group accounts for a modification to a finance lease as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset for lease modifications that decrease the scope or term of the lease, and recognised the gain or loss relating to the partial or full termination of the lease in profit or loss. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(17) Leases *(Continued)*

(b) The Group as Lessor

Operating Lease

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent gained by the Group is recognised in rental income when incurred.

Finance Lease

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to “Loans and advances to customers” for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

(18) Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with maturities of three months or less from the date of purchase under balances with central banks, due from banks and other financial institutions.

(19) Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

(20) Income taxes

Income tax represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income taxes (Continued)

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(21) Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

(22) Dividend distribution

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(22) Dividend distribution *(Continued)*

(b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

(c) Distribution on perpetual bonds

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

(23) Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as credit related commitments and financial guarantees and are disclosed as contingent liabilities and commitments.

(24) Staff costs and benefits

(a) Staff costs

Staff costs include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds, labor union fees as well as staff education expenses and housing allowance. During the reporting period in which employees have rendered services, the Group recognises the staff costs payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

The Group participates in the employee social security systems established by the government, including medical insurance, housing funds and other social securities, in accordance with relevant requirements. Related expenses are recognised in profit or loss when incurred.

(b) Post-employment benefits

The Group divides post-employment benefit plans into defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, post-employment benefits for the employees of the Group mainly include payment to basic retirement insurance, unemployment insurance, annuity plan and supplementary retirement benefits.

Basic retirement insurance

Employees of the Group have joined basic retirement insurance arranged by local ministry of labour and social security. The Group makes monthly contributions to the retirement insurance according to the base and proportion set by local government. When employees retire, local ministry of labour and social security is responsible for the payment of the basic pension to the retired employees. Such basic retirement insurance is a defined contribution plan. During the reporting period in which employees have rendered services, the Group recognises the amounts payable as a liability with a corresponding charge to profit or loss or the cost of assets where appropriate.

Annuity plan

Employees of domestic branches who retire at or after 1 January 2009 participate in the annuity plan established by the Group. The Group contributes a certain portion of employees' gross salaries to the annuity plan. Such annuity plan is a defined benefit plan. Related expenses are recognised in profit or loss when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(24) Staff costs and benefits *(Continued)*

(b) Post-employment benefits *(Continued)*

Supplementary retirement benefits

The Group pays supplementary retirement benefits to employees of domestic branches who retired at or before 31 December 2008. Such supplementary retirement benefits are defined benefit plans. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains or losses in other comprehensive income. Such actuarial gains or losses will not be reversed to profit or loss subsequently. Past service costs are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability and recognised in profit or loss when incurred.

(c) Early retirement expenses

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

(25) Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i. e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

At the reporting date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (i) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (ii) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (iii) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the spot exchange rates at the date of the transactions or a rate that approximates the spot exchange rates of the date of the transaction. Exchange differences arising, if any, are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(25) Foreign currency translation *(Continued)*

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates and joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

(26) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(27) Insurance contracts

(a) Insurance contracts classification and division

Insurance contracts are those contracts under which the Group has undertaken significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be distinguished and separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

(b) Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

- (i) The insurance contract is issued, and related insurance risk is undertaken by the Group;
- (ii) The related economic benefits are likely to flow to the Group; and
- (iii) Related income can be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(27) Insurance contracts (Continued)

(b) Insurance income recognition (Continued)

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

(28) Credit related commitments and financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For credit related commitments and financial guarantees, the loss allowance is recognised as an provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(29) Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(30) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors and the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (i) that component can earn revenues and incur expenses from ordinary activities; (ii) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (iii) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Head Office, Yangtze River Delta, Central China, Bohai Rim Economic Zone, Pearl River Delta, Western China, Northeastern China and Overseas.

(31) Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) Measurement of ECL

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, debt investment measured at fair value through other comprehensive income and credit related commitments and financial guarantees, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e. g. the likelihood of customers defaulting and the resulting losses). Note 3(1) specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for loans and advances to customers and financial investments at amortised cost for which DCF model was used to calculate ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 3(1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(31) Significant accounting estimates and judgements *(Continued)*

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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

(c) Income taxes

The Group is subject to income tax various jurisdictions; principally, in Mainland China and Hong Kong Special Administrative Region of the PRC. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of tax legislation and items of uncertainty taking into account existing tax legislation and past practice. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

(d) Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitisation is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group derecognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(31) Significant accounting estimates and judgements *(Continued)*

(f) Impairment of non-financial assets

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

Fair value is usually based on market prices, and the management obtains it from professional appraisal agencies. Disposal costs include legal fees and taxes related to the asset disposal. When estimating the present value of the expected future cash flow of fixed assets leased out by the subsidiary, the management takes the rental amount agreed in the lease contract and the value of the assets at the end of the lease term as the basis for estimating future cash flows, and determines an appropriate discount rate for the calculation of the present value of future cash flows in various scenarios.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's operating activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department/Internal Control and Crime Prevention Office at Head Office serves as the chief department for the Group's risk management and leads the overall risk management duties, of which the crucial ones would be further designated to specific leading departments. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

(1) Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Group is exposed. Therefore, the Group manages and controls the overall credit risk, integrated into the comprehensive risk management, in a prudent manner, and reports regularly to the Senior Management and the Board of Directors of the Group.

(a) Credit risk management

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(a) Credit risk management *(Continued)*

(i) Loans and advances to customers

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management and centers on customer credit risk management to carry out post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration; (5) disposal, etc.

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating business management system and combining relevant system function control, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various monitoring and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, reduces risk exposure to high risk customers through customer classification and enters into the intervention process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

(ii) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(a) **Credit risk management** *(Continued)*

(ii) **Treasury business** *(Continued)*

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and WMPs set up by banking financial institutions. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank WMPs, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i. e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i. e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and other financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties regularly. Limits are placed on different counterparties.

(iii) **Credit-related commitments**

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant margin deposits in order to reduce credit risk exposures.

(iv) **Credit risk quality**

In accordance with the Guideline for Loan Credit Risk Classification issued by the CBIRC, the Group measures and manages the quality of corporate and personal loans and advances by classifying loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(b) Expected credit loss (“ECL”)

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income (“FVOCI”). The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition to recognise ECL.

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

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

Stage classification

The Group divides them into 3 stages. Stage 1 is “financial assets without significant increase in credit risk since initial recognition”, at which the Group only needs to measure ECL in the next 12 months. Stage 2 is “financial assets with significant increase in credit risk” and stage 3 is “credit-impaired financial assets”, at both of which the Group needs to measure lifetime ECL. Definition of above stages see Notes 2(5)(a).

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit risk mitigation.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(b) Expected credit loss (“ECL”) *(Continued)*

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, corporates and retailers. The Group has established a macro-economic forecast model driven by the year-on-year Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three scenarios, namely “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario”. The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

As at 31 December 2022, The Group forecasts the 2023 year-on-year growth rate of GDP to be 5.2% in the Basic Scenario. The Group fully considered the macroeconomic forecast for 2023 when evaluating the forecast information used in the impairment models.

The Group determined the weightings of “Basic Scenario”, “Optimistic Scenario” and “Pessimistic Scenario” with macro data analysis and expert’s judgement and maintain relative stability.

Where impairment models could not be established due to lack of data support, the Group endeavoured to select appropriate methods in order to make prospective estimation. The Group made prospective adjustments to impairment calculation of overseas branches regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate was set by referring to that of similar asset portfolios with impairment models available. When the management believed that the forecast model could not fully reflect recent credit or economic events, management overlay adjustments could be used to supplement ECL allowances.

Grouping of instruments with similar credit risk characteristics

To calculate the relevance between ECL allowance and macro-economic indicators, a grouping of exposure is performed for assets with similar credit risk characteristics. In performing this grouping, the Group has obtained sufficient information to ensure the data reliability for statistical purposes. Where sufficient information is not available internally, the Group has leveraged supplementary data from both internal and external environments to help establish impairment model. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types.

Sensitivity analysis

The Group measures sensitivity analysis on the macro-economic indicators used in prospective estimation. As at 31 December 2022, if the optimistic/pessimistic scenario weighting increases or decreases by 10%, and the prediction of economic indicators changed correspondingly, the change of the impairment allowance does not exceed 5%.

(c) Maximum exposure to credit risk

(i) financial instruments included in impairment assessment

The Group classified the credit risk levels of financial assets measured by ECL into “Low” (credit risk in good condition), “Medium” (increased credit risk), and “High” (credit risk in severe condition), based on the quality of assets. The credit risk level is used for the purpose of the group’s internal credit risk management. “Low” refers to assets with good credit quality. There is no sufficient reason to doubt that the assets are not expected to fulfill its contractual obligation to repay or if there is any other behaviors breaching the debt contracts that would significantly impact the repayment of debt according to contract terms. “Medium” refers to assets facing obvious negative factors impacting its repayment capacity, but not yet have non-repayment behaviors. “High” refers to non-repayment according to the debt contract terms, or other behaviors breaching the debt contracts or having significant impact on the repayment of debt according to contract terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

(c) Maximum exposure to credit risk (Continued)

(i) financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of major financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

	As at 31 December 2022						Allowance for Impairment losses	Group Carrying amount
	Low risk	Medium risk	High risk	Domestic branches	Overseas and subsidiaries	Group total		
On-balance sheet item								
Cash and balances with central banks (Stage 1)	766,436	-	-	766,436	25,827	792,263	-	792,263
Loans and advances to customers- Corporate (Excluding accrued interest)								
at amortised cost	3,945,613	79,199	60,506	4,085,318	521,838	4,607,156	(134,409)	4,472,747
Stage 1	3,866,961	-	-	3,866,961	485,011	4,351,972	(51,219)	4,300,753
Stage 2	78,652	79,199	-	157,851	18,873	176,724	(35,112)	141,612
Stage 3	-	-	60,506	60,506	17,954	78,460	(48,078)	30,382
at FVOCI	322,364	2	36	322,402	63	322,465	-	322,465
Stage 1	315,497	-	-	315,497	63	315,560	-	315,560
Stage 2	6,867	2	-	6,869	-	6,869	-	6,869
Stage 3	-	-	36	36	-	36	-	36
Loans and advances to customers-Personal (Excluding accrued interest)								
at amortised cost	2,261,444	20,181	19,743	2,301,368	65,139	2,366,507	(41,769)	2,324,738
Stage 1	2,247,634	-	-	2,247,634	63,522	2,311,156	(17,576)	2,293,580
Stage 2	13,810	20,181	-	33,991	1,357	35,348	(10,273)	25,075
Stage 3	-	-	19,743	19,743	260	20,003	(13,920)	6,083
Due from and placements with banks and other financial institutions	366,086	-	-	366,086	325,369	691,455	(1,034)	690,421
Stage 1	366,086	-	-	366,086	321,673	687,759	(1,032)	686,727
Stage 2	-	-	-	-	3,696	3,696	(2)	3,694
Financial investments at amortised cost	2,318,706	1,341	1,125	2,321,172	132,367	2,453,539	(2,764)	2,450,775
Stage 1	2,318,706	-	-	2,318,706	129,095	2,447,801	(1,547)	2,446,254
Stage 2	-	1,341	-	1,341	2,641	3,982	(260)	3,722
Stage 3	-	-	1,125	1,125	631	1,756	(957)	799
Debt investments at FVOCI	380,020	-	-	380,020	403,732	783,752	-	783,752
Stage 1	380,020	-	-	380,020	400,510	780,530	-	780,530
Stage 2	-	-	-	-	2,794	2,794	-	2,794
Stage 3	-	-	-	-	428	428	-	428
On-balance sheet total	10,360,669	100,723	81,410	10,542,802	1,474,335	12,017,137	(179,976)	11,837,161

	As at 31 December 2022				Group Carrying amount
	Domestic branches	Overseas and subsidiaries	Group total	Allowance for Impairment losses	
Credit related commitments and financial guarantees					
Stage 1	2,153,567	54,654	2,208,221	(10,226)	2,197,995
Stage 2	11,469	765	12,234	(1,065)	11,169
Off-balance sheet total	2,165,036	55,419	2,220,455	(11,291)	2,209,164

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

(c) Maximum exposure to credit risk (Continued)

(i) financial instruments included in impairment assessment (Continued)

As at 31 December 2021								
	Low risk	Medium risk	High risk	Domestic branches	Overseas and subsidiaries	Group total	Allowance for Impairment losses	Group Carrying amount
On-balance sheet item								
Cash and balances with central banks								
(Stage 1)	667,440	–	–	667,440	53,990	721,430	–	721,430
Loans and advances to customers-								
Corporate (Excluding accrued interest)								
at amortised cost	3,449,747	66,771	69,992	3,586,510	504,061	4,090,571	(121,252)	3,969,319
Stage 1	3,364,303	–	–	3,364,303	479,277	3,843,580	(37,786)	3,805,794
Stage 2	85,444	66,771	–	152,215	17,158	169,373	(34,382)	134,991
Stage 3	–	–	69,992	69,992	7,626	77,618	(49,084)	28,534
at FVOCI	182,148	34	10	182,192	2,514	184,706	–	184,706
Stage 1	178,511	–	–	178,511	2,514	181,025	–	181,025
Stage 2	3,637	34	–	3,671	–	3,671	–	3,671
Stage 3	–	–	10	10	–	10	–	10
Loans and advances to customers-Personal (Excluding accrued interest)								
at amortised cost	2,198,737	14,554	18,932	2,232,223	52,873	2,285,096	(38,837)	2,246,259
Stage 1	2,198,737	3,375	–	2,202,112	52,329	2,254,441	(19,617)	2,234,824
Stage 2	–	11,179	–	11,179	308	11,487	(4,510)	6,977
Stage 3	–	–	18,932	18,932	236	19,168	(14,710)	4,458
Due from and placements with banks and other financial institutions								
Stage 1	411,963	–	–	411,963	223,051	635,014	(2,306)	632,708
Stage 2	411,963	–	–	411,963	219,552	631,515	(2,304)	629,211
Stage 3	–	–	–	–	3,499	3,499	(2)	3,497
Financial investments at amortised cost								
Stage 1	2,124,848	–	1,088	2,125,936	80,059	2,205,995	(2,958)	2,203,037
Stage 2	2,121,126	–	–	2,121,126	77,343	2,198,469	(1,695)	2,196,774
Stage 3	3,722	–	–	3,722	515	4,237	(371)	3,866
Stage 3	–	–	1,088	1,088	2,201	3,289	(892)	2,397
Debt investments at FVOCI								
Stage 1	250,966	–	–	250,966	414,501	665,467	–	665,467
Stage 2	250,966	–	–	250,966	410,700	661,666	–	661,666
Stage 3	–	–	–	–	3,772	3,772	–	3,772
Stage 3	–	–	–	–	29	29	–	29
On-balance sheet total	9,285,849	81,359	90,022	9,457,230	1,331,049	10,788,279	(165,353)	10,622,926

As at 31 December 2021					
	Domestic branches	Overseas and subsidiaries	Group total	Allowance for Impairment losses	Group Carrying amount
Credit related commitments and financial guarantees					
Stage 1	1,814,432	45,815	1,860,247	(8,736)	1,851,511
Stage 2	6,916	732	7,648	(506)	7,142
Off-balance sheet total	1,821,348	46,547	1,867,895	(9,242)	1,858,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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3 FINANCIAL RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

(c) **Maximum exposure to credit risk** (Continued)

(ii) *Financial instruments not included in impairment assessment*

The analysis of credit risk exposure of those financial assets measured at FVTPL which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	As at 31 December 2022	As at 31 December 2021
Financial assets at fair value through profit or loss		
Derivative financial instruments	69,687	39,220
Loans and advances to customers	27	27
Debt securities	252,953	247,934
Fund investments and other asset management products	359,200	305,176
Precious metal contracts	24,557	21,924
Total	706,424	614,281

(iii) *Collaterals and other credit enhancements*

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparty, groups, industry segments and geographical regions.

The Group optimises its credit risk structure by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored by the Group on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. The Group monitors the actual credit risk exposure and credit limits on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet principal and interest repayment obligations. The Group will change their lending limits when appropriate based on the analysis.

Some other specific control and risk mitigation measures are outlined below.

Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most common practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

(c) Maximum exposure to credit risk (Continued)

(iii) Collaterals and other credit enhancements (Continued)

Collaterals (Continued)

The value of collaterals at the time of loan origination is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and personal loans are as follows:

Collaterals	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and personal customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the personal loans and advances.

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

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and the PBOC bills are generally unsecured, with the exception of asset-backed securities.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	As at 31 December 2022			Exposure covered by collateral
	Gross exposure	Impairment allowance	Carrying amount	
Credit impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	98,463	(61,998)	36,465	50,145
Loans and advances to customers at fair value through other comprehensive income	36	–	36	36
Financial investments				
Financial investments at amortised cost	1,756	(957)	799	876
Debt investments at fair value through other comprehensive income	428	–	428	–

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For the year ended 31 December 2022
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3 FINANCIAL RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

(c) Maximum exposure to credit risk (Continued)

(iii) Collaterals and other credit enhancements (Continued)

Collaterals (Continued)

		As at 31 December 2021		
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit impaired assets				
Loans and advances to customers				
Loans and advances to customers at amortised cost	96,786	(63,794)	32,992	46,184
Loans and advances to customers at fair value through other comprehensive income	10	–	10	10
Financial investments				
Financial investments at amortised cost	3,289	(892)	2,397	4,876
Debt investments at fair value through other comprehensive income	29	–	29	–

Master netting arrangements

The Group may enter into master netting arrangements or similar agreements with the counterparties to reduce credit risk furtherly. The related credit risk of contracts will reduce when settled on a net basis. Each party to the master netting arrangements or similar agreements will settle all such amounts on a net basis in the event of default of the other party.

(d) Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit risk exposures are regularly monitored and controlled by the management.

Credit risk-weighted amounts

	As at 31 December 2022	As at 31 December 2021
Counterparty credit risk-weighted amounts	39,298	53,789

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity of each type of contract. The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

(e) Foreclosed assets

	As at 31 December 2022	As at 31 December 2021
Buildings	1,400	1,424
Land use rights	8	8
Others	4	5
Gross	1,412	1,437
Less: Impairment allowances	(412)	(407)
Net	1,000	1,030

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

(f) Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Concentration risk for geographical sectors

	As at 31 December 2022			Total
	Mainland China	Hong Kong	Others	
Financial assets				
Balances with central banks	768,985	1,874	21,404	792,263
Due from and placements with banks and other financial institutions	423,549	109,971	156,901	690,421
Derivative financial assets	23,345	38,787	7,555	69,687
Loans and advances to customers	6,765,667	232,934	138,076	7,136,677
Financial investments at FVTPL	620,463	11,249	4,998	636,710
Debt investments at FVOCI	400,661	225,274	157,817	783,752
Financial investments at amortised cost	2,369,077	48,398	33,300	2,450,775
Other financial assets	24,935	5,456	5,930	36,321
Total	11,396,682	673,943	525,981	12,596,606
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,118,222	12,737	9,499	1,140,458
Loan commitments and other credit related commitments	1,049,643	18,257	12,097	1,079,997
Total	2,167,865	30,994	21,596	2,220,455

	As at 31 December 2021			Total
	Mainland China	Hong Kong	Others	
Financial assets				
Balances with central banks	670,925	28,814	21,387	721,126
Due from and placements with banks and other financial institutions	463,774	68,572	100,362	632,708
Derivative financial assets	26,989	9,284	2,947	39,220
Loans and advances to customers	6,065,792	206,433	139,976	6,412,201
Financial investments at FVTPL	511,854	6,511	56,669	575,034
Debt investments at FVOCI	394,613	58,562	212,292	665,467
Financial investments at amortised cost	2,161,046	6,621	35,370	2,203,037
Other financial assets	52,737	11,201	3,567	67,505
Total	10,347,730	395,998	572,570	11,316,298
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	879,413	6,458	12,073	897,944
Loan commitments and other credit related commitments	943,804	23,598	2,549	969,951
Total	1,823,217	30,056	14,622	1,867,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(1) Credit risk (Continued)

(f) Concentration risk analysis for financial assets with credit risk exposure (Continued)

Geographical risk concentration for loans and advances to customers

	As at 31 December 2022		As at 31 December 2021	
		%		%
Yangtze River Delta	2,000,365	27.42	1,780,637	27.14
Central China	1,196,075	16.39	1,092,985	16.66
Bohai Rim Economic Zone	1,137,282	15.59	965,957	14.72
Pearl River Delta	978,749	13.41	857,521	13.07
Western China	875,476	12.00	774,445	11.80
Head Office	481,741	6.60	492,884	7.52
Overseas	376,277	5.16	348,948	5.32
North Eastern China	250,190	3.43	247,023	3.77
Gross amount of loans and advances to customers	7,296,155	100.00	6,560,400	100.00

Note: The definitions of geographical operating segments are set out in Note 48.

Industry analysis for loans and advances to customers

	As at 31 December 2022		As at 31 December 2021	
		%		%
Corporate loans				
Transportation, storage and postal service	823,156	11.28	763,419	11.64
Manufacturing	836,532	11.46	732,565	11.16
– Machinery	163,532	2.24	102,338	1.56
– Electronics	162,110	2.22	168,825	2.57
– Petroleum and chemical	137,316	1.88	126,354	1.93
– Steel	47,373	0.65	40,781	0.62
– Textile and clothing	29,275	0.40	26,817	0.41
– Other manufacturing	296,926	4.07	267,450	4.07
Leasing and commercial services	729,818	10.00	650,742	9.92
Real estate	519,857	7.13	419,820	6.40
Water conservancy, environmental and other public services	429,222	5.88	382,201	5.83
Production and supply of power, heat, gas and water	342,617	4.70	268,772	4.10
Wholesale and retail	254,447	3.49	215,554	3.29
Construction	176,696	2.42	157,729	2.40
Finance	148,747	2.04	132,633	2.02
Education, science, culture and public health	128,762	1.76	122,196	1.86
Mining	118,246	1.62	120,216	1.83
Information transmission, software and IT services	68,246	0.94	60,718	0.93
Accommodation and catering	40,168	0.55	34,133	0.52
Others	94,839	1.31	77,884	1.19
Discounted bills	218,295	2.99	136,722	2.08
Total corporate loans	4,929,648	67.57	4,275,304	65.17
Personal loans				
Residential mortgages	1,512,648	20.73	1,489,517	22.70
Credit cards	477,746	6.55	492,580	7.51
Others	376,113	5.15	302,999	4.62
Total personal loans	2,366,507	32.43	2,285,096	34.83
Gross amount of loans and advances before impairment allowances	7,296,155	100.00	6,560,400	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(1) Credit risk *(Continued)*

(f) Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Industry analysis for loans and advances to customers (Continued)

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

(2) Market risk

Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, equity product price risk and commodity price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange rate risk.

The Group established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities, the division of labor and the reporting route of the Board of Directors, Board of Supervisors, Senior Management, Special Committees and other relevant departments to ensure the compliance and effectiveness of market risk management.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging against risks of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income simulation and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

(a) VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(a) VaR (Continued)

A summary of VaR by risk type including foreign exchange rate risk and interest rate risk of the trading book of the Group's portfolios is as follows:

Items	Year ended 31 December 2022			
	31 December 2022	Average	Maximum	Minimum
VaR	631	565	771	298
Including: Interest rate risk	558	570	790	282
Foreign exchange risk	107	90	154	43

Items	Year ended 31 December 2021			
	31 December 2021	Average	Maximum	Minimum
VaR	261	381	746	256
Including: Interest rate risk	269	306	453	197
Foreign exchange risk	133	209	743	100

(b) Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 31 December 2022	As at 31 December 2021
+100 basis points parallel shift in yield curves	10,860	10,562
-100 basis points parallel shift in yield curves	(10,860)	(10,562)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 31 December 2022	As at 31 December 2021
+100 basis points parallel shift in yield curves	(17,667)	(12,995)
-100 basis points parallel shift in yield curves	17,861	14,012

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(b) Sensitivity analysis (Continued)

Interest rate sensitivity analysis (Continued)

The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 31 December 2022	As at 31 December 2021
5% appreciation of RMB	(327)	(1,803)
5% depreciation of RMB	327	1,803

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2022	As at 31 December 2021
5% appreciation of RMB	(1,138)	(1,403)
5% depreciation of RMB	1,138	1,403

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(c) Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the PBOC. On 20 July 2013, the PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. The PBOC cancelled the upper limit of the benchmark interest rates for deposits on 24 October 2015 and established RMB Loan Prime Rate (LPR) as a new pricing benchmark of new loans in 2019. The Group conducts most of its domestic deposit businesses at benchmark interest rates for deposits and conducts most of its domestic loan businesses at LPR published by the PBOC.

The Group pays high attention to the transition of interest rate benchmark and has established a task force to speed up the launch and implementation of interest rate benchmark reform project. At the current stage, the progress of this reform is basically on schedule. The first batch exited the market on 1 January 2022 have already complete transition successfully, and the remaining transition of USD libor is ready on schedule, and the impact of the methods of benchmark transition on interest rate risk is generally under control, which has a relatively limited substantial impact on the operations.

The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

As at 31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	787,224	-	-	-	-	18,878	806,102
Due from and placements with banks and other financial institutions	335,968	104,925	205,097	38,075	1,592	4,764	690,421
Derivative financial assets	-	-	-	-	-	69,687	69,687
Loans and advances to customers	1,811,683	958,323	3,475,560	342,513	205,882	342,716	7,136,677
Financial investments at FVTPL	12,769	24,727	143,074	50,189	65,437	409,161	705,357
Financial investments at amortised cost	27,790	52,466	510,213	790,849	1,040,333	29,124	2,450,775
Financial investments at FVOCI	47,273	110,274	240,595	195,614	181,231	24,088	799,075
Other assets	495	-	-	-	-	333,830	334,325
Total assets	3,023,202	1,250,715	4,574,539	1,417,240	1,494,475	1,232,248	12,992,419
Liabilities							
Due to and placements from banks and other financial institutions	(1,221,722)	(256,095)	(518,409)	(24,137)	(3,433)	(11,098)	(2,034,894)
Financial liabilities at FVTPL	(3,009)	(4,475)	(4,068)	(21,484)	-	(14,913)	(47,949)
Derivative financial liabilities	-	-	-	-	-	(46,804)	(46,804)
Due to customers	(3,896,914)	(624,232)	(1,444,736)	(1,863,246)	(19)	(119,925)	(7,949,072)
Other liabilities	(121,671)	(255,586)	(842,192)	(228,889)	(265,306)	(164,316)	(1,877,960)
Total liabilities	(5,243,316)	(1,140,388)	(2,809,405)	(2,137,756)	(268,758)	(357,056)	(11,956,679)
Total interest sensitivity gap	(2,220,114)	110,327	1,765,134	(720,516)	1,225,717	875,192	1,035,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(c) Interest rate risk (Continued)

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	714,689	–	–	–	–	20,039	734,728
Due from and placements with banks and other financial institutions	274,884	105,476	212,107	28,423	7,950	3,868	632,708
Derivative financial assets	–	–	–	–	–	39,220	39,220
Loans and advances to customers	1,752,819	740,873	2,904,431	442,783	259,155	312,140	6,412,201
Financial investments at FVTPL	32,659	52,942	90,657	35,428	45,306	381,491	638,483
Financial investments at amortised cost	18,908	35,803	262,899	1,009,017	846,114	30,296	2,203,037
Financial investments at FVOCI	49,415	109,842	91,364	227,236	181,312	22,560	681,729
Other assets	458	–	–	–	–	323,193	323,651
Total assets	2,843,832	1,044,936	3,561,458	1,742,887	1,339,837	1,132,807	11,665,757
Liabilities							
Due to and placements from banks and other financial institutions	(1,167,169)	(261,570)	(486,143)	(20,848)	(2,889)	(9,149)	(1,947,768)
Financial liabilities at FVTPL	(24,954)	(1,995)	(10,196)	(1,266)	–	(11,637)	(50,048)
Derivative financial liabilities	–	–	–	–	–	(36,074)	(36,074)
Due to customers	(3,787,796)	(534,784)	(1,020,946)	(1,607,059)	(39)	(89,153)	(7,039,777)
Other liabilities	(125,188)	(183,613)	(722,988)	(224,408)	(216,154)	(142,503)	(1,614,854)
Total liabilities	(5,105,107)	(981,962)	(2,240,273)	(1,853,581)	(219,082)	(288,516)	(10,688,521)
Total interest sensitivity gap	(2,261,275)	62,974	1,321,185	(110,694)	1,120,755	844,291	977,236

(d) Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch between foreign currency assets and liabilities and between off balance sheet currency exposure. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(d) Foreign exchange risk (Continued)

As at 31 December 2022, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.9646 (31 December 2021: RMB6.3757) and 1 HK dollar to RMB0.8933 (31 December 2021: RMB0.8176), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

As at 31 December 2022	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets					
Cash and balances with central banks	761,360	24,466	3,029	17,247	806,102
Due from and placements with banks and other financial institutions	355,917	284,404	30,206	19,894	690,421
Derivative financial assets	34,610	27,496	4,928	2,653	69,687
Loans and advances to customers	6,585,252	255,653	205,170	90,602	7,136,677
Financial investments at FVTPL	605,884	62,679	4,513	32,281	705,357
Financial investments at amortised cost	2,316,741	92,370	20,047	21,617	2,450,775
Financial investments at FVOCI	421,630	304,276	15,846	57,323	799,075
Other assets	154,352	166,603	6,110	7,260	334,325
Total assets	11,235,746	1,217,947	289,849	248,877	12,992,419
Liabilities					
Due to and placements from banks and other financial institutions	(1,637,331)	(324,092)	(17,291)	(56,180)	(2,034,894)
Financial liabilities at FVTPL	(26,181)	(9,147)	(1,119)	(11,502)	(47,949)
Derivative financial liabilities	(32,994)	(7,062)	(5,292)	(1,456)	(46,804)
Due to customers	(7,191,205)	(431,120)	(272,029)	(54,718)	(7,949,072)
Other liabilities	(1,666,144)	(178,479)	(10,284)	(23,053)	(1,877,960)
Total liabilities	(10,553,855)	(949,900)	(306,015)	(146,909)	(11,956,679)
Net position	681,891	268,047	(16,166)	101,968	1,035,740
Credit related commitments and financial guarantees	2,043,649	133,379	14,386	29,041	2,220,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(2) Market risk (Continued)

(d) Foreign exchange risk (Continued)

As at 31 December 2021	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets					
Cash and balances with central banks	659,377	32,034	30,113	13,204	734,728
Due from and placements with banks and other financial institutions	316,755	276,807	19,944	19,202	632,708
Derivative financial assets	32,268	5,982	482	488	39,220
Loans and advances to customers	5,882,592	294,495	164,923	70,191	6,412,201
Financial investments at FVTPL	539,513	79,414	727	18,829	638,483
Financial investments at amortised cost	2,169,831	29,760	812	2,634	2,203,037
Financial investments at FVOCI	309,518	283,663	37,699	50,849	681,729
Other assets	173,258	137,483	7,292	5,618	323,651
Total assets	10,083,112	1,139,638	261,992	181,015	11,665,757
Liabilities					
Due to and placements from banks and other financial institutions	(1,496,464)	(389,507)	(22,857)	(38,940)	(1,947,768)
Financial liabilities at FVTPL	(34,217)	(3,196)	(41)	(12,594)	(50,048)
Derivative financial liabilities	(27,910)	(7,021)	(614)	(529)	(36,074)
Deposits from customers	(6,341,729)	(387,816)	(262,148)	(48,084)	(7,039,777)
Other liabilities	(1,392,157)	(176,573)	(20,418)	(25,706)	(1,614,854)
Total liabilities	(9,292,477)	(964,113)	(306,078)	(125,853)	(10,688,521)
Net position	790,635	175,525	(44,086)	55,162	977,236
Credit related commitments and financial guarantees	1,683,043	137,706	19,797	27,349	1,867,895

(e) Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

(3) Liquidity risk

Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(a) Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.;
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

(b) Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

As at 31 December 2022	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	-	688,101	117,662	-	339	-	-	-	806,102
Due from and placements with banks and other financial institutions	-	-	135,461	167,626	94,515	217,059	78,603	15,386	708,650
Loans and advances to customers	52,307	-	-	541,275	375,385	1,916,512	2,323,601	3,995,748	9,204,828
Financial investments at FVTPL	276	54,776	282,208	10,734	45,012	189,021	73,448	76,065	731,540
Financial investments at amortised cost	799	-	-	28,653	56,763	652,487	931,575	1,223,543	2,893,820
Financial investments at FVOCI	477	15,323	-	11,022	41,574	340,732	271,680	215,671	896,479
Other financial assets	2,054	-	41,760	-	-	-	-	-	43,814
Assets held for managing liquidity risk (contractual maturity dates)	55,913	758,200	577,091	759,310	613,588	3,315,811	3,678,907	5,526,413	15,285,233
Liabilities									
Due to and placements from banks and other financial institutions	-	-	(812,999)	(391,858)	(246,329)	(538,680)	(46,374)	(13,610)	(2,049,850)
Financial liabilities at FVTPL	-	-	(10,901)	(3,928)	(6,209)	(5,338)	(23,437)	-	(49,813)
Due to customers	-	-	(3,119,909)	(869,509)	(629,734)	(1,460,728)	(1,923,273)	(20)	(8,003,173)
Certificates of deposit issued	-	-	-	(97,197)	(241,229)	(753,631)	(14,860)	(234)	(1,107,151)
Debt securities issued	-	-	-	(16,125)	(10,346)	(123,394)	(234,952)	(227,919)	(612,736)
Other financial liabilities	-	-	(98,112)	(2,461)	(701)	(2,057)	(5,168)	(21,217)	(129,716)
Total liabilities (contractual maturity dates)	-	-	(4,041,921)	(1,381,078)	(1,134,548)	(2,883,828)	(2,248,064)	(263,000)	(11,952,439)
Net position	55,913	758,200	(3,464,830)	(621,768)	(520,960)	431,983	1,430,843	5,263,413	3,332,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(b) Non-derivative financial instruments cash flows (Continued)

As at 31 December 2021	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	–	630,776	103,648	–	304	–	–	–	734,728
Due from and placements with banks and other financial institutions	–	–	88,993	171,571	89,939	229,521	47,273	11,908	639,205
Loans and advances to customers	50,266	–	–	526,302	331,408	1,600,584	1,962,475	4,708,281	9,179,316
Financial investments at FVTPL	–	376,060	2,697	25,865	47,830	96,235	53,221	56,240	658,148
Financial investments at amortised cost	2,397	–	–	18,705	41,124	328,799	1,216,983	983,448	2,591,456
Financial investments at FVOCI	29	16,262	–	17,767	57,326	129,941	327,239	205,699	754,263
Other financial assets	4,198	–	63,307	–	–	–	–	–	67,505
Assets held for managing liquidity risk (contractual maturity dates)									
	56,890	1,023,098	258,645	760,210	567,931	2,385,080	3,607,191	5,965,576	14,624,621
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(816,423)	(339,984)	(249,157)	(500,344)	(47,994)	(8,049)	(1,961,951)
Financial liabilities at FVTPL	–	–	(11,631)	(24,958)	(1,999)	(10,248)	(1,287)	–	(50,123)
Deposits from customers	–	–	(2,917,674)	(896,297)	(548,993)	(1,062,886)	(1,719,819)	(40)	(7,145,709)
Certificates of deposit issued	–	–	–	(102,215)	(159,431)	(627,356)	(15,167)	(29)	(904,198)
Debt securities issued	–	–	–	(8,495)	(12,810)	(125,943)	(243,207)	(177,668)	(568,123)
Other financial liabilities	–	–	(47,545)	(157)	(719)	(1,547)	(27,187)	(64,710)	(141,865)
Total liabilities (contractual maturity dates)	–	–	(3,793,273)	(1,372,106)	(973,109)	(2,328,324)	(2,054,661)	(250,496)	(10,771,969)
Net position	56,890	1,023,098	(3,534,628)	(611,896)	(405,178)	56,756	1,552,530	5,715,080	3,852,652

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrawn immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

(c) Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(i) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(c) Derivative financial instruments cash flows (Continued)

(i) Derivative settled on a net basis (Continued)

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

As at 31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	42	2	6	1	–	51
– Interest rate contracts and others	1,078	2,057	7,949	22,168	4,691	37,943
Total	1,120	2,059	7,955	22,169	4,691	37,994
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(111)	(4)	(57)	–	–	(172)
– Interest rate contracts and others	(525)	(1,136)	(3,976)	(7,073)	(740)	(13,450)
Total	(636)	(1,140)	(4,033)	(7,073)	(740)	(13,622)

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	10	1	23	–	–	34
– Interest rate contracts and others	416	823	2,880	7,044	647	11,810
Total	426	824	2,903	7,044	647	11,844
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	(34)	(27)	–	–	(61)
– Interest rate contracts and others	(408)	(900)	(3,096)	(6,989)	(381)	(11,774)
Total	(408)	(934)	(3,123)	(6,989)	(381)	(11,835)

(ii) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include foreign exchange and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

As at 31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments settled on						
– Cash inflow	923,004	899,228	1,213,145	141,467	11,248	3,188,092
– Cash outflow	(924,062)	(898,343)	(1,211,701)	(141,797)	(11,106)	(3,187,009)
Total	(1,058)	885	1,444	(330)	142	1,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)**(3) Liquidity risk** (Continued)**(c) Derivative financial instruments cash flows** (Continued)**(ii) Derivative settled on a gross basis** (Continued)

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments settled on						
– Cash inflow	1,095,392	879,647	1,404,576	111,697	14,918	3,506,230
– Cash outflow	(1,094,721)	(879,191)	(1,402,398)	(109,071)	(15,480)	(3,500,861)
Total	671	456	2,178	2,626	(562)	5,369

(d) Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

As at 31 December 2022	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	-	688,101	117,662	-	339	-	-	-	806,102
Due from and placements with banks and other financial institutions	-	-	135,359	167,125	93,769	212,200	70,862	11,106	690,421
Derivative financial assets	-	-	-	7,404	11,392	14,522	21,553	14,816	69,687
Loans and advances to customers	31,901	-	-	523,724	340,210	1,763,309	1,822,050	2,655,483	7,136,677
Financial investments at FVTPL	276	54,776	282,208	10,301	43,907	178,534	66,400	68,955	705,357
Financial investments at amortised cost	799	-	-	25,067	46,691	523,131	804,463	1,050,624	2,450,775
Financial investments at FVOCI	477	15,323	-	9,069	38,363	306,910	243,875	185,058	799,075
Other assets	2,054	223,001	70,499	-	-	1,167	37,604	-	334,325
Total assets	35,507	981,201	605,728	742,690	574,671	2,999,773	3,066,807	3,986,042	12,992,419
Liabilities									
Due to and placements from banks and other financial institutions	-	-	(812,938)	(391,535)	(245,168)	(530,014)	(44,293)	(10,946)	(2,034,894)
Financial liabilities at FVTPL	-	-	(10,866)	(3,923)	(6,196)	(5,257)	(21,707)	-	(47,949)
Derivative financial liabilities	-	-	-	(8,133)	(10,589)	(13,964)	(10,858)	(3,260)	(46,804)
Due to customers	-	-	(3,118,072)	(869,185)	(628,192)	(1,452,998)	(1,880,606)	(19)	(7,949,072)
Other liabilities	-	-	(110,657)	(131,455)	(266,282)	(865,400)	(233,613)	(270,553)	(1,877,960)
Total liabilities	-	-	(4,052,533)	(1,404,231)	(1,156,427)	(2,867,633)	(2,191,077)	(284,778)	(11,956,679)
Net amount on liquidity gap	35,507	981,201	(3,446,805)	(661,541)	(581,756)	132,140	875,730	3,701,264	1,035,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(d) Maturity analysis (Continued)

As at 31 December 2021	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets									
Cash and balances with central banks	–	630,776	103,648	–	304	–	–	–	734,728
Due from and placements with banks and other financial institutions	–	–	88,993	171,428	89,547	225,329	45,687	11,724	632,708
Derivative financial assets	–	–	–	6,099	7,172	13,032	11,052	1,865	39,220
Loans and advances to customers	34,913	–	–	504,850	289,612	1,435,771	1,309,429	2,837,626	6,412,201
Financial investments at FVTPL	–	376,060	2,697	25,684	47,293	92,313	43,656	50,780	638,483
Financial investments at amortised cost	2,397	–	–	18,227	37,752	284,065	1,014,207	846,389	2,203,037
Financial investments at FVOCI	29	16,262	–	17,504	56,506	120,183	289,879	181,366	681,729
Other assets	4,198	187,187	93,428	150	18	505	35,656	2,509	323,651
Total assets	41,537	1,210,285	288,766	743,942	528,204	2,171,198	2,749,566	3,932,259	11,665,757
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(816,423)	(339,771)	(247,890)	(491,785)	(44,522)	(7,377)	(1,947,768)
Financial liabilities at FVTPL	–	–	(11,631)	(24,954)	(1,995)	(10,202)	(1,266)	–	(50,048)
Derivative financial liabilities	–	–	–	(5,493)	(6,739)	(11,698)	(10,266)	(1,878)	(36,074)
Due to customers	–	–	(2,917,672)	(892,406)	(544,620)	(1,043,211)	(1,641,829)	(39)	(7,039,777)
Other liabilities	–	–	(59,181)	(113,511)	(198,029)	(739,771)	(285,206)	(219,156)	(1,614,854)
Total liabilities	–	–	(3,804,907)	(1,376,135)	(999,273)	(2,296,667)	(1,983,089)	(228,450)	(10,688,521)
Net amount on liquidity gap	41,537	1,210,285	(3,516,141)	(632,193)	(471,069)	(125,469)	766,477	3,703,809	977,236

(e) Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

As at 31 December 2022	Up to 1 year	1-5 years	Over 5 years	Total
Loan commitments and other credit related commitments	1,011,599	36,001	32,397	1,079,997
Guarantees, acceptances and letters of credit	962,440	175,396	2,622	1,140,458
Total	1,974,039	211,397	35,019	2,220,455

As at 31 December 2021	Up to 1 year	1-5 years	Over 5 years	Total
Loan commitments and other credit related commitments	924,244	30,785	14,922	969,951
Guarantees, acceptances and letters of credit	757,497	138,818	1,629	897,944
Total	1,681,741	169,603	16,551	1,867,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(4) Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group mainly includes derivatives, debt securities, certificates of deposit, loans and advances to customers carried at FVOCI, precious metals and debt securities issued. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For trust and asset management plan at fair value through profit or loss, loans and advances to customers at fair value through other comprehensive income, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk. These financial instruments are classified as level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(4) Fair value of financial assets and liabilities (Continued)

(a) Determination of fair value and valuation techniques (Continued)

For convertible bonds, unlisted funds, unlisted equities and equity derivatives held by the Group, the fair value of these financial instruments is determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. The management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers at amortised cost, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 31 December 2022		As at 31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial asset				
Financial investments at amortised cost	2,450,775	2,484,041	2,203,037	2,234,814
Financial liabilities				
Debt securities issued	(516,353)	(514,389)	(491,372)	(496,082)

Fair value hierarchy of financial instruments not measured at fair value

As at 31 December 2022	Level 1	Level 2	Level 3	Total
Financial asset				
Financial investments at amortised cost	64,532	2,346,708	72,801	2,484,041
Financial liabilities				
Debt securities issued	–	(514,389)	–	(514,389)
As at 31 December 2021	Level 1	Level 2	Level 3	Total
Financial asset				
Financial investments at amortised cost	7,757	2,138,742	88,315	2,234,814
Financial liabilities				
Debt securities issued	–	(496,082)	–	(496,082)

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers at amortised cost, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by the PBOC, other regulatory bodies or market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(4) Fair value of financial assets and liabilities (Continued)

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

	As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities	6,585	243,646	2,722	252,953
Fund investments and other asset management products	154,825	178,969	25,406	359,200
Equity securities and others	5,725	4,164	58,758	68,647
Precious metal contracts	–	24,557	–	24,557
Derivative financial instruments	–	68,509	1,178	69,687
Loans and advances to customers	–	27	–	27
Subtotal	167,135	519,872	88,064	775,071
At fair value through other comprehensive income				
Debt Investments at FVOCI	145,987	636,929	836	783,752
Investments in equity instruments designated at FVOCI	7,929	1,603	5,791	15,323
Loans and advances to customers at FVOCI	–	322,429	36	322,465
Subtotal	153,916	960,961	6,663	1,121,540
Total assets	321,051	1,480,833	94,727	1,896,611
	As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL	–	(47,949)	–	(47,949)
Derivative financial instruments	–	(46,804)	–	(46,804)
Debt securities issued	–	(14,508)	–	(14,508)
Total liabilities	–	(109,261)	–	(109,261)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(4) Fair value of financial assets and liabilities (Continued)

(c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

As at 31 December 2021				
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities	13,308	231,473	3,153	247,934
Fund investments and other asset management products	685	287,847	16,644	305,176
Equity securities and others	7,826	5,081	50,542	63,449
Precious metal contracts	–	21,924	–	21,924
Derivative financial instruments	–	38,183	1,037	39,220
Loans and advances to customers	–	27	–	27
Subtotal	21,819	584,535	71,376	677,730
At fair value through other comprehensive income				
Debt Investments at FVOCI	239,205	425,966	296	665,467
Investments in equity instruments designated at FVOCI	7,357	1,636	7,269	16,262
Loans and advances to customers at FVOCI	–	184,696	10	184,706
Subtotal	246,562	612,298	7,575	866,435
Total assets	268,381	1,196,833	78,951	1,544,165

As at 31 December 2021				
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL	–	(50,048)	–	(50,048)
Derivative financial instruments	–	(36,074)	–	(36,074)
Debt securities issued	–	(12,153)	–	(12,153)
Total liabilities	–	(98,275)	–	(98,275)

Reconciliation of Level 3 items

	Financial assets at FVTPL	Financial assets at FVOCI
Balance at 1 January 2022	71,376	7,575
Total gains or losses		
– Net gains/(losses) arising from trading activities	1,278	787
– Other comprehensive income	–	(2,275)
Additions	18,657	634
Disposals and settlement	(3,369)	(85)
Transfer from other levels	122	27
Balance at 31 December 2022	88,064	6,663
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2022		
– Realised gains	2,384	785
– Unrealised losses	(1,106)	(2,273)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(4) Fair value of financial assets and liabilities (Continued)

(c) Financial assets and financial liabilities measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 items (Continued)

	Financial assets at FVTPL	Financial assets at FVOCI
Balance at 1 January 2021	65,024	8,166
Total gains or losses		
– Net gains/(losses) arising from trading activities	4,951	48
– Other comprehensive income	–	(1,233)
Additions	10,723	975
Disposals and settlement	(9,286)	(381)
Transfer to other levels	(36)	–
Balance at 31 December 2021	71,376	7,575
Total gains/(losses) generated by financial assets and liabilities held by the Group as at 31 December 2021		
– Realised gains	1,998	46
– Unrealised losses	2,000	(1,231)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earnings ratio and liquidity discounts.

(5) Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

(6) Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(6) Capital management *(Continued)*

The Group management adopts administrative measures issued by the CBIRC, which was developed based on guideline issued by the Basel Committee, in monitoring its capital adequacy ratio and the usage of regulatory capital on a quarterly basis. The quarterly monitored information is then submitted to CBIRC.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on core tier-1 capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 0.75% on core tier-1 capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

The Group's capital as monitored by its Planning and Finance Department and as divided to 3 levels consists of the following:

- Core tier-1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional tier-1 capital, including Additional tier-1 capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier-2 capital, including tier-2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from core tier-1 capital include: Goodwill, other intangible assets (except land use rights), investments in core tier-1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, the CBIRC officially approved the implementation of the advanced approach of capital management, and the Group has steadily promoted the implementation and deepened application of advanced methods in accordance with regulatory requirements. The Group expanded the implementation scope of advanced methods and ended the transition period with the approval of CBRC in 2018. According to the implementation scope of the advanced methods of capital management approved by the CBRC, the Group elected to use elementary internal rating based ("IRB") approach for credit risk exposures, internal model approach for market risk exposures and standardised approach for operational risk exposures which is compliant with regulatory requirements. For credit risk exposures not covered by IRB, the corresponding portion shall be calculated by the weight method. For market risk exposures not covered by internal model approach, the corresponding portion shall be calculated by the standardised method. For operational risk exposures not covered by standardised approach, the corresponding portion shall be calculated by basic index method. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management (Continued)

Items	As at 31 December 2022	As at 31 December 2021
Core tier-1 capital adequacy ratio (%)	10.06	10.62
Tier-1 capital adequacy ratio (%)	12.18	13.01
Capital adequacy ratio (%)	14.97	15.45
Core tier-1 capital	847,105	789,887
Core tier-1 capital deductions	(6,941)	(6,010)
Net core tier-1 capital	840,164	783,877
Additional tier-1 capital	176,480	176,348
Net tier-1 capital	1,016,644	960,225
Tier-2 capital	233,673	179,732
Net capital	1,250,317	1,139,957
Risk-weighted assets	8,350,074	7,379,912

4 NET INTEREST INCOME

	2022	2021
Interest income		
Loans and advances to customers	291,905	266,419
Financial investments	97,311	88,262
Due from and placements with banks and other financial institutions	17,886	12,266
Balances with central banks	11,020	10,699
Subtotal	418,122	377,646
Interest expense		
Due to customers	(163,457)	(140,982)
Due to and placements from banks and other financial institutions	(44,696)	(38,581)
Certificates of deposit issued	(24,225)	(20,049)
Debt securities issued	(15,807)	(16,341)
Subtotal	(248,185)	(215,953)
Net interest income	169,937	161,693

5 FEE AND COMMISSION INCOME

	2022	2021
Bank cards	19,141	20,136
Wealth management business	10,154	11,775
Custody and other fiduciary business	7,496	7,484
Agency services	4,980	5,664
Investment banking	3,093	3,120
Guarantee and commitment	2,884	2,527
Settlement services	1,364	1,296
Others	227	283
Total	49,339	52,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

6 FEE AND COMMISSION EXPENSE

	2022	2021
Bank card business	2,454	2,560
Settlement and agency services	1,865	1,744
Others	381	408
Total	4,700	4,712

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	2022	2021
Financial instruments at FVTPL	5,808	20,621
Foreign exchange	5,737	2,539
Interest rate instruments and others	6,062	184
Total	17,607	23,344

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of derivative instruments such as spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2022 included a net gain of RMB274 million (for the year ended 31 December 2021: a net loss of RMB227 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 INSURANCE BUSINESS INCOME

	2022	2021
Premiums earned	18,429	17,141
Less: Premiums ceded	(329)	(626)
Total	18,100	16,515

9 OTHER OPERATING INCOME

	2022	2021
Leasing income	14,969	13,843
Income from sales of precious metal merchandise	1,953	2,020
Revaluation of investment properties	739	183
Net gain on the disposal of fixed and foreclosed assets	166	454
Other miscellaneous income	4,632	2,535
Total	22,459	19,035

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

10 CREDIT IMPAIRMENT LOSSES

	2022	2021
Loans and advances to customers at amortised cost	57,066	63,339
Credit related commitments and financial guarantees	2,358	1,998
Loans and advances to customers at FVOCI	840	158
Debt investments at FVOCI	598	(87)
Financial investments at amortised cost	(198)	(124)
Due from and placements with banks and other financial institutions	(1,333)	1,085
Others	1,080	2
Total	60,411	66,371

11 OTHER ASSETS IMPAIRMENT LOSSES

	2022	2021
Operating lease assets	1,882	1,981
Foreclosed assets	8	284
Precious metal	7	55
Total	1,897	2,320

12 INSURANCE BUSINESS EXPENSE

	2022	2021
Change in insurance reserves	13,456	15,643
Add: Change in insurance reserves recovered from reinsurers	1	958
Surrenders	4,938	1,084
Others	985	(631)
Total	19,380	17,054

13 OTHER OPERATING EXPENSES

	2022	2021
Staff costs and benefits (Note 14)	39,314	36,825
General operating and administrative expenses	28,861	29,621
Costs of operating lease business	9,879	9,108
Depreciation and amortisation	8,650	8,099
Tax and surcharges	3,119	3,001
Provision/(reversal) for outstanding litigations	56	(199)
Others	3,746	3,589
Total	93,625	90,044

14 STAFF COSTS AND BENEFITS

	Note	2022	2021
Salaries, bonuses, allowances and subsidies		26,918	25,383
Post-employment benefit	(1)	4,326	4,093
Other social security and benefit costs		8,070	7,349
Total		39,314	36,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS (Continued)

(1) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China, under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire at or after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

As at 31 December 2022, there are no forfeited contributions under the Group's retirement benefit plans which can be used to deduct contributions payable for future years.

The amount recognised in profit or loss in the year is as follows:

	2022	2021
Expenses incurred for retirement benefit plans and unemployment insurance	2,674	2,494
Expenses incurred for annuity plan	1,626	1,575
Total	4,300	4,069

The amount payable at the end of the year is as follows:

	2022	2021
Expenses incurred for retirement benefit plans and unemployment insurance	85	105
Expenses incurred for annuity plan	41	50
Total	126	155

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired at or before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at 31 December 2022	As at 31 December 2021
Statement of financial position		
– Net obligations for pension benefits	396	385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS (Continued)

(1) Post-employment benefit (Continued)

Defined benefit plans (Continued)

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	2022	2021
Components of defined benefit costs recognised in profit or loss	26	24
Components of defined benefit costs recognised in other comprehensive income	34	(55)
Total	60	(31)

Past service cost and interest expense are recognised in other operating expenses in the income statement.

Movements in the unfunded obligations over the year are as follows:

	2022	2021
Present value of unfunded obligations at the beginning of the year	385	467
Retirement benefits paid during the year	(49)	(51)
Interest expense	22	21
Past service cost	4	3
Net actuarial gains/(losses) recognised in the current year	34	(55)
Present value of unfunded obligations at the end of the year	396	385

The average duration of the supplementary retirement benefits plan at 31 December 2022 is 11.43 years (31 December 2021: 12.31 years).

The Group expects to make a contribution of RMB39 million (2021: RMB39 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 2.99% (31 December 2021: 3.07%) and 1.99% (31 December 2021: 0.81%) respectively as at 31 December 2022. In the meantime, assumptions regarding future mortality rate are set based on published statistics by the CBIRC. An average longevity of a pensioner after retirement at age 60 for male is 23.13 years while a pensioner after retirement at age 55 for female is 33.13 years.

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- (a) If the discount rate is 100 basis points higher/(lower), the defined benefit obligation would decrease by RMB27 million/(increase by RMB30 million).
- (b) If the expected inflation rate increases/(decreases) by 1%, the defined benefit obligation would increase by RMB30 million/(decrease by RMB27 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

14 STAFF COSTS AND BENEFITS (Continued)

(1) Post-employment benefit (Continued)

Defined benefit plans (Continued)

- (c) If the life expectancy increases/(decreases) by one year for men and women, the defined benefit obligation would increase by RMB35 million/(decrease by RMB36 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value at the end of the reporting period of the unfunded obligation has been calculated in the same method as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis in prior years.

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB) Name	Year ended 31 December 2022			Total
	Emoluments	Remuneration	Other benefits	
Executive directors				
Mr. Ren, Deqi	–	656	248	904
Mr. Liu, Jun	–	656	234	890
Non-executive directors				
Mr. Li, Longcheng	–	–	–	–
Mr. Wang, Linping	–	–	–	–
Mr. Chang, Baosheng	–	–	–	–
Mr. Liao, Yijian	–	–	–	–
Mr. Chen, Shaozong	–	–	–	–
Mr. Mu, Guoxin	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Luo, Xiaopeng	–	–	–	–
Independent non-executive directors				
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	330	–	–	330
Mr. Ma, Jun	112	–	–	112
Supervisors				
Mr. Xu, Jiming	–	656	234	890
Mr. Wang, Xueqing	–	–	–	–
Mr. Li, Yao	–	280	–	280
Mr. Chen, Hanwen	–	267	–	267
Mr. Su, Zhi	–	132	–	132
Mr. Guan, Xingshe	–	1,010	239	1,249
Ms. Lin, Zhihong	–	830	239	1,069
Ms. Feng, Bing	–	830	239	1,069
Ms. Po, Ying	–	1,010	240	1,250
Total	1,062	6,327	1,673	9,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) Directors', supervisors' and senior management's emoluments before taxation (Continued)

(in thousands of RMB)		Year ended 31 December 2022		
Name	Emoluments	Remuneration	Other benefits	Total
Former directors and supervisors				
Mr. Song, Hongjun	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Jason Yeung Chi Wai	155	–	–	155
Mr. Zhang, Minsheng	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Ju, Jiandong	–	128	–	128
Total	155	128	–	283

(in thousands of RMB)		Year ended 31 December 2021		
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Ren, Deqi	–	619	210	829
Mr. Liu, Jun	–	619	206	825
Non-executive directors				
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Li, Longcheng	–	–	–	–
Independent non-executive directors				
Jason Yeung Chi Wai	310	–	–	310
Raymond Woo Chin Wan	310	–	–	310
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	310	–	–	310
Mr. Zhang, Xiangdong	–	–	–	–
Ms. Li, Xiaohui	330	–	–	330
Supervisors				
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	280	–	280
Mr. Chen, Hanwen	–	260	–	260
Mr. Ju, Jiandong	–	260	–	260
Mr. Guan, Xingshe	–	956	211	1,167
Ms. Lin, Zhihong	–	962	211	1,173
Ms. Po, Ying	–	79	18	97
Mr. Xu, Jiming	–	258	87	345
Ms. Feng, Bing	–	819	211	1,030
Total	1,260	5,112	1,154	7,526

(in thousands of RMB)		Year ended 31 December 2021		
Name	Emoluments	Remuneration	Other benefits	Total
Former directors and supervisors				
Mr. Du, Yarong	–	416	84	500
Mr. Cai, Yunge	–	103	34	137
Mr. He, Zhaobin	–	73	22	95
Total	–	592	140	732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

15 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(1) Directors', supervisors' and senior management's emoluments before taxation (Continued)

- (a) The total compensation package for directors and supervisors for the year ended 31 December 2022 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's financial statements for the year ended 31 December 2022. The final compensation will be disclosed in a separate announcement when determined. The final total compensation for the year ended 31 December 2021 was disclosed in the Information on the First Extraordinary General Meeting of Shareholders in 2023 issued on 1 March 2023.
- (b) Employee supervisors Mr. Guan Xingshe, Ms. Lin Zhihong, Ms. Feng Bing and Ms. Po Ying received compensation according to their positions as employees of the Bank and did not receive additional compensation as employee supervisors.
- (c) During 2022 and 2021, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.
- (d) Other benefits include social insurance, housing allowances, enterprise annuity paid by the Bank.

(2) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	2022	2021
Salary	15	15
Discretionary bonuses	11	13
Employer's contribution to pension scheme and other benefits	2	2
Total	28	30

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	2022	2021
HKD4,000,001 – 4,500,000	2	–
HKD4,500,001 – 5,000,000	1	1
HKD5,000,001 – 5,500,000	1	3
HKD5,500,001 – 6,000,000	–	–
HKD6,000,001 – 6,500,000	–	–
HKD6,500,001 – 7,000,000	–	–
HKD7,000,001 – 7,500,000	–	–
HKD7,500,001 – 8,000,000	–	–
HKD8,000,001 – 8,500,000	–	–
HKD8,500,001 – 9,000,000	–	–
HKD9,000,001 – 9,500,000	–	–
HKD9,500,001 – 10,000,000	1	–
HKD10,000,001 – 10,500,000	–	1
Total	5	5

During 2022 and 2021, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(All amounts expressed in millions of RMB unless otherwise stated)

16 INCOME TAX

	2022	2021
Current income tax		
– Enterprise income tax	9,919	7,522
– Hong Kong profits tax	464	608
– Other countries or regions	715	753
Subtotal	11,098	8,883
Deferred income tax (Note 26)	(4,913)	(3,863)
Total	6,185	5,020

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the difference between tax paid by overseas branches and the accrued tax under the regulation of Mainland China shall be compensated by the head office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25%. The major reconciliation items are as follows:

	Note	2022	2021
Profit before tax		98,215	93,959
Tax calculated at statutory rate of 25%		24,554	23,490
Effects of different tax rates prevailing in other countries or regions		122	(207)
Effects of non-deductible expenses	(1)	4,356	2,445
Effects of non-taxable income	(2)	(20,982)	(19,663)
Adjustments for income tax filing of prior years		(487)	(111)
Others		(1,378)	(934)
Income tax		6,185	5,020

(1) Non-deductible expenses primarily represent non-deductible write-offs.

(2) Non-taxable income primarily represents interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the parent company by the weighted average number of ordinary shares in issue during the period.

	2022	2021
Net profit attributable to shareholders of the parent company	92,149	87,581
Less: Dividends paid to preference shareholders	(1,832)	(1,755)
Interest paid to perpetual bond holders	(5,651)	(3,858)
Net profit attributable to holders of ordinary shares of the parent company	84,666	81,968
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period	74,263	74,263
Basic and diluted earnings per share (expressed in RMB per share)	1.14	1.10

For the calculation of basic earnings per share, a cash dividend of RMB1,832 million on preference shares and interests of RMB5,651 million on perpetual bond declared for the year was deducted from the amounts attributable to shareholders of the parent company. The conversion feature of preference shares may lead to the possible existence of contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2022, and therefore the conversion feature of preference shares has no effect on the calculation of the basic and diluted earnings per share.

18 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2022	As at 31 December 2021
Cash	13,839	13,298
Mandatory reserve deposits	683,401	624,340
Surplus reserve deposits	103,823	90,350
Fiscal deposits	4,700	6,436
Accrued interest	339	304
Total	806,102	734,728

The Group is required to place statutory reserves with the PBOC and overseas central banks, including RMB and foreign currency deposit reserves and foreign exchange risk reserves for forward foreign exchange sales businesses, which are not allowed to be used in the Group's daily operations.

Surplus reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of the PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

19 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2022	As at 31 December 2021
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	120,905	83,372
– Banks and other financial institutions operating outside Mainland China	34,371	36,422
Accrued interest	368	298
Less: Allowance for impairment losses	(209)	(202)
Financial assets purchased under repurchase agreements		
– Securities	49,715	59,964
– Bills	6,995	13,512
Accrued interest	11	33
Less: Allowance for impairment losses	(88)	(141)
Placements with and loans to banks		
– Banks operating in Mainland China	80,566	111,677
– Banks operating outside Mainland China	126,829	77,490
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	196,730	194,502
– Placements with and loans to other financial institutions outside Mainland China	70,572	54,176
Accrued interest	4,393	3,568
Less: Allowance for impairment losses	(737)	(1,963)
Total	690,421	632,708

As at 31 December 2022 and 31 December 2021, due from banks and other financial institutions of the Group included pledged deposits, risk reserves and other deposits. The use of these deposits is restricted.

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilize derivative financial instruments for trading or hedging purposes, including forwards, swaps and options.

The notional amounts of derivative financial instruments provide a reference of the business scale for those financial instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market foreign exchange rates, interest rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the following tables.

As at 31 December 2022	Contractual/ Notional Amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	3,406,796	34,499	(34,648)
Interest rate contracts and others	3,076,875	35,188	(12,156)
Total amount of derivative financial instruments recognised	6,483,671	69,687	(46,804)

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20 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2021	Contractual/Notional Amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	3,501,041	27,195	(24,899)
Interest rate contracts and others	3,626,588	12,025	(11,175)
Total amount of derivative financial instruments recognised	7,127,629	39,220	(36,074)

Hedge accounting

Notional amount and fair value of hedging instruments included in the above derivative financial instruments are as follows:

As at 31 December 2022	Contractual/ Notional Amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in cash flow hedges	75,883	2,043	(1,202)
Derivative financial instruments designated as hedging instruments in fair value hedges	177,797	15,934	(20)
Total	253,680	17,977	(1,222)

As at 31 December 2021	Contractual/Notional Amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in cash flow hedges	71,805	519	(973)
Derivative financial instruments designated as hedging instruments in fair value hedges	141,731	1,871	(1,274)
Total	213,536	2,390	(2,247)

(1) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the support of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include debt investments at FVOCI, loans and advances to customers, placements from banks and financial investments at amortised cost.

The following table shows the profit or loss effects of the fair value hedges:

	2022	2021
Net gains/(losses) from fair value hedges:		
Hedging instruments	15,231	4,405
Hedged items attributable to the hedged risk	(15,553)	(4,386)
Total	(322)	19

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For the year ended 31 December 2022

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20 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(2) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, debt securities issued, loans and advances to customers and due to and placements from banks and other financial institutions. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the year ended 31 December 2022, the Group recognised RMB2,564 million (31 December 2021: RMB1,133 million) from effective portion of cash flow hedge in other comprehensive income. The Group reclassifies RMB1,606 million from other comprehensive income to profit or loss (31 December 2021: RMB617 million). Gains or losses arising from ineffective portion of cash flow hedge were immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

21 LOANS AND ADVANCES TO CUSTOMERS

(1) Loans and advances to customers

	As at 31 December 2022	As at 31 December 2021
Loans and advances to customers		
– Carried at amortised cost	6,973,663	6,375,667
– Carried at FVOCI	322,465	184,706
– Carried at FVTPL	27	27
Less: Allowance for impairment losses	(176,178)	(160,089)
Accrued interest	18,608	13,985
Less: Allowance for impairment losses of accrued interest	(1,908)	(2,095)
	7,136,677	6,412,201

(2) Loans and advances to customers analysed by security type

	As at 31 December 2022	As at 31 December 2021
Unsecured loans	2,461,988	2,085,835
Guaranteed loans	1,179,381	1,056,138
Loans secured by collateral	2,579,866	2,488,276
Pledged loans	1,074,920	930,151
Total	7,296,155	6,560,400

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21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(3) Movements of ECL allowance

Movements of ECL allowance for principal – Loans and advances to customers at amortised cost:

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	57,403	38,892	63,794	160,089
Transfers:				
Transfer to Stage 1	3,904	(3,553)	(351)	–
Transfer to Stage 2	(5,520)	7,051	(1,531)	–
Transfer to Stage 3	(261)	(13,341)	13,602	–
Provision	13,044	15,867	28,351	57,262
Written-offs and disposals	–	–	(46,242)	(46,242)
Recovery of loans and advances written off in previous years	–	–	5,146	5,146
Others	225	469	(771)	(77)
As at 31 December 2022	68,795	45,385	61,998	176,178

	For the year ended 31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2021	43,426	32,870	62,978	139,274
Transfers:				
Transfer between Stage 1 and Stage 2, net	(142)	142	–	–
Transfer between Stage 1 and Stage 3, net	(391)	–	391	–
Transfer between Stage 2 and Stage 3, net	–	(7,598)	7,598	–
Provision	14,593	13,243	34,951	62,787
Written-offs and disposals	–	–	(47,151)	(47,151)
Recovery of loans and advances written off in previous years	–	–	6,324	6,324
Others	(83)	235	(1,297)	(1,145)
As at 31 December 2021	57,403	38,892	63,794	160,089

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	937	48	88	1,073
Transfers:				
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	–	–	–	–
Transfer to Stage 3	(1)	(22)	23	–
Provision	586	214	40	840
Written-offs and disposals	–	–	(71)	(71)
Others	–	–	(1)	(1)
As at 31 December 2022	1,522	240	79	1,841

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21 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(3) Movements of ECL allowance (Continued)

	For the year ended 31 December 2021			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 1 January 2021	878	47	362	1,287
Transfers:				
Transfer between Stage 1 and Stage 2, net	(64)	64	–	–
Transfer between Stage 1 and Stage 3, net	(20)	–	20	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Provision/(reversal)	143	(63)	78	158
Written-offs and disposals	–	–	(368)	(368)
Others	–	–	(4)	(4)
As at 31 December 2021	937	48	88	1,073

(4) Overdue loans analysed by security type

	As at 31 December 2022				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	12,049	10,165	5,279	100	27,593
Guaranteed loans	2,626	8,632	3,532	1,315	16,105
Loans secured by collateral	11,399	9,193	8,867	2,584	32,043
Pledged loans	1,663	5,490	1,405	529	9,087
Total	27,737	33,480	19,083	4,528	84,828

	As at 31 December 2021				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	10,351	10,096	5,215	1,035	26,697
Guaranteed loans	3,315	7,693	6,853	2,364	20,225
Loans secured by collateral	7,729	8,925	12,324	3,419	32,397
Pledged loans	1,769	2,719	2,772	583	7,843
Total	23,164	29,433	27,164	7,401	87,162

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22 FINANCIAL INVESTMENTS

	As at 31 December 2022	As at 31 December 2021
Financial investments at FVTPL		
– Listed in Hong Kong	72,510	45,482
– Listed outside Hong Kong	210,783	200,197
– Unlisted	422,064	392,804
Total	705,357	638,483
Financial investments at amortised cost		
– Listed in Hong Kong	27,336	13,474
– Listed outside Hong Kong	2,265,215	2,044,176
– Unlisted	132,584	120,387
Accrued interest	28,404	27,958
Less: Allowance for impairment losses	(2,764)	(2,958)
Total	2,450,775	2,203,037
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	157,408	168,690
– Listed outside Hong Kong	536,770	417,119
– Unlisted	81,242	73,382
Accrued interest	8,332	6,276
Subtotal	783,752	665,467
Equity investments at FVOCI		
– Listed in Hong Kong	5,600	3,238
– Listed outside Hong Kong	3,932	5,755
– Unlisted	5,791	7,269
Subtotal	15,323	16,262
Total	799,075	681,729

Debt securities traded in the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the Solely Payments of Principal and Interest Test (“SPPI test”).

For the year ended 31 December 2022, the Group’s cash dividends received from equity investments at FVOCI was RMB785 million (for the year ended 31 December 2021: RMB615 million).

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22 FINANCIAL INVESTMENTS (Continued)

Debt securities analysed by issuer are as follows:

	As at 31 December 2022	As at 31 December 2021
Financial investments at FVTPL		
– Governments and central banks	102,349	99,079
– Banks and other financial institutions	80,601	100,898
– Corporate entities	69,443	46,655
– Public sector entities	560	1,302
Total	252,953	247,934
Bond investments at amortised cost		
– Governments and central banks	2,148,425	1,922,479
– Banks and other financial institutions	164,060	117,156
– Corporate entities	44,734	47,035
– Public sector entities	22,708	21,201
Total	2,379,927	2,107,871
Debt investments at FVOCI		
– Governments and central banks	375,231	304,365
– Banks and other financial institutions	294,348	254,601
– Corporate entities	99,511	101,931
– Public sector entities	14,662	4,570
Total	783,752	665,467

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	1,695	371	892	2,958
Transfers:				
Transfer to Stage 1	126	(126)	–	–
Transfer to Stage 2	(2)	2	–	–
Transfer to Stage 3	–	–	–	–
(Reversal)/Provision	(274)	12	64	(198)
Others	2	1	1	4
As at 31 December 2022	1,547	260	957	2,764

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22 FINANCIAL INVESTMENTS (Continued)

	For the year ended 31 December 2021			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 1 January 2021	1,844	682	524	3,050
Transfers:				
Transfer between Stage 1 and Stage 2, net	274	(274)	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	(399)	399	–
(Reversal)/provision	(420)	104	192	(124)
Others	(3)	258	(223)	32
As at 31 December 2021	1,695	371	892	2,958

The movements in allowance for impairment losses of debt investments at FVOCI are summarised as follows:

	For the year ended 31 December 2022			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 1 January 2021	555	10	456	1,021
Transfers:				
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(3)	3	–	–
Transfer to Stage 3	(1)	(20)	21	–
Provision	1	24	573	598
Others	76	(4)	(160)	(88)
As at 31 December 2022	628	13	890	1,531

	For the year ended 31 December 2021			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 1 January 2021	670	11	563	1,244
Transfers:				
Transfer between Stage 1 and Stage 2, net	(9)	9	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
(Reversal)/provision	(115)	1	27	(87)
Others	9	(11)	(134)	(136)
As at 31 December 2021	555	10	456	1,021

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23 PRINCIPAL SUBSIDIARIES

Name of subsidiaries	Legal representative/ Principal	Registered capital	Nature of entity	Place of operation	Place of registration	Nature of business	Principal business	Proportion of shares held		Means of acquisition
								Direct	Indirect	
Bank of Communications Financial Leasing Co., Ltd.	Xu Bin	RMB14,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial leasing	100.00	-	Establishment
Bank of Communications International Trust Co., Ltd.	Tong Xuewei	RMB5,764,705,882	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Trust investment	85.00	-	Investment
Bank of Communications Schroder Fund Management Co., Ltd.	Ruan Hong	RMB200,000,000	Limited liability company	No. 8 Century Avenue, Pudong New District, Shanghai	Mainland China	Financial industry	Fund management	65.00	-	Establishment
BOCOM Wealth Management Co., Ltd.	Zhang Hongliang	RMB8,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Financial products issuing and financial consulting	100.00	-	Establishment
BOCOM MSIG Life Insurance Company Limited	Wang Qingyan	RMB5,100,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Life Insurance	62.50	-	Investment
Bank of Communications Financial Assets Investment Co., Ltd.	Zheng Zhiyang	RMB10,000,000,000	Limited liability company	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai	Mainland China	Financial industry	Debt-to-equity swaps	100.00	-	Establishment
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Tan Yueheng	HKD2,734,392,000	Foreign legal entity	No. 68 Des Voeux Road Central, Central, Hong Kong	Hong Kong China	Financial industry	Securities dealing and brokerage	73.14	-	Establishment
China BoCom Insurance Co., Ltd.	Zhang Jian	HKD400,000,000	Foreign legal entity	No. 8 Cotton Tree Drive, Central, Hong Kong	Hong Kong China	Financial industry	General insurance and reinsurance	100.00	-	Establishment
Dayi BoCom Xingmin Rural Bank Ltd.	Liu Yike	RMB230,000,000	Limited liability company	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province	Mainland China	Financial industry	Commercial banking	97.29	-	Establishment
Zhejiang Anji BoCom Rural Bank Ltd.	Xu Tong	RMB180,000,000	Joint stock company	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province	Mainland China	Financial industry	Commercial banking	51.00	-	Establishment
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Fang Linhai	RMB150,000,000	Joint stock company	No. 127 Dongyi Road, Shihezi, Xinjiang Uygur Autonomous Region	Mainland China	Financial industry	Commercial banking	51.00	-	Establishment
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Sheng Liang	RMB150,000,000	Joint stock company	No. 156 Shenzhen Road, Laoshan District, Qingdao, Shandong	Mainland China	Financial industry	Commercial banking	51.00	-	Establishment
Bank of Communications (Hong Kong) Limited	Meng Yu	HKD37,900,000,000	Foreign legal entity	20 Pedder Street, Central, Hong Kong	Hong Kong China	Financial industry	Commercial banking	100.00	-	Establishment
Bank of Communications (Luxembourg) Limited	Zhang Shuren	EUR350,000,000	Foreign legal entity	7 Rue de la Chapelle, L-1325 Luxembourg, Luxembourg	Luxembourg	Financial industry	Commercial banking	100.00	-	Establishment
Bocom Brazil Holding Company Ltda	Sun Xu	BRL700,000,000	Foreign legal entity	Avenida Barão de Tefé, 34, salas 1701, 1702, 1801 e 1802, Saúde, Rio de Janeiro, Brazil	Brazil	Non-financial industry	Investment	100.00	-	Establishment
BANCO BoCom BBM S. A.	Alexandre Lowenkron	BRL469,300,389	Foreign legal entity	Av Barão de Tefé, 34-20th, Rio de Janeiro Brazil, 20220-460	Brazil	Financial industry	Commercial banking	-	80.00	Investment

As at 31 December 2022, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

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24 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 31 December 2022	As at 31 December 2021
Investments in associates		
Investment cost	6,474	4,062
Share of net profit of associates for the year	1,866	1,599
Share of other equity changes of associates for the year	114	93
Dividend income	(283)	(204)
Subtotal	8,171	5,550
Investments in joint ventures	579	229
Total	8,750	5,779

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2022 (31 December 2021: 9.01%).

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2022 (31 December 2021: 10.60%).

25 PROPERTY AND EQUIPMENT

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Total
Cost					
As at 1 January 2022	74,687	2,963	27,454	143,867	248,971
Additions	417	1,060	4,858	38,830	45,165
Construction in progress transfer in	505	(505)	–	–	–
Transfer in from investment properties	329	–	–	–	329
Transfer into investment properties	(139)	–	–	–	(139)
Decreases	(236)	(3)	(2,000)	(7,319)	(9,558)
As at 31 December 2022	75,563	3,515	30,312	175,378	284,768
Accumulated depreciation					
As at 1 January 2022	(29,395)	–	(20,329)	(25,549)	(75,273)
Charge for the year	(2,793)	–	(2,612)	(9,629)	(15,034)
Transfer into investment properties	17	–	–	–	17
Decreases	101	–	1,854	1,884	3,839
As at 31 December 2022	(32,070)	–	(21,087)	(33,294)	(86,451)
Allowance for impairment losses					
As at 1 January 2022	–	(16)	–	(2,488)	(2,504)
Provision for impairment	–	–	–	(1,882)	(1,882)
Decrease	–	–	–	238	238
As at 31 December 2022	–	(16)	–	(4,132)	(4,148)
Net book value					
As at 31 December 2022	43,493	3,499	9,225	137,952	194,169

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25 PROPERTY AND EQUIPMENT *(Continued)*

	Buildings	Construction in progress	Equipment And Transportation equipment	Aircraft and vessels	Total
Cost					
As at 1 January 2021	72,397	3,369	26,655	136,705	239,126
Additions	236	1,351	3,486	16,758	21,831
Disposals	(572)	—	(2,687)	(9,596)	(12,855)
Construction in progress transfer in/(out)	1,727	(1,727)	—	—	—
Transfer in from investment properties	899	—	—	—	899
Transfer into investment properties	—	—	—	—	—
Other transfers out	—	(30)	—	—	(30)
As at 31 December 2021	74,687	2,963	27,454	143,867	248,971
Accumulated depreciation					
As at 1 January 2021	(26,944)	—	(20,679)	(21,241)	(68,864)
Charge for the year	(2,738)	—	(2,242)	(6,738)	(11,718)
Disposals	287	—	2,592	2,430	5,309
Transfer into investment properties	—	—	—	—	—
As at 31 December 2021	(29,395)	—	(20,329)	(25,549)	(75,273)
Allowance for impairment losses					
As at 1 January 2021	—	(16)	—	(775)	(791)
Provision for impairment	—	—	—	(1,981)	(1,981)
Decrease	—	—	—	268	268
As at 31 December 2021	—	(16)	—	(2,488)	(2,504)
Net book value					
As at 31 December 2021	45,292	2,947	7,125	115,830	171,194

As at 31 December 2022, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB52,416 million (31 December 2021: RMB57,988 million).

As at 31 December 2022, the property and equipment with re-registration procedure not completed amounted to RMB174 million (31 December 2021: RMB198 million). However, this registration process does not affect the rights of the Group to these assets.

26 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2022 (for the year ended 31 December 2021: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2021: 16.5%).

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26 DEFERRED INCOME TAX (Continued)

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2022		As at 31 December 2021	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Allowance for impairment of assets	134,772	33,693	119,972	29,993
Changes in fair value of derivative instruments	57,312	14,328	36,074	9,250
Provisions	11,928	2,982	9,672	2,418
Changes in fair value of financial assets at FVOCI	10,492	2,623	5,132	1,283
Changes in fair value of financial assets at FVTPL	9,484	2,371	–	–
Changes in fair value of financial liabilities at FVTPL	340	85	–	–
Others	6,835	1,709	7,067	1,767
Subtotal	231,163	57,791	177,917	44,711
Deferred income tax liabilities				
Changes in fair value of derivative instruments	(68,464)	(17,116)	(39,220)	(9,667)
Changes in fair value of investment properties	(3,232)	(808)	(3,020)	(755)
Changes in fair value of financial assets at FVOCI	(1,780)	(445)	(6,240)	(1,560)
Changes in fair value of financial liabilities at FVTPL	(668)	(167)	–	–
Changes in fair value of financial assets at FVTPL	(499)	(125)	(3,464)	(866)
Others	(8,580)	(2,145)	(6,764)	(1,691)
Subtotal	(83,223)	(20,806)	(58,708)	(14,539)
Net deferred income tax assets	147,940	36,985	119,209	30,172

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 31 December 2022	As at 31 December 2021
Deferred income tax assets	38,771	32,061
Deferred income tax liabilities	(1,786)	(1,889)
	2022	2021
Net opening balance	30,172	26,705
Net change in deferred income tax recognised in income tax expense in the current year	4,913	3,863
Net changes in deferred income tax recognised in other comprehensive income in the current year	1,900	(396)
Net ending balance	36,985	30,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

27 OTHER ASSETS

	Note	As at 31 December 2022	As at 31 December 2021
Accounts receivable and temporary payments		36,775	66,062
Less: Allowance for impairment losses	(1)	(3,003)	(3,265)
Advance payments		22,100	16,328
Precious metal		7,814	4,878
Right-of-use assets	(2)	6,931	6,777
Investment properties	(3)	6,387	6,340
Interest receivable	(4)	2,054	4,250
Land use rights and others		1,998	2,077
Intangible assets	(5)	1,954	1,797
Foreclosed assets		1,000	1,030
Long-term deferred expenses		879	721
Refundable deposits		495	458
Goodwill	(6)	407	395
Unsettled assets		31	31
Others		6,813	6,738
Total		92,635	114,617

(1) Allowance for impairment losses

	As at 1 January 2022	Amounts accrued	Reversal	Written-offs	Transfers in	Recoveries after written- offs	Exchange differences	As at 31 December 2022
Other receivables and prepayments	(3,265)	(3,435)	2,798	992	(8)	(77)	(8)	(3,003)

	As at 1 January 2021	Amounts accrued	Reversal	Written-offs	Transfers in	Recoveries after written- offs	Exchange differences	As at 31 December 2021
Other receivables and prepayments	(2,764)	(2,137)	1,020	1,111	(356)	(140)	1	(3,265)

(2) Right-of-use assets

	As at 31 December 2022	As at 31 December 2021
Cost:		
Opening balance	13,980	13,693
Additions	2,704	2,946
Decreases	(2,354)	(2,659)
As at the end of the year	14,330	13,980
Accumulated depreciation:		
Opening balance	(7,203)	(7,024)
Additions	(2,380)	(2,416)
Decreases	2,184	2,237
As at the end of the year	(7,399)	(7,203)
Net book value	6,931	6,777
Lease liabilities	6,775	6,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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27 OTHER ASSETS (Continued)

(2) Right-of-use assets (Continued)

As at 31 December 2022, committed by leases but not yet commenced amount to RMB97 million (as at 31 December 2021: RMB158 million).

(3) Investment properties

	As at 1 January 2022	Decreases of the year	Gains on property revaluation	Exchange differences	As at 31 December 2022
Investment properties	6,340	(190)	166	71	6,387

	As at 1 January 2021	Decreases of the year	Gains on property revaluation	Exchange differences	As at 31 December 2021
Investment properties	7,353	(899)	183	(297)	6,340

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2022, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	As at 31 December 2022
Commercial property units located in Hong Kong	–	–	922	922
Commercial property units located outside Hong Kong	–	–	5,465	5,465

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Market Approach". The inputs to these models mainly include growth rate of rental, vacancy rate, future rent income years, capitalisation rate and unit price, etc.

- (4) The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

(5) Intangible assets

	Software
Cost	
As at 1 January 2022	4,504
Additions	627
Disposals	(15)
As at 31 December 2022	5,116
Accumulated amortization	
As at 1 January 2022	(2,707)
Amortisation expense	(467)
Disposals	12
As at 31 December 2022	(3,162)
Net book value	1,954

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For the year ended 31 December 2022

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27 OTHER ASSETS (Continued)

(5) Intangible assets (Continued)

	Software
Cost	
As at 1 January 2021	3,888
Additions	633
Disposals	(17)
As at 31 December 2021	4,504
Accumulated amortization	
As at 1 January 2021	(2,338)
Amortisation expense	(376)
Disposals	7
As at 31 December 2021	(2,707)
Net book value	1,797

(6) Goodwill

	As at 1 January 2022	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2022
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO BoCom BBM S. A.	73	–	–	12	85
Total	395	–	–	12	407

	As at 1 January 2021	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2021
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BOCOM MSIG Life Insurance Company Limited	122	–	–	–	122
BANCO BoCom BBM S. A.	79	–	–	(6)	73
Total	401	–	–	(6)	395

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

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28 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2022	As at 31 December 2021
Borrowing from central banks	398,293	334,794
Accrued interest	4,787	4,564
Due to banks		
– Banks operating in Mainland China	254,973	242,492
– Banks operating outside Mainland China	8,839	11,871
Due to other financial institutions		
– Other financial institutions operating in Mainland China	803,430	831,784
– Other financial institutions operating outside Mainland China	7,699	6,810
Accrued interest	3,652	3,683
Placements from banks		
– Banks operating in Mainland China	210,818	284,232
– Banks operating outside Mainland China	201,042	170,980
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	200	2,364
– Other financial institutions operating outside Mainland China	10,204	8,583
Accrued interest	2,344	860
Financial assets sold under repurchase agreements		
Securities	128,298	44,710
Accrued interest	315	41
Total	2,034,894	1,947,768

29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2022	As at 31 December 2021
Certificates of deposit issued	22,253	1,400
Financial liabilities related to precious metal contracts	11,502	15,247
Notes issued	1,701	1,385
Short position of securities held for trading	5	134
Others (1)	12,488	31,882
Total	47,949	50,048

- (1) As at 31 December 2022, others mainly are liabilities of consolidated structured entities and shares held by other parties rather than the Group.

Except for certificates of deposit issued by branch in Hong Kong, notes issued by BoCom International Holdings Company Limited, and shares of consolidated structured entities held by other parties rather than the Group which are designated at fair value through profit or loss, financial liabilities at fair value through profit or loss are financial liabilities held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated at fair value through profit or loss

	As at 31 December 2022	As at 31 December 2021
Difference between carrying amount and maturity amount		
Fair values	36,442	34,667
Amount payable at maturity	(36,723)	(34,709)
	(281)	(42)

For the year ended 31 December 2022 and the year ended 31 December 2021, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

30 DUE TO CUSTOMERS

	As at 31 December 2022	As at 31 December 2021
Corporate demand deposits	1,989,383	2,061,672
Corporate time deposits	2,887,650	2,488,348
Personal demand deposits	885,013	850,831
Personal time deposits	2,070,711	1,551,981
Other deposits	4,227	3,359
Due to customers	7,836,984	6,956,191
Accrued interest	112,088	83,586
Total	7,949,072	7,039,777

As at 31 December 2022, deposits from customers comprised deposits pledged as collateral of RMB331,318 million (as at 31 December 2021: RMB220,878 million).

31 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by Head office, the Bank's overseas branches and subsidiaries are measured at amortised cost.

32 DEBT SECURITIES ISSUED

	Note	As at 31 December 2022	As at 31 December 2021
Carried at amortised cost:			
Bonds	(1)	306,030	332,072
Tier-2 capital bonds	(2)	198,951	148,342
Subordinated bonds	(3)	4,800	4,800
Accrued interest		6,572	6,158
Subtotal		516,353	491,372
Carried at fair value:			
Bonds	(1)	14,508	12,153
Total		530,861	503,525

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32 DEBT SECURITIES ISSUED (Continued)

(1) Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
The Bank								
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/25	3 years	–	50,000
19 Bocomm 02	RMB	Mainland China	3.35	40,000	2019/12/11	3 years	–	40,000
20 Bocomm 01	RMB	Mainland China	3.18	50,000	2020/08/05	3 years	50,000	50,000
20 Bocomm 02	RMB	Mainland China	3.50	40,000	2020/11/11	3 years	40,000	40,000
21 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.40	40,000	2021/04/06	3 years	40,000	40,000
22 Bocom Micro Small Enterprises Bond 01	RMB	Mainland China	2.75	30,000	2022/06/15	3 years	29,999	–
22 Bocom Micro Small Enterprises Bond 02	RMB	Mainland China	2.98	30,000	2022/12/09	3 years	29,998	–
22 Bocom Green Financial Bond	RMB	Mainland China	2.42	20,000	2022/08/05	3 years	19,999	–
22 Bocom Green Financial Bond 02	RMB	Mainland China	2.96	10,000	2022/12/09	3 years	9,999	–
17 medium-term notes 02	USD	Hong Kong China	3MLibor+0.88	300	2017/05/15	5 years	–	1,912
17 medium-term notes 04	USD	Hong Kong China	3MLibor+0.90	600	2017/12/04	5 years	–	3,825
18 medium-term notes 02	USD	Hong Kong China	3MLibor+0.85	700	2018/05/17	5 years	4,876	4,462
20 Hong Kong medium-term notes 01	HKD	Hong Kong China	2.25	2,800	2020/01/22	2 years	–	2,289
20 Hong Kong medium-term notes 02	USD	Hong Kong China	3MLibor+0.58	1,300	2020/01/22	3 years	9,055	8,287
20 Hong Kong medium-term notes 04	USD	Hong Kong China	3MLibor+0.75	100	2020/06/05	3 years	696	637
20 Hong Kong medium-term notes 05	USD	Hong Kong China	3MLibor+0.80	650	2020/07/20	3 years	4,528	4,143
20 Hong Kong medium-term notes 06	USD	Hong Kong China	3MLibor+0.90	400	2020/07/20	5 years	2,786	2,550
20 Hong Kong medium-term notes 07	USD	Hong Kong China	1.20	800	2020/09/10	5 years	5,560	5,084
20 Hong Kong medium-term notes 08	USD	Hong Kong China	3MLibor+0.80	350	2020/09/10	3 years	2,438	2,231
21 Macau PA-medium-term notes	MOP	Macau China	0.85	1,200	2021/12/15	2 years	1,038	951
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	199	200
Subtotal							251,171	256,571

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32 DEBT SECURITIES ISSUED (Continued)

(1) Bonds (Continued)

Detailed information of bonds held at amortised cost is as follows: (Continued)

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Ending balance	Opening balance
Subsidiaries								
19 Leasing 01	RMB	Mainland China	3.68	5,000	2019/05/20	3 years	–	4,998
19 Leasing 02	RMB	Mainland China	3.65	5,000	2019/07/08	3 years	–	4,998
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/21	3 years	–	3,498
20 Leasing 01	RMB	Mainland China	3.65	3,000	2020/11/05	3 years	2,998	2,996
21 Leasing 01	RMB	Mainland China	3.62	4,000	2021/03/01	3 years	3,996	3,993
21 Leasing 02	RMB	Mainland China	3.45	3,000	2021/04/22	3 years	2,627	2,625
22 Pearl notes	RMB	Mainland China	2.90	2,400	2022/12/15	3 years	1,680	–
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	–	3,693
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	3,001	2,766
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.20	120	2019/04/12	3 years	–	765
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.175	400	2019/09/05	5 years	1,228	1,129
19 USD medium-term notes 05	USD	Hong Kong China	2.625	200	2019/09/05	5 years	809	723
19 USD medium-term notes 06	USD	Hong Kong China	3MLibor+1.05	180	2019/10/25	3 years	–	1,148
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.075	600	2019/12/10	5 years	1,450	1,585
20 USD medium-term notes 01	USD	Hong Kong China	3MLibor+0.95	500	2020/03/02	5 years	1,842	1,710
20 USD medium-term notes 02	USD	Hong Kong China	3MLibor+0.83	300	2020/03/02	3 years	1,628	1,492
20 USD medium-term notes 03	USD	Hong Kong China	1.75	350	2020/07/14	3 years	1,661	1,515
20 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.70	450	2020/07/14	5 years	1,616	1,348
21 USD medium-term notes 01	USD	Hong Kong China	1.125	500	2021/06/18	3 years	2,181	1,865
21 HKD medium-term notes 02	HKD	Hong Kong China	1.07	775	2021/09/27	3 years	692	634
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,482	3,187
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,615	6,047
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,728	1,580
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	–	6,692
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,736	1,589
20 Financial Investing 01	RMB	Mainland China	2.70	3,000	2020/03/11	3 years	2,998	2,999
20 Financial Investing 02	RMB	Mainland China	2.80	7,000	2020/03/11	5 years	6,995	6,990
21 Bocomm International 01	USD	Hong Kong China	1.75	500	2021/06/22	5 years	3,223	2,890
19 Brazil bonds	BRL	Brazil	110%SELIC	200	2019/01/30	5 years	52	46
22 Brazil bonds 01	BRL	Brazil	CDI +2.60	270	2022/02/07	10 years	357	–
22 Brazil bonds 02	BRL	Brazil	CDI +2.40	200	2022/11/29	10 years	264	–
Subtotal							54,859	75,501
Total							306,030	332,072

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32 DEBT SECURITIES ISSUED (Continued)

(1) Bonds (Continued)

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Fair value at the end of the year	Fair value at the beginning of the year
Subsidiaries								
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,120	3,027
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	800	2019/03/21	3 years	–	5,106
20 Hong Kong medium-term notes 03	RMB	Hong Kong China	3.15	2,000	2020/01/22	2 years	–	2,034
21 Hong Kong medium-term notes 01	HKD	Hong Kong China	0.95	1,200	2021/12/13	2 years	1,031	980
21 Hong Kong medium-term notes 02	RMB	Hong Kong China	3.15	1,000	2021/12/13	3 years	1,004	1,006
22 Hong Kong medium-term notes 01	HKD	Hong Kong China	1.80	1,200	2022/03/21	2 years	1,039	–
22 Hong Kong medium-term notes 02	RMB	Hong Kong China	3.20	2,800	2022/03/21	2 years	2,834	–
22 Hong Kong medium-term notes 03	USD	Hong Kong China	2.375	400	2022/03/21	3 years	2,661	–
22 Hong Kong medium-term notes 04	RMB	Hong Kong China	3.05	1,420	2022/11/30	2 years	1,426	–
22 Hong Kong medium-term notes 05	USD	Hong Kong China	4.75	200	2022/11/30	3 years	1,393	–
Total							14,508	12,153

(2) Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
The Bank									
17 BoComm	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(a)	–	29,978
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(b)	29,998	29,998
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(c)	9,999	9,999
20 BoComm	RMB	Mainland China	3.24	40,000	2020/05/19	10 years	(d)	39,997	39,996
21 BoComm	RMB	Mainland China	3.65	30,000	2021/09/23	10 years	(e)	29,999	30,000
22 BoComm 01	RMB	Mainland China	3.45	30,000	2022/02/23	10 years	(f)	29,999	–
22 BoComm 02A	RMB	Mainland China	3.03	37,000	2022/11/11	10 years	(g)	36,998	–
22 BoComm 02B	RMB	Mainland China	3.36	13,000	2022/11/11	15 years	(h)	12,999	–
Subtotal								189,989	139,971
Subsidiaries									
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(i)	1,996	1,996
21 BoComm Hong Kong	USD	Hong Kong China	2.304	1,000	2021/07/08	10 years	(j)	6,966	6,375
Subtotal								8,962	8,371
Total								198,951	148,342

- (a) The Group has redeemed full face value of 17 BoComm by exercising redemption option on 13 April 2022.
- (b) The Group has an option to redeem 19 BoComm 01 at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

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32 DEBT SECURITIES ISSUED *(Continued)*(2) Tier 2 capital bonds *(Continued)*

- (c) The Group has an option to redeem 19 BoComm 02 at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (d) The Group has an option to redeem 20 BoComm at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (e) The Group has an option to redeem 21 BoComm at the par value partially or as a whole on 27 September 2026, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (f) The Group has an option to redeem 22 BoComm 01 at the par value partially or as a whole on 25 February 2027, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (g) The Group has an option to redeem 22 BoComm 02A at the par value partially or as a whole on 15 November 2027, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (h) The Group has an option to redeem 22 BoComm 02B at the par value partially or as a whole on 15 November 2032, the last day of the interest-bearing year with early redemption option embedded, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (i) The Group has an option to redeem 18 Leasing 02 at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that the CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.
- (j) The Group has an option to redeem 21 BoComm Hong Kong as a whole on 8 July 2026. If the issuer does not exercise the redemption right by 8 July 2026, the interest rate will be readjusted based on the 5-year U. S. Treasury rate plus 140 basis points initial rate differential.

These tier-2 capital bonds have the write-down feature, which allows the Group to write down the entire principals of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as tier-2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

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32 DEBT SECURITIES ISSUED (Continued)

(3) Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Ending balance	Opening balance
Subsidiary									
21 Insurance 01	RMB	Mainland China	4.30	3,000	2021/03/25	10 years	(a)	3,000	3,000
21 Insurance 02	RMB	Mainland China	3.93	1,800	2021/07/27	10 years	(a)	1,800	1,800
Total								4,800	4,800

- (a) BOCOM MSIG Life Insurance Company Limited has an option to redeem the bonds at the par value partially or as a whole on the last day of the fifth interest-bearing year, provided that the permission of PBOC and CBIRC is acquired in advance and the BOCOM MSIG Life Insurance Company Limited's solvency ratio is not less than 100% if the redemption is exercised.

33 OTHER LIABILITIES

	Note	As at 31 December 2022	As at 31 December 2021
Insurance liabilities		89,435	74,493
Clearing and settlement		22,704	24,056
Temporary receipts		35,912	16,015
Staff compensation payable		16,802	14,401
Expected credit impairment allowance of credit related commitments and financial guarantees	(1)	11,291	9,242
Lease liabilities		6,775	6,640
Deposits received for finance lease		6,414	6,842
VAT and other taxes payable		4,811	5,639
Special purpose funding		1,949	2,108
Provision for outstanding litigations	(2)	520	472
Dividends payable		378	81
Others		52,019	52,706
Total		249,010	212,695

- (1) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees

	For the year ended 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	8,736	506	–	9,242
Transfers:				
Transfer to Stage 1	24	(24)	–	–
Transfer to Stage 2	(333)	333	–	–
Transfer to Stage 3	–	–	–	–
Provision	1,798	560	–	2,358
Others	1	(310)	–	(309)
As at 31 December 2022	10,226	1,065	–	11,291

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For the year ended 31 December 2022

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33 OTHER LIABILITIES (Continued)

(1) Movements in the expected credit impairment allowance of credit related commitments and financial guarantees (Continued)

	For the year ended 31 December 2021			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 1 January 2021	6,858	3,642	–	10,500
Transfers:				
Transfer between Stage 1 and Stage 2 net	(37)	37	–	–
Transfer between Stage 1 and Stage 3 net	–	–	–	–
Transfer between Stage 2 and Stage 3 net	–	–	–	–
Provision	1,925	73	–	1,998
Others	(10)	(3,246)	–	(3,256)
As at 31 December 2021	8,736	506	–	9,242

(2) Movements in the provision for outstanding litigations

	As at 1 January 2022	Amounts during accrued the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2022
Provision for outstanding litigations	472	223	(8)	(167)	–	520

	As at 1 January 2021	Amounts during accrued the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2021
Provision for outstanding litigations	1,032	99	(361)	(298)	–	472

34 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2022	74,263	74,263	111,428
As at 31 December 2022	74,263	74,263	111,429

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus
As at 1 January 2021	74,263	74,263	111,428
As at 31 December 2021	74,263	74,263	111,428

As at 31 December 2022 and 31 December 2021, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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34 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2022 and 31 December 2021, the Group's capital surplus is listed as follows:

	As at 1 January 2022	Additions	Reductions	As at 31 December 2022
Share premium	110,770	–	–	110,770
Other capital reserve	658	1	–	659
Total	111,428	1	–	111,429

	As at 1 January 2021	Additions	Reductions	As at 31 December 2021
Share premium	110,770	–	–	110,770
Other capital reserve	658	–	–	658
Total	111,428	–	–	111,428

35 OTHER EQUITY INSTRUMENTS

(1) Preference shares

(a) *Preference shares outstanding at the end of the year*

	Issue date	Accounting classification	Dividend rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Domestic preference shares										
Preference shares in RMB	2 September 2016	Equity	4.07	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the period
Less: Issuance fees							(48)			
Carrying amount							44,952			

(b) *Movements of preference shares issued*

	As at 1 January 2022	Movements		As at 31 December 2022
		Additions	Decreases	
Domestic references-shares				
Amount (shares)	450,000,000	–	–	450,000,000
In RMB (millions)	44,952	–	–	44,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

35 OTHER EQUITY INSTRUMENTS *(Continued)*

(1) Preference shares *(Continued)*

(c) Main clauses

Domestic preference shares

(i) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

- From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

With effect from 7 September 2021, the Bank has adjusted the dividend rate for the second dividend rate adjustment period to 4.07%.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(iii) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(iv) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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35 OTHER EQUITY INSTRUMENTS (Continued)

(1) Preference shares (Continued)

(c) Main clauses (Continued)

(iv) Order of distribution and liquidation method (Continued)

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(v) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining the CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 7 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

(2) Perpetual bonds

(a) Perpetual bonds outstanding at the end of the period

	Issue date	Accounting classification	Original interest rate %	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
19 BoComm perpetual bonds (i)	18 September 2019	Equity	4.20	RMB100/bond	400,000,000	40,000	40,000	No fixed maturity date
20 BoComm perpetual bonds (ii)	23 September 2020	Equity	4.59	RMB100/bond	300,000,000	30,000	30,000	No fixed maturity date
21 BoComm perpetual bonds (ii)	8 June 2021	Equity	4.06	RMB100/bond	415,000,000	41,500	41,500	No fixed maturity date
Perpetual bonds in USD (iii)	11 November 2020	Equity	3.80	Not less than USD200,000/bond	Not applicable	2,800	18,366	No fixed maturity date
Total							129,866	
Less: Issuance fees							(28)	
Carrying amount							129,838	

(b) Main clauses

(i) With the approvals by relevant regulatory authorities, the Bank issued RMB40 billion undated capital bonds in China's National Inter-Bank Bond Market on 18 September 2019, and the raising fund was received on 20 September 2019. The denomination of the bonds is RMB100 each and coupon rate of 4.20%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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35 OTHER EQUITY INSTRUMENTS *(Continued)*(2) Perpetual bonds *(Continued)*(b) **Main clauses** *(Continued)*

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of Additional tier-1 capital trigger event, namely, the Bank's core tier-1 capital adequacy ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the CBIRC but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the core tier-1 capital adequacy ratio to above 5.125%. Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down all the above perpetual bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional tier-1 capital of the Bank.

- (ii) With the approvals by relevant regulatory authorities, the Bank issued RMB30 billion undated capital bonds in China's National Inter-Bank Bond Market on 23 September 2020, and the raising fund was received on 25 September 2020. The denomination of the Bonds is RMB100 each and coupon rate of 4.59%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

With the approvals by relevant regulatory authorities, the Bank issued RMB41.5 billion undated capital bonds in China's National Inter-Bank Bond Market on 8 June 2021, and the raising fund was received on 10 June 2021. The denomination of the Bonds is RMB100 each and coupon rate of 4.06%. The Bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions, by which the Bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds, the principal amount of the bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(All amounts expressed in millions of RMB unless otherwise stated)

35 OTHER EQUITY INSTRUMENTS *(Continued)*

(2) Perpetual bonds *(Continued)*

(b) Main clauses *(Continued)*

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

- (iii) With the approvals by relevant regulatory authorities, the Bank issued USD2.8 billion undated capital bonds in the offshore market on 11 November 2020, and the raising fund was received on 18 November 2020. The specified denomination of the bonds is not less than USD200,000, the exceeding part need to be integral multiple of USD1000 and issued at 100% of the specified denomination. The coupon rate of the bonds is 3.80%. The bonds adopt a coupon rate adjusted on a stage-by-stage basis and a coupon rate adjustment period for every five years during which interests will be paid at the agreed coupon rate.

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. The bonds have set forth terms regarding the Bank's redemption with pre-conditions. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the bank is entitled to redeem the bonds after five years since the issue date in whole or in part on the annual interest payment date (including the interest payment date of the fifth year after the issue date). If, after the issuance, the perpetual bonds no longer qualify as additional tier-1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-1 capital instruments of the Bank that rank pari passu with the perpetual bonds.

Upon the occurrence of a Non-Viability Triggering Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the bonds. Once the principal amount of the Bonds (in whole or in part) has been written-off, such relevant written-off portion of the bonds will not be restored or become payable again in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid distribution in respect of such relevant written-off portion of the bonds shall cease to be payable. In addition, there will be no compensation in any form to remedy the loss of the bondholders.

The distributions on the perpetual bonds are non-cumulative, and the Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

Investors have no right to redeem their subscription from the Bank. The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the additional tier-1 capital of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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35 OTHER EQUITY INSTRUMENTS (Continued)

(3) Interests attributable to holders of other equity instruments

	As at 31 December 2022	As at 31 December 2021
Total equity attributable to equity holders of the parent company	1,023,409	964,647
– Equity attributable to ordinary shareholders of the parent company	848,619	789,857
– Equity attributable to preference shareholders of the parent company	44,952	44,952
– Equity attributable to perpetual bond holders of the parent company	129,838	129,838
Total equity attributable to non-controlling interests	12,331	12,589
– Equity attributable to non-controlling interests of ordinary shares	8,873	9,424
– Equity attributable to non-controlling interests of non-cumulative subordinated additional Tier-1 capital securities (Note 38)	3,458	3,165

Dividends paid to preference shareholders and interest paid to perpetual bond holders for the year ended 31 December 2022 are disclosed in Note 37.

36 OTHER RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting of Shareholders.

Pursuant to relevant PRC regulations, the Bank appropriated 10% of its net profit for the year under CAS to the statutory surplus reserve until the reserve balance reaches 50% of the Bank's registered capital. The statutory surplus reserve can be used to compensate losses or to increase share capital upon approval.

	As at 1 January 2022	Appropriate	Decrease	As at 31 December 2022
The Group				
Statutory reserve	79,967	8,187	–	88,154
Discretionary reserve	140,022	160	–	140,182
Total	219,989	8,347	–	228,336

Pursuant to relevant PRC banking regulations, since 1 July 2012, the Bank made statutory general reserve from net profit through profit appropriation according to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20). The proportion is determined based on several factors including the Bank's overall exposure to risk, normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. The Group's subsidiaries and overseas branches, if required by regulation requirements of belonged industries or location, also need to make such general reserve.

	As at 1 January 2022	Appropriate	Decrease	As at 31 December 2022
The Group				
Statutory general reserve	130,280	14,261	–	144,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
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36 OTHER RESERVES AND RETAINED EARNINGS (Continued)

Retained earnings

The movements of retained earnings are set out below:

As at 1 January 2022	258,074
Profit for the year	92,149
Appropriation to statutory reserve	(8,187)
Appropriation to discretionary reserve	(160)
Appropriation to general reserve	(14,261)
Dividends payable to ordinary shareholders	(26,363)
Dividends payable to preference shareholders	(1,832)
Interest to perpetual bond holders	(5,651)
Others	(101)
As at 31 December 2022	293,668
As at 1 January 2021	214,448
Profit for the year	87,581
Appropriation to statutory reserve	(7,536)
Appropriation to discretionary reserve	(92)
Appropriation to general reserve	(7,117)
Dividends payable to ordinary shareholders	(23,541)
Dividends payable to preference shareholders	(1,755)
Interest to perpetual bond holders	(3,858)
Others	(56)
As at 31 December 2021	258,074

37 DIVIDENDS

	2022	2021
Dividends to ordinary shareholders of the Bank	26,363	23,541
Dividends to preference shareholders of the Bank	1,832	1,755
Interest to perpetual bond holders of the Bank	5,651	3,858

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting of Shareholders. These funds form part of the shareholders' equity. The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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37 DIVIDENDS (Continued)

Pursuant to the approval by the 2021 Annual General Meeting of Shareholders on 28 June 2022, the Bank appropriated a cash dividend of RMB0.355 (before tax) for each ordinary share, with total amount of RMB26,363 million, calculated based on 74,263 million shares outstanding as at 31 December 2021, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 29 April 2022, the Bank will appropriate domestic preference dividends of RMB1,831,500,000 with a dividend yield of 4.07%.

The Bank distributed the interest on the 2020 undated capital bonds in USD amounting to RMB909 million on 18 November 2022.

The Bank distributed the interest on the 2020 undated capital bonds amounting to RMB1,377 million on 25 September 2022.

The Bank distributed the interest on the 2019 undated capital bonds amounting to RMB1,680 million on 20 September 2022.

The Bank distributed the interest on the 2021 undated capital bonds amounting to RMB1,685 million on 10 June 2022.

38 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 31 December 2022, equity attributable to other equity instruments holders was RMB3,458 million. Other equity instruments were non-cumulative subordinated additional tier-1 capital securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

Issue Date	3 March 2020
Face Value	USD500 million
First Call Date	3 March 2025
Distribution Rate	(i) from the issue date to the first call date, 3.725% per annum (ii) for every five calendar years after the first call date, the then-prevailing US Treasury Rate plus 2.525% per annum if the redemption right is not exercised
Frequency of distribution payments	Semi-annually

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. Therefore, the Group recognised the bonds as equity instruments.

Pursuant to the terms and conditions of the Non-Cumulative Subordinated Additional Tier-1 capital securities, Bank of Communications (Hong Kong) Limited has paid a total distribution of RMB119 million during the year ended 31 December 2022.

39 CONTINGENCIES

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 33. The total outstanding claims against the Group (as defendant) by a number of third parties at the end of the year are summarised as follows:

	As at 31 December 2022	As at 31 December 2021
Outstanding litigations	2,017	4,096
Provision for outstanding litigation (Note 33)	520	472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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39 CONTINGENCIES (Continued)

Operating lease receipts

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 31 December 2022	As at 31 December 2021
Within 1 year	16,880	13,186
After 1 year and within 2 years	15,635	12,864
After 2 years and within 3 years	14,209	12,269
After 3 years and within 4 years	12,954	11,184
After 4 years and within 5 years	11,374	10,204
After 5 years	43,924	38,879
Total	114,976	98,586

40 COMMITMENTS

Credit related commitments and financial guarantees

The following tables provide the contractual amounts of the Group's credit related commitments and financial guarantees which the Group has committed to its customers:

	As at 31 December 2022	As at 31 December 2021
Loan commitments		
– Under 1 year	10,129	3,936
– 1 year and above	71,743	57,657
Credit card commitments	998,125	908,358
Acceptance bills	536,574	368,120
Letters of guarantee	420,167	373,630
Letters of credit commitments	183,717	156,194
Total	2,220,455	1,867,895

Capital expenditure commitments

	As at 31 December 2022	As at 31 December 2021
Contracted but not provided for	94,654	71,053

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2022, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB66,715 million (31 December 2021: RMB78,594 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. As at 31 December 2022, The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material (31 December 2021: not material).

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2022, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2021: Nil).

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41 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 31 December 2022	As at 31 December 2021	As at 31 December 2022	As at 31 December 2021
Investment securities	751,853	382,640	692,106	326,776
Bills	2,112	3,531	2,112	3,531
Total	753,965	386,171	694,218	330,307

Financial assets sold under repurchase agreements included certain transactions under which the title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 46 transfers of financial assets.

In addition, loans and advances to customers pledged as collateral for borrowing from central banks or placements from banks by the Group as at 31 December 2022 amounted to RMB4,217 million in total (31 December 2021: RMB5,090 million).

(2) Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements. The Group did not hold any collateral that can be resold or re-pledged on balance sheet date when non-defaulting.

42 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2022		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Changes in fair value of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	(9,692)	1,947	(7,745)
Amount reclassified to profit or loss	(892)	223	(669)
Expected credit losses of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	1,438	(219)	1,219
Amount reclassified to profit or loss	–	–	–
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity	2,564	(560)	2,004
Amount reclassified to profit or loss	(1,606)	402	(1,204)
Translation difference on foreign operations	8,562	–	8,562
Changes in fair value of equity investments designated at FVOCI	(1,417)	116	(1,301)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVTPL	(133)	–	(133)
Actuarial gains on pension benefits	(34)	–	(34)
Others	144	(9)	135
Other comprehensive income for the year	(1,066)	1,900	834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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42 OTHER COMPREHENSIVE INCOME (Continued)

	Year ended 31 December 2021		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Changes in fair value of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	4,594	(945)	3,649
Amount reclassified to profit or loss	(1,160)	290	(870)
Expected credit losses of debt instruments measured at fair value through other comprehensive income			
Amount recognised in equity	(466)	72	(394)
Amount reclassified to profit or loss	–	–	–
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Amount recognised in equity	1,133	(242)	891
Amount reclassified to profit or loss	(617)	154	(463)
Translation difference on foreign operations	(3,450)	–	(3,450)
Changes in fair value of equity investments designated at FVOCI	(1,830)	275	(1,555)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVTPL	(36)	–	(36)
Actuarial gains on pension benefits	55	–	55
Others	16	–	16
Other comprehensive income for the year	(1,761)	(396)	(2,157)

43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than or equal to 90 days from date of purchase and used for the purpose of meeting short-term cash commitments:

	As at 31 December 2022	As at 31 December 2021
Cash and balances with central banks	117,662	103,648
Due from and placements with banks and other financial institutions	131,141	90,660
Total	248,803	194,308

44 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds, and securitisation products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2022, the consolidated structured entities amounted to RMB177,225 million (31 December 2021: RMB182,733 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

45 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through acting as sponsors of structured entities or investments in structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2022, those unconsolidated structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, limited partnerships, WMPs with principals not guaranteed by the Group and securitisation products. The Group earns commission income by providing management services to the investors of these structured entities, and such income is not significant to the Group. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2022, the balance of the non-principal guaranteed WMPs set up by the Group amounted to RMB1,206,901 million, the balance of funds issued by the Group amounted to RMB531,253 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB569,762 million (As at 31 December 2021: the balance of the non-principal guaranteed WMPs set up by the Group amounted to RMB1,426,253 million, the balance of funds issued by the Group amounted to RMB547,188 million, the balance of trusts and asset management plans and others sponsored by the Group amounted to RMB721,946 million).

For the year ended 31 December 2022, the Group's commission income from providing services to the structured entities managed by the Group was RMB10,154 million (For the year ended 31 December 2021: RMB11,775 million), and no interest income from placements and repurchase transactions with those unconsolidated WMPs (For the year ended 31 December 2021: Nil).

As at 31 December 2022 and 31 December 2021, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

As at 31 December 2022

	Carrying amount				Maximum exposure to loss	Type of income
	Financial investments at FVTPL	Financial investments at amortised cost	Financial investments at FVOCI			
Funds	199,024	–	–	199,024	Net gains arising from trading activities	
Equity investment	1,325	–	352	1,677	Net gains arising from trading activities, other comprehensive income	
Trusts and asset management products	9,141	60,463	–	69,604	Net interest income, net gains arising from trading activities	
Securitisation products	170	261	–	431	Net interest income, net gains arising from trading activities	
Total	209,660	60,724	352	270,736		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

45 UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

As at 31 December 2021

	Financial investments at FVTPL	Carrying amount Financial investments at amortised cost	Financial investments at FVOCI	Maximum exposure to loss	Type of income
Funds	146,439	–	–	146,439	Net gains arising from trading activities
Equity investment	1,299	–	620	1,919	Net gains arising from trading activities, other comprehensive income
Trusts and asset management products	13,445	83,245	–	96,690	Net interest income, net gains arising from trading activities
Securitisation products	63	134	–	197	Net interest income, net gains arising from trading activities
Total	161,246	83,379	620	245,245	

46 TRANSFERS OF FINANCIAL ASSETS

(1) Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2022 and 31 December 2021, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial assets sold under repurchase agreements” (Note 28).

The transferred financial assets that are not derecognised of sales and repurchase agreements by the Group as at 31 December 2022 amounted to RMB6,030 million, and the associated liabilities amounted to RMB5,140 million.

(2) Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2022, the carrying value of debt securities lent to counterparties was RMB4,513 million (31 December 2021: RMB13,900 million).

(3) Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

46 TRANSFERS OF FINANCIAL ASSETS (Continued)

(3) Asset securitisation (Continued)

The Group retains interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated statement of financial position to the extent of the Group's continuing involvement, while the rest are derecognised. The extent of the Group's continuing involvement is the extent of risk the Group faces due to changes in the value of the transferred assets.

As at 31 December 2022, loans with an original value of RMB88,308 million and carrying amount of RMB63,538 million (31 December 2021: RMB66,061 million and RMB56,834 million) have been securitised by the Group. For the year ended 31 December 2022, the Group transferred financial assets amounted to RMB36,174 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2021, the Group transferred financial assets amounted to RMB13,927 million through assets backed securitization transactions, and all have met the requirement of derecognition).

As at 31 December 2022, the Group retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group continued to recognise was RMB5,529 million (31 December 2021: RMB5,529 million).

(4) Disposal of non-performing loans and advances to customers

The Group disposes non-performing loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2022, the Group had transferred non-performing loans and advances to customers with a gross carrying amount of RMB2,243 million (For the year ended 31 December 2021: RMB12,853 million) and collected cash totalling RMB1,423 million (For the year ended 31 December 2021: RMB8,403 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group derecognised the non-performing loans and advances to customers from the Group's financial statements at the time of disposal.

47 RELATED PARTY TRANSACTIONS

(1) Transactions with the MOF

As at 31 December 2022, the MOF held 17,732 million (31 December 2021: 17,732 million) ordinary shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2021: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
Bonds Issued by the MOF		
Financial investments at FVTPL	31,464	96,082
Financial investments at amortised cost	871,172	742,510
Financial investments at FVOCI	201,369	136,318
	2022	2021
Interest income on the government bonds	29,227	26,421

(2) Transactions with the National Council for Social Security Fund

As at 31 December 2022, the National Council for Social Security Fund held 12,155 million (31 December 2021: 12,160 million) ordinary shares of Bank of Communications Co., Ltd. which represented 16.37% (31 December 2021: 16.37%) of the total share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(2) Transactions with the National Council for Social Security Fund (Continued)

The National Council for Social Security Fund was incorporated in August 2000, which is an independent legal entity under the management of the Ministry of Finance, responsible for managing and operating the national social security fund. Its legal representative is Liu Wei, its registered capital is RMB8.00 million and its registered address is South Fortune Times Building, No. 11 Fenghuiyuan, Xicheng District, Beijing. The Group enters into transactions with the National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
Due to customers	92,409	92,373
	2022	2021
Interest expenses	(3,846)	(3,703)

(3) Transactions with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group and its joint ventures

As at 31 December 2022, HSBC held 13,886 million (31 December 2021: 13,886 million) ordinary shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2021: 18.70%) of the total share capital.

HSBC was incorporated in 1866, primarily providing local and international banking services, and related financial services in the Asia-Pacific region. Its Co-chief Executive Officer is Liao, Yi Chien David and Surendra Rosha, and its registered address is 1 Queen's Road Central, Central, Hong Kong. The ordinary share capital of HSBC is HKD116,103 million and USD7,198 million, which was divided into 46,441 million ordinary shares. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
On-balance sheet items		
Due from and placements with banks and other financial institutions	2,819	3,338
Derivative financial assets	1,902	1,672
Loans and advances to customers	403	–
Financial investments at FVTPL	2,271	1,931
Financial investments at amortised cost	2,755	419
Financial investments at FVOCI	6,140	4,052
Due to and placements from banks and other financial institutions	26,508	17,083
Financial liabilities at FVTPL	1,830	1,424
Derivative financial liabilities	1,722	1,613
Off-balance sheet items		
Notional principal of derivative financial instruments	153,484	240,864
Credit related commitments and financial guarantees	16	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(3) Transactions with the Hongkong and Shanghai Banking Corporation Limited (“HSBC”) Group and its joint ventures (Continued)

	2022	2021
Interest income	355	163
Interest expense	(1,596)	(95)
Fee and commission income	100	1
Fee and commission expense	(8)	(4)

(4) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the government as well as trading and redemption of securities issued by the government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(5) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation. Basic information and relevant details of subsidiaries are set out in note 23.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
The Bank		
Due from and placements with banks and other financial institutions	169,576	123,461
Loans and advances to customers	505	486
Financial investments at FVTPL	237	433
Financial investments at amortised cost	1,861	1,551
Financial investments at FVOCI	10,280	11,455
Derivative financial assets	902	793
Other assets	734	766
Due to and placements from banks and other financial institutions	9,246	14,523
Derivative financial liabilities	9,572	1,851
Due to customers	8,313	11,683
Other liabilities	279	119

	2022	2021
The Bank		
Interest income	3,811	1,952
Interest expense	(296)	(238)
Fee and commission income	1,524	1,681
Fee and commission expense	(55)	(95)
Other operating income	637	555
Other operating expense	(175)	(82)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS *(Continued)*

(6) Transactions with directors, supervisors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
Loans and advances to customers	1	1
Due to customers	10	10

Compensations of directors and senior management are disclosed in Note 15.

(7) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates. Basic information and relevant details of associates and joint ventures are set out in note 24.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
On-balance sheet items		
Due from and placements with banks and other financial institutions	–	500
Derivative financial assets	1,212	31
Loans and advances to customers	20,765	6,041
Financial investments at amortised cost	102	–
Due to and placements from banks and other financial institutions	907	104
Derivative financial liabilities	25	35
Due to customers	84	–
Off-balance sheet items		
Notional principal of derivative financial instruments	4,594	6,947
Credit related commitments and financial guarantees	6,400	12,126
	2022	2021
Interest income	373	242
Interest expense	(2)	(6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

47 RELATED PARTY TRANSACTIONS (Continued)

(8) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2022	As at 31 December 2021
On-balance sheet items		
Loans and advances to customers	677	1,080
Due to and placements from banks and other financial institutions	331	1,204
Due to customers	70,307	79,787
Off-balance sheet items		
Credit related commitments and financial guarantees	904	–
	2022	2021
Interest income	14	22
Interest expense	(2,748)	(2,543)

(9) Proportion of major related party transactions

The major balances and transactions with subsidiaries have been eliminated in the consolidated financial statements. When calculating the proportion of related party transactions, transactions with the subsidiary are not involved.

	As at 31 December 2022		As at 31 December 2021	
	Balances	%	Balances	%
On-balance sheet items				
Due from and placements with banks and other financial institutions	2,819	0.41	3,838	0.61
Derivative financial assets	3,114	4.47	1,703	4.34
Loans and advances to customers	21,846	0.31	7,122	0.11
Financial investments at FVTPL	33,735	4.78	98,013	15.35
Financial investments at amortised cost	874,029	35.66	742,929	33.72
Financial investments at FVOCI	207,509	25.97	140,370	20.59
Due to and placements from banks and other financial institutions	(27,746)	1.36	(18,391)	0.94
Financial liabilities at FVTPL	(1,830)	3.82	(1,424)	2.85
Derivative financial liabilities	(1,747)	3.73	(1,648)	4.57
Due to customers	(162,810)	2.05	(172,170)	2.45
Off-balance sheet items				
Notional principal of derivative financial instruments	158,078	2.44	247,811	3.48
Credit related commitments and financial guarantees	7,320	0.33	12,126	0.64
	2022		2021	
	Amount	%	Amount	%
Interest income	29,969	7.07	26,848	7.02
Interest expense	(8,192)	3.30	(6,347)	2.94
Fee and commission income	100	0.20	1	–
Fee and commission expense	(8)	0.17	(4)	0.08

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS

Operating segments are identified based on the structure of the Group's internal organization and management requirements. Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Funds are ordinarily allocated between segments. Costs of these funds are charged at the Group's cost of capital and disclosed in inter-segment net interest income. There are no other material items of income or expenses between the segments. Net interest income and expense relating to third parties are disclosed in external net interest income. There are no other material items of income or expenses between the segments.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The basis for allocation is mainly based on occupation of or contribution to resources. Income taxes are managed on a group basis and are not allocated to operating segments.

Geographical operating segment information

The Group's Board of Directors and senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's geographical operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The Group's geographical operating segments include provincial and directly managed branches and subsidiaries (if any) in relevant regions, as follows:

- Head Office: Head Office, including the Pacific Credit Card Centre;
- Yangtze River Delta: including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, and Anhui Province;
- Central China: including Shanxi Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Hainan Province, and Guangxi Zhuang Autonomous Region;
- Bohai Rim Economic Zone: including Beijing, Tianjin, Hebei Province, and Shandong Province;
- Pearl River Delta: including Fujian Province and Guangdong Province;
- Western China: including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Inner Mongolia Autonomous Region, Ningxia Autonomous Region, and Xinjiang Uyghur Autonomous Region;
- North Eastern China: including Liaoning Province, Jilin Province and Heilongjiang Province;
- Overseas: including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague, Johannesburg.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Geographical operating segment information (Continued)

The geographical operating segment information of the Group is summarised as follows:

	Year ended 31 December 2022								
	Yangtze River Delta	Pearl River Delta	Bohai Rim Economic Zone	Central China	Western China	North Eastern China	Overseas	Head Office	Total
External net interest income/(expense)	28,193	13,195	(1,906)	23,356	18,025	(516)	10,903	78,687	169,937
Inter-segment net interest income/(expense)	23,929	7,099	26,649	7,765	1,568	6,358	121	(73,489)	-
Net interest income	52,122	20,294	24,743	31,121	19,593	5,842	11,024	5,198	169,937
Fee and commission income	14,130	3,854	5,343	5,560	2,894	1,092	2,226	14,240	49,339
Fee and commission expense	(2,811)	(42)	(70)	(153)	(21)	(15)	(239)	(1,349)	(4,700)
Net fee and commission income	11,319	3,812	5,273	5,407	2,873	1,077	1,987	12,891	44,639
Net gains/(loss) arising from trading activities	3,362	274	177	651	(173)	78	(471)	13,709	17,607
Net gains/(loss) arising from financial investments	948	-	27	-	-	17	(146)	(352)	494
Share of (loss)/profits of associates and joint ventures	(55)	-	-	-	-	-	65	282	292
Insurance business income	18,023	-	-	-	-	-	77	-	18,100
Other operating income	17,569	582	1,252	1,043	868	266	384	495	22,459
Total operating income -net	103,288	24,962	31,472	38,222	23,161	7,280	12,920	32,223	273,528
Credit impairment losses	(6,154)	(6,968)	(13,868)	(870)	(7,281)	(3,961)	(4,357)	(16,952)	(60,411)
Other assets impairment (losses)/reversal	(1,884)	(2)	(2)	(2)	(1)	(7)	-	1	(1,897)
Insurance business expense	(19,356)	-	-	-	-	-	(24)	-	(19,380)
Other operating expense	(28,305)	(6,955)	(9,177)	(9,484)	(6,674)	(3,371)	(4,748)	(24,911)	(93,625)
Profit/(loss) before tax	47,589	11,037	8,425	27,866	9,205	(59)	3,791	(9,639)	98,215
Income tax									(6,185)
Net profit for the year									92,030
Depreciation and amortisation	(1,793)	(945)	(1,141)	(1,135)	(956)	(497)	(508)	(1,675)	(8,650)
Capital expenditure	(25,091)	(340)	(210)	(391)	(856)	(190)	(441)	(3,989)	(31,508)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Geographical operating segment information (Continued)

	Year ended 31 December 2021								Total
	Yangtze River	Pearl River	Bohai Rim	North Eastern				Head Office	
	Delta	Delta	Economic Zone	Central China	Western China	China	Overseas		
External net interest income/(expense)	26,278	12,603	(1,003)	22,898	16,887	628	10,498	72,904	161,693
Inter-segment net interest income/(expense)	21,275	6,424	24,200	7,087	1,800	5,192	18	(65,996)	-
Net interest income	47,553	19,027	23,197	29,985	18,687	5,820	10,516	6,908	161,693
Fee and commission income	14,540	3,652	5,739	5,803	3,064	1,238	2,488	15,761	52,285
Fee and commission expense	(2,941)	(39)	(77)	(101)	(26)	(18)	(233)	(1,277)	(4,712)
Net fee and commission income	11,599	3,613	5,662	5,702	3,038	1,220	2,255	14,484	47,573
Net gains/(loss) arising from trading activities	7,031	376	380	659	1,824	12	(784)	13,846	23,344
Net gains/(loss) arising from financial investments	849	-	27	-	-	18	589	(172)	1,311
Share of profits of associates and joint ventures	-	-	-	-	-	-	47	230	277
Insurance business income	16,459	-	-	-	-	-	56	-	16,515
Other operating income	15,316	416	954	734	551	203	456	405	19,035
Total operating income -net	98,807	23,432	30,220	37,080	24,100	7,273	13,135	35,701	269,748
Credit impairment losses	(7,451)	(4,828)	(8,046)	(9,019)	(10,600)	(9,582)	(977)	(15,868)	(66,371)
Other assets impairment losses	(2,020)	(6)	(8)	(14)	(58)	(212)	-	(2)	(2,320)
Insurance business expense	(17,037)	-	-	-	-	-	(17)	-	(17,054)
Other operating expense	(26,518)	(6,571)	(8,854)	(9,125)	(5,922)	(3,378)	(4,372)	(25,304)	(90,044)
Profit/(loss) before tax	45,781	12,027	13,312	18,922	7,520	(5,899)	7,769	(5,473)	93,959
Income tax									(5,020)
Net profit for the year									88,939
Depreciation and amortisation	(1,814)	(909)	(1,133)	(1,116)	(954)	(498)	(469)	(1,206)	(8,099)
Capital expenditure	(17,500)	(660)	(494)	(864)	(488)	(265)	(141)	(2,535)	(22,947)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Geographical operating segment information (Continued)

	As at 31 December 2022									
	Yangtze River	Pearl River	Bohai Rim	North Eastern			Overseas	Head Office	Eliminations	Total
	Delta	Delta	Economic Zone	Central China	Western China	China				
Segment assets	3,195,976	1,234,660	1,889,591	1,410,944	971,233	459,731	1,147,589	4,949,397	(2,305,473)	12,953,648
Including:										
Investments in associates and joint ventures	1,439	-	-	1	-	-	1,125	6,185	-	8,750
Unallocated assets										38,771
Total assets										12,992,419
Segment liabilities	(2,929,814)	(1,219,145)	(1,872,761)	(1,364,697)	(960,633)	(462,599)	(1,086,273)	(4,364,445)	2,305,474	(11,954,893)
Unallocated liabilities										(1,786)
Total liabilities										(11,956,679)

	As at 31 December 2021									
	Yangtze River	Pearl River	Bohai Rim	North Eastern			Overseas	Head Office	Eliminations	Total
	Delta	Delta	Economic Zone	Central China	Western China	China				
Segment assets	2,881,066	1,059,386	1,711,386	1,277,003	881,918	409,288	1,095,657	4,459,033	(2,141,041)	11,633,696
Including:										
Investments in associates and joint ventures	4	-	-	1	-	-	201	5,573	-	5,779
Unallocated assets										32,061
Total assets										11,665,757
Segment liabilities	(2,658,802)	(1,042,577)	(1,688,784)	(1,239,658)	(870,308)	(417,068)	(1,046,572)	(3,863,904)	2,141,041	(10,686,632)
Unallocated liabilities										(1,889)
Total liabilities										(10,688,521)

Business information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Business information (Continued)

The business information of the Group is summarised as follows:

	Year ended 31 December 2022				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	79,079	44,883	45,831	144	169,937
Inter-segment net interest income/ (expense)	16,197	24,406	(40,603)	–	–
Net interest income	95,276	69,289	5,228	144	169,937
Net fee and commission income	9,984	28,095	6,381	179	44,639
Net gains/(loss) arising from trading activities	3,204	566	13,850	(13)	17,607
Net (loss)/gains arising from financial investments	(13)	887	(398)	18	494
Share of profits/(loss) of associates and joint ventures	28	(1)	(54)	319	292
Insurance business income	77	18,023	–	–	18,100
Other operating income	17,626	3,044	786	1,003	22,459
Total operating income-net	126,182	119,903	25,793	1,650	273,528
Credit impairment (losses)/reversal	(38,073)	(23,889)	1,552	(1)	(60,411)
Other assets impairment losses	(1,891)	(6)	–	–	(1,897)
Insurance business expense	(24)	(19,356)	–	–	(19,380)
Other operating expense					
– Depreciation and amortisation	(3,359)	(4,557)	(583)	(151)	(8,650)
– Others	(37,394)	(40,997)	(4,877)	(1,707)	(84,975)
Profit/(loss) before tax	45,441	31,098	21,885	(209)	98,215
Income tax					(6,185)
Net profit for the year					92,030
Depreciation and amortisation	(3,359)	(4,557)	(583)	(151)	(8,650)
Capital expenditure	(27,190)	(3,692)	(457)	(169)	(31,508)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Business information (Continued)

	Year ended 31 December 2021				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	74,792	47,357	39,422	122	161,693
Inter-segment net interest income/ (expense)	17,100	17,840	(34,940)	–	–
Net interest income	91,892	65,197	4,482	122	161,693
Net fee and commission income	10,341	30,743	6,330	159	47,573
Net gains arising from trading activities	8,522	1,553	12,940	329	23,344
Net gains arising from financial investments	40	833	438	–	1,311
Share of profits of associates and joint ventures	6	–	–	271	277
Insurance business income	56	16,459	–	–	16,515
Other operating income	15,153	2,857	269	756	19,035
Total operating income-net	126,010	117,642	24,459	1,637	269,748
Credit impairment losses	(47,024)	(19,079)	(259)	(9)	(66,371)
Other assets impairment losses	(2,265)	(55)	–	–	(2,320)
Insurance business expense	(17)	(17,037)	–	–	(17,054)
Other operating expense					
– Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
– Others	(35,500)	(40,167)	(4,996)	(1,282)	(81,945)
Profit before tax	38,263	36,844	18,563	289	93,959
Income tax					(5,020)
Net profit for the year					88,939
Depreciation and amortisation	(2,941)	(4,460)	(641)	(57)	(8,099)
Capital expenditure	(8,332)	(12,636)	(1,817)	(162)	(22,947)

	As at 31 December 2022				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
Segment assets	5,448,671	2,256,628	5,202,781	45,568	12,953,648
Including:					
Investments in associates and joint ventures	2,427	3	1,436	4,884	8,750
Unallocated assets					38,771
Total assets					12,992,419
Segment liabilities	(5,312,511)	(3,150,383)	(3,424,365)	(63,697)	(11,950,956)
Unallocated liabilities					(5,723)
Total liabilities					(11,956,679)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

48 SEGMENTAL ANALYSIS (Continued)

Business information (Continued)

	As at 31 December 2021				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	4,770,278	2,197,968	4,588,862	76,588	11,633,696
Including:					
Investments in associates and joint ventures	1,156	4	–	4,619	5,779
Unallocated assets					32,061
Total assets					11,665,757
Segment liabilities	(4,999,768)	(2,533,625)	(3,078,851)	(69,663)	(10,681,907)
Unallocated liabilities					(6,614)
Total liabilities					(10,688,521)

There were no significant transactions with a single external customer that the Group mainly relied on.

The comparative information was prepared in accordance with the categorisation of the current period since the assessment rules of the income and expense distribution between various business segments have been adjusted.

49 FINANCIAL STATEMENTS OF THE BANK

(1) Statement of financial position of the Bank

	As at 31 December 2022	As at 31 December 2021
Assets		
Cash and balances with central banks	801,402	721,912
Due from and placements with banks and other financial institutions	793,966	720,824
Derivative financial assets	65,871	38,426
Loans and advances to customers	6,767,462	6,083,046
Financial investments at fair value through profit or loss	577,709	507,745
Financial investments at amortised cost	2,353,127	2,147,313
Financial investments at fair value through other comprehensive income	625,454	472,635
Investments in associates and joint ventures	6,300	5,118
Investments in subsidiaries	84,279	79,269
Property and equipment	51,038	50,297
Deferred income tax assets	36,248	29,950
Other assets	60,844	86,801
Total assets	12,223,700	10,943,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK (Continued)

(1) Statement of financial position of the Bank (Continued)

	As at 31 December 2022	As at 31 December 2021
Liabilities and Equity		
Liabilities		
Due to banks and other financial institutions	1,864,487	1,807,016
Financial liabilities at FVTPL	32,172	16,799
Derivative financial liabilities	54,805	36,740
Due to customers	7,644,612	6,769,618
Certificates of deposits issued	1,080,787	882,435
Current income tax liabilities	2,572	2,952
Debt securities issued	461,224	413,552
Deferred income tax liabilities	–	41
Other liabilities	120,021	98,910
Total liabilities	11,260,680	10,028,063
	As at 31 December 2022	As at 31 December 2021
Equity		
Share capital	74,263	74,263
Other equity investments	174,790	174,790
<i>Including: Preference shares</i>	<i>44,952</i>	<i>44,952</i>
<i>Perpetual bonds</i>	<i>129,838</i>	<i>129,838</i>
Capital surplus	111,227	111,226
Other reserves	353,238	336,666
Retained earnings	249,502	218,328
Total equity	963,020	915,273
Total equity and liabilities	12,223,700	10,943,336

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 30 March 2023 and signed on its behalf by:

Chairman and Executive Director: Ren Deqi

Vice Chairman, Executive Director and President: Liu Jun

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022
(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK (Continued)

(2) Statement of changes in equity of the Bank

	Other equity instruments				Other reserves										Total
	Share capital	Preference Share	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve and impairment reserve for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation differences for foreign operations	Actuarial changes reserve	Others	Retained earnings	
As at 1 January 2022	74,263	44,952	129,838	111,226	77,044	139,764	122,341	(12)	(24)	53	(3,804)	(87)	1,391	219,328	915,273
Total comprehensive income	-	-	-	-	-	-	-	(5,871)	(133)	(89)	3,689	(34)	44	83,986	81,592
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,363)	(26,363)
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,832)	(1,832)
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,651)	(5,651)
Transfer to reserves	-	-	-	-	7,522	-	11,437	-	-	-	-	-	-	(18,959)	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	7	-	-	-	-	-	(7)	-
Others	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1
As at 31 December 2022	74,263	44,952	129,838	111,227	84,566	139,764	133,778	(5,876)	(157)	(36)	(115)	(121)	1,435	249,502	963,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

49 FINANCIAL STATEMENTS OF THE BANK (Continued)

(2) Statement of changes in equity of the Bank (Continued)

	Other equity instruments				Other reserves											Total
	Share capital	Preference Share	Perpetual bonds	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for the revaluation of financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation differences for foreign operations	Actuarial changes reserve	Others	Retained earnings		
As at 1 January 2021	74,263	44,952	88,340	111,226	70,147	139,764	115,920	(769)	12	40	(1,964)	(142)	1,375	185,586	828,750	
Total comprehensive income	-	-	-	-	-	-	-	752	(36)	13	(1,840)	55	16	75,219	74,179	
Capital contribution by holders of other equity instruments	-	-	41,498	-	-	-	-	-	-	-	-	-	-	-	41,498	
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,541)	(23,541)	
Dividends paid to preference shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,755)	(1,755)	
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,858)	(3,858)	
Transfer to reserves	-	-	-	-	6,897	-	6,421	-	-	-	-	-	-	(13,318)	-	
Transferred from other comprehensive income	-	-	-	-	-	-	-	5	-	-	-	-	-	(5)	-	
As at 31 December 2021	74,263	44,952	129,838	111,226	77,044	139,764	122,341	(12)	(24)	53	(3,804)	(87)	1,391	218,328	915,273	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

(All amounts expressed in millions of RMB unless otherwise stated)

50 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

Profit distribution after reporting period

On 30 March 2023, the Board of Directors of the Bank proposed to appropriate RMB8,399 million to the statutory reserve and RMB13,399 million to the statutory general reserve. A cash dividend of RMB0.373 (before tax) for each share, totalling RMB27,700 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2022 was also proposed. The proposal will be subject to the approval by the General Meeting of Shareholders.

51 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts expressed in millions of RMB unless otherwise stated)

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

1 CURRENCY CONCENTRATIONS

As at 31 December 2022	USD	HKD	Others	Total
Spot assets	908,713	259,892	241,149	1,409,754
Spot liabilities	(942,837)	(300,722)	(145,452)	(1,389,011)
Forward purchases	1,203,294	190,054	141,921	1,535,269
Forward sales	(1,386,509)	(105,679)	(208,133)	(1,700,321)
Net option position	(89)	94	1,292	1,297
Net (short) /long position	(217,428)	43,639	30,777	(143,012)
Net structural position	145,847	29,508	7,788	183,143

As at 31 December 2021	USD	HKD	Others	Total
Spot assets	1,016,873	233,474	174,843	1,425,190
Spot liabilities	(956,839)	(305,411)	(125,300)	(1,387,550)
Forward purchases	1,446,642	227,581	171,559	1,845,782
Forward sales	(1,571,846)	(130,762)	(222,085)	(1,924,693)
Net option position	5,503	(12)	(747)	4,744
Net (short) /long position	(59,667)	24,870	(1,730)	(36,527)
Net structural position	121,168	31,246	7,799	160,213

The net options position is calculated using the approach set out by the CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

2 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China.

In respect of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, due from and placements with banks and other financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or region. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also mitigated through methods of guarantees, collaterals and credit derivatives.

As at 31 December 2022	Bank	Official sector	Non-bank Private sector	Others	Total
Asia Pacific	680,295	109,709	711,608	–	1,501,612
Of which attributed to Hong Kong	211,057	66,346	350,515	–	627,918
North and South America	20,389	12,455	28,645	–	61,489
Africa	701	1,702	96	–	2,499
Europe	10,389	593	25,469	–	36,451
Total	711,774	124,459	765,818	–	1,602,051

As at 31 December 2021	Bank	Official sector	Non-bank Private sector	Others	Total
Asia Pacific	448,033	122,959	717,912	–	1,288,904
Of which attributed to Hong Kong	62,204	21,533	304,709	–	388,446
North and South America	34,071	21,351	65,018	–	120,440
Africa	442	1,887	–	–	2,329
Europe	42,156	3,878	23,337	–	69,371
Total	524,702	150,075	806,267	–	1,481,044

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

3 OVERDUE AND RESTRUCTURED ASSETS

(1) Balance of overdue loans

	As at 31 December 2022	As at 31 December 2021
Loans and advances to customers which have been overdue for:		
– Less than 3 months	27,737	23,164
– 3 to 6 months	16,524	15,966
– 6 to 12 months	16,956	13,467
– Over 12 months	23,611	34,565
Total	84,828	87,162
Percentage (%):		
– Less than 3 months	0.38	0.35
– 3 to 6 months	0.23	0.24
– 6 to 12 months	0.23	0.21
– Over 12 months	0.32	0.53
Total	1.16	1.33

(2) Overdue and restructured loans

	As at 31 December 2022	As at 31 December 2021
Total restructured loans and advances to customers	13,660	8,792
<i>Including: Restructured loans and advances to customers overdue above 3 months</i>	<i>1,533</i>	<i>1,625</i>
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	0.02	0.02

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

4 SEGMENTAL INFORMATION OF LOANS

(1) Impaired loans and advances to customers by geographical area

	As at 31 December 2022		As at 31 December 2021	
	Impaired loans and advances to customers	Allowance for impairment losses	Impaired loans and advances to customers	Allowance for impairment losses
PRC domestic regions				
– Yangtze River Delta	21,107	(11,898)	22,399	(13,277)
– Pearl River Delta	8,403	(4,872)	5,559	(3,389)
– Bohai Rim Economic Zone	10,707	(8,992)	13,893	(9,786)
– Central China	14,520	(6,287)	19,224	(10,244)
– Western China	9,333	(6,022)	9,661	(6,402)
– North Eastern China	13,595	(10,588)	12,090	(9,299)
– Head Office	9,310	(8,158)	10,831	(10,064)
Subtotal	86,975	(56,817)	93,657	(62,461)
Hong Kong, Macau, Taiwan and overseas regions	11,551	(5,260)	3,139	(1,421)
Total	98,526	(62,077)	96,796	(63,882)

(2) Overdue loans and advances to customers by geographical area

	As at 31 December 2022		As at 31 December 2021	
	Overdue loans	Allowance for impairment losses	Overdue loans	Allowance for impairment losses
PRC domestic regions				
– Yangtze River Delta	9,076	(5,276)	16,399	(9,189)
– Pearl River Delta	7,165	(4,091)	5,853	(3,166)
– Bohai Rim Economic Zone	9,361	(7,438)	9,749	(6,561)
– Central China	13,298	(5,261)	15,170	(8,080)
– Western China	6,707	(3,553)	7,176	(4,333)
– North Eastern China	9,661	(7,065)	9,119	(6,644)
– Head Office	20,116	(15,595)	20,468	(12,767)
Subtotal	75,384	(48,279)	83,934	(50,740)
Hong Kong, Macau, Taiwan and overseas regions	9,444	(4,809)	3,228	(1,516)
Total	84,828	(53,088)	87,162	(52,256)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

5 LOANS AND ADVANCES TO CUSTOMERS

(1) The risk concentration analysis for loans and advances to customers by industry sectors (gross)

	As at 31 December 2022			As at 31 December 2021		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Hong Kong						
Corporate loans						
Manufacturing						
– Petroleum and chemical	356	0.15	1	1,130	0.54	148
– Electronics	1,247	0.52	13	1,577	0.76	25
– Textile and clothing	308	0.13	5	148	0.07	7
– Other manufacturing	8,010	3.37	3,692	25,506	12.24	5,284
Production and supply of power, heat, gas and water	717	0.30	429	1,418	0.68	320
Construction	6,961	2.93	1,418	5,051	2.42	1,159
Transportation, storage and postal service	10,829	4.56	2,421	9,482	4.55	3,375
Information transmission, software and IT services	4,264	1.79	56	3,537	1.70	20
Wholesale and retail	12,633	5.32	3,425	15,584	7.48	4,052
Finance	5,419	2.28	1,136	6,730	3.23	826
Real estate	98,548	41.49	24,474	60,900	29.23	16,186
Leasing and commercial services	10,948	4.61	4,235	11,711	5.62	3,838
Others	23,321	9.82	1,352	22,489	10.79	4,175
Total corporate loans	183,561	77.27	42,657	165,263	79.31	39,415
Personal loans						
Residential mortgages	39,705	16.71	39,575	29,857	14.33	29,837
Credit cards	105	0.04	–	94	0.05	–
Others	14,214	5.98	3,467	13,149	6.31	12,539
Total personal loans	54,024	22.73	43,042	43,100	20.69	42,376
Gross amount of loans and advances to customers before impairment allowance	237,585	100.00	85,699	208,363	100.00	81,791
Outside Hong Kong	7,058,570			6,352,037		

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledge loans to the total loans of the Group was 47% as at 31 December 2022 (31 December 2021: 52%).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in millions of RMB unless otherwise stated)

5 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(2) Allowance on loans and advances to customers by type of loan

	As at 31 December 2022		As at 31 December 2021	
	Impaired loans	Allowance for impairment losses	Impaired loans	Allowance for impairment losses
Corporates	78,523	(48,157)	77,628	(49,172)
Individuals	20,003	(13,920)	19,168	(14,710)
	98,526	(62,077)	96,796	(63,882)

The amount of new provisions charged to statement of profit or loss, and the amount of loans and advances written off during the years are disclosed below:

	Year ended 31 December 2022			Year ended 31 December 2021		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	35,060	(24,584)	3,339	45,986	(32,886)	4,443
Individuals	23,042	(21,729)	1,807	16,959	(14,633)	1,881
	58,102	(46,313)	5,146	62,945	(47,519)	6,324

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO

APPENDIX 1: INFORMATION RELATED TO LEVERAGE RATIO

Leverage ratio disclosure is disclosed according to Note 3 *Leverage Ratio Disclosure Format of the Measures for the Administration of the Ratio of Commercial Banks (Revised)*.

Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

Serial Number	Item	31 December 2022	31 December 2021
1	Total consolidated assets	12,992,419	11,665,757
2	Adjustments of consolidation	(106,912)	(91,385)
3	Adjustments item of customer's assets	0	0
4	Adjustments of derivatives	36,022	41,498
5	Adjustments of securities financing transactions	23,078	725
6	Adjustments of off-balance sheet item	1,411,948	1,021,988
7	Other Adjustments	(6,941)	(6,010)
8	Balance of adjusted on- and off-balance sheet assets	14,349,614	12,632,573

Leverage Ratio Information

(in millions of RMB unless otherwise stated)

Serial Number	Item	31 December 2022	31 December 2021
1	On-balance-sheet assets (excluding derivatives and securities financing transactions)	12,636,526	11,426,283
2	Less: Deduction of tier-1 capital	(6,941)	(6,010)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	12,629,585	11,420,273
4	Replacement costs of derivatives (less eligible margin)	67,164	39,220
5	Potential risk exposure of derivatives	38,544	41,498
6	Sum of collaterals deducted from the balance sheet	0	0
7	Less: Assets receivable from providing eligible margin	0	0
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	0	0
9	Notional principal of sold credit derivatives	0	0
10	Less: Deductible balance of sold credit derivatives	0	0
11	Derivative asset balance	105,708	80,718
12	Accounting asset balance of securities financing transactions	179,295	108,869
13	Less: Balance of deductible securities financing transaction assets	0	0
14	Counterparty credit risk exposure of securities financing transactions	23,078	725
15	Balance of securities financing transaction assets from acting for securities financing transactions	0	0
16	Securities financing assets balance	202,373	109,594
17	Balance of off-balance-sheet items	3,046,801	2,373,602
18	Less: Balance of off-balance-sheet items arising from the reduction of credit transfer	(1,634,853)	(1,351,614)
19	Adjusted off-balance sheet items balance	1,411,948	1,021,988
20	Net tier-1 capital	1,016,644	960,225
21	Adjusted balance of on- and off-balance sheet assets	14,349,614	12,632,573
22	Leverage ratio (%)	7.08	7.60

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 2: THE DAILY AVERAGE LIQUIDITY COVERAGE RATIO AND ITS DETAILS OF THE GROUP IN THE FOURTH QUARTER OF 2022

(in millions of RMB unless otherwise stated)

Serial Number	Amount before conversion	Amount after conversion
The qualified high-quality liquid assets		
1 The qualified high-quality liquid assets		2,388,723
Cash Outflow		
2 Retail deposits, small business deposits, including:	2,747,732	264,967
3 Stable deposit	194,182	9,612
4 Less stable deposit	2,553,550	255,355
5 Unsecured wholesale funding, including:	5,101,270	2,111,148
6 Business relationship deposit (excluding agency business)	2,826,136	705,160
7 Non-business relationship deposit (including all counterparties)	2,236,905	1,367,759
8 Unsecured debt	38,229	38,229
9 Secured funding		15,686
10 Other items, including:	2,210,427	1,123,232
11 Cash outflow relates to derivatives and other collateral/pledged assets	1,080,242	1,062,060
12 Cash outflow relates to loss of funding on asset-blocked securities	303	303
13 Committed credit and liquidity facilities	1,129,882	60,869
14 Other contractual obligation to extend funds	80,052	80,052
15 Contingent funding obligations	2,026,501	71,890
16 Total expected cash outflow		3,666,975
Cash Inflow		
17 Secured lending (including reverse repos and securities borrowing)	134,793	134,793
18 Inflows from fully performing exposure	915,705	599,583
19 Other cash inflow	1,101,042	1,078,657
20 Total expected cash inflow	2,151,540	1,813,033
		Amount after adjustment
21 The qualified high-quality liquid assets		2,250,835
22 Net cash outflow		1,853,942
23 Liquidity Coverage Ratio (%)		122.00

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2022

(in millions of RMB unless otherwise stated)

		Unweighted value				Weighted value
		Less than				
Serial Number		No Maturity	6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	1,005,711	–	–	139,991	1,145,702
2	Regulatory Capital	1,005,711	–	–	139,991	1,145,702
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small enterprises	870,511	1,990,094	37,115	3,837	2,621,888
5	Stable deposits	197,301	3,331	1,436	388	192,353
6	Less stable deposits	673,209	1,986,763	35,679	3,449	2,429,535
7	Wholesale funding	2,639,920	3,746,288	832,878	519,564	3,299,608
8	Operational deposits	2,587,049	149,406	91,243	21,283	1,435,132
9	Other wholesale funding	52,871	3,596,882	741,635	498,280	1,864,476
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	73,897	363,653	76,111	273,427	284,973
12	Net stable funding ratio derivative liabilities				88,908	
13	All other liabilities and equities not included in the above categories	73,897	363,653	76,111	184,519	284,973
14	Total available stable funding					7,352,171
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					363,582
16	Business relationship deposits held at other financial institutions	124,560	330	–	–	62,445
17	Loans and securities	44,065	1,913,109	1,189,402	5,238,268	5,901,618
18	Loans to financial institutions secured by Level 1 assets	–	38,760	–	–	5,800
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	363,101	224,579	143,593	310,348
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	24	1,466,731	917,934	3,128,351	3,843,404
21	Including: with a risk weight less than or equal to 35%	–	5,890	5,222	42,848	33,407
22	Residential mortgages	–	812	986	1,481,925	1,260,535
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	44,041	43,706	45,903	484,399	481,531
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	195,605	81,220	11,198	166,694	370,161
27	Physical traded commodities (including gold)	24,270				20,630

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 3: NET STABLE FUNDING RATIO AND ITEMS FOR THE THIRD QUARTER OF 2022 (CONTINUED)

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				12,283	10,441
29	Net stable funding ratio derivative assets				107,173	18,265
30	Derivative with additional requirements				88,908	17,782
31	All other assets not included in the above	171,334	81,220	11,198	47,237	303,044
32	Off-balance-sheet items				3,525,380	147,217
33	Total required stable funding					6,845,021
34	Net stable funding ratio (%)					107.41

Notes:

1. The “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2022

(in millions of RMB unless otherwise stated)

		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
Serial Number						
Available Stable Funding Item						
1	Capital	1,028,679	–	–	189,989	1,218,668
2	Regulatory Capital	1,028,679	–	–	189,989	1,218,668
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small enterprises	931,216	2,089,356	27,536	3,900	2,758,479
5	Stable deposits	220,228	3,809	1,588	461	214,804
6	Less stable deposits	710,988	2,085,547	25,948	3,440	2,543,675
7	Wholesale funding	2,767,604	3,597,655	1,031,300	525,278	3,369,274
8	Operational deposits	2,732,850	154,711	111,654	21,443	1,521,050
9	Other wholesale funding	34,754	3,442,944	919,646	503,835	1,848,224
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	70,852	284,674	110,805	226,356	293,314
12	Net stable funding ratio derivative liabilities				46,804	
13	All other liabilities and equities not included in the above categories	70,852	284,674	110,805	179,553	293,314
14	Total available stable funding					7,639,736
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					433,150
16	Business relationship deposits held at other financial institutions	135,643	110	2,089	2,000	70,921
17	Loans and securities	55,095	1,947,208	1,209,764	5,326,997	6,013,531
18	Loans to financial institutions secured by Level 1 assets	–	32,126	–	–	4,817
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	358,813	216,292	144,291	306,259
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	–	1,501,692	936,071	3,175,773	3,910,020
21	Including: with a risk weight less than or equal to 35%	–	8,215	12,809	43,857	39,019
22	Residential mortgages	–	812	959	1,467,783	1,248,502
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	55,095	53,764	56,441	539,150	543,935
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	206,197	85,060	12,321	84,406	338,479
27	Physical traded commodities (including gold)	32,025				27,221

SUPPLEMENTARY INFORMATION ON LEVERAGE RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

APPENDIX 4: NET STABLE FUNDING RATIO AND ITEMS FOR THE FOURTH QUARTER OF 2022 (CONTINUED)

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No Maturity	Less than 6 months	6-12 months	Over 1 year	
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				12,225	10,391
29	Net stable funding ratio derivative assets				69,687	22,883
30	Derivative with additional requirements				46,804	9,361
31	All other assets not included in the above	174,172	85,060	12,321	2,495	268,623
32	Off-balance-sheet items				3,422,457	142,411
33	Total required stable funding					6,998,492
34	Net stable funding ratio (%)					109.16

Notes:

1. The “no maturity” bucket mentioned in the table above include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 “Net stable funding ratio derivative liabilities with additional requirements” is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 “Other assets”.



Bank of Communications Co., Ltd.

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

Address and Postcode

188 Yin Cheng Zhong Lu, Pudong New District, Shanghai, P.R. China
200120

www.bankcomm.com

www.bankcomm.cn

