

Notes to the Condensed Consolidated Interim Financial Information for the six month period ended 30 June 2019

(Amounts in millions of Renminbi, unless otherwise stated)

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2018.

1 Standards, amendments and interpretations effective by the Group in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations.

IFRS 16	<i>Leases</i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>
IAS 19 Amendments	<i>Plan amendment, Curtailment or Settlement</i>
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>
Annual Improvements to IFRSs 2015–2017 Cycle (issued in December 2017)	

In January 2016, the IASB issued IFRS 16 *Leases*, which replaced IAS 17 and IFRIC 4. Under IFRS 16, the classifications of finance lease and operating lease for lessees are removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and leases of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 since 1 January 2019 and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed the existing contracts before 1 January 2019 (date of initial application) and has used practical expedients. As a lessee, the Group has elected to exercise the recognition exemption not to recognise the right-of-use assets and lease liabilities for leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognised the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the six month period ended 30 June 2019 related to leasing presented on the interim financial information is not comparable with the comparative financial information presented in the 2018 financial statements in accordance with the former lease standards.

(Amounts in millions of Renminbi, unless otherwise stated)

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Standards, amendments and interpretations effective by the Group in 2019 (Continued)

For the outstanding minimum lease payment for operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate as at 1 January 2019 to discount the lease payment, and the reconciliation to the opening balance for the lease liabilities in the statement of financial position as at 1 January 2019 is as follows:

	Amount
Minimum lease payment for operating leases as at 31 December 2018	28,093
Less: minimum lease payment with recognition exemption — short-term leases	(938)
Less: minimum lease payment with recognition exemption — leases of low-value assets	(53)
Less: the impact of lease payment discounted at incremental borrowing interest rate as at 1 January 2019	(6,564)
Add: other adjustments	544
Lease liabilities as at 1 January 2019	21,082
Right-of-use assets as at 1 January 2019	22,563

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for “significant market fluctuations” in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* (“IFRS 9”) to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Standards, amendments and interpretations effective by the Group in 2019 (Continued)

Annual Improvements to IFRSs 2015–2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	<i>Definition of a Business</i>	1 January 2020
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>	1 January 2020
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely

The Group is considering the impact of IFRS 17 on the consolidated financial statements. Except for IFRS 17, the adoption of the above standards and amendments will have no material impact on the financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Changes in presentation of financial statements

In accordance with the requirements of the *Circular on Revising and Issuing 2018 Versions of Financial Statement Templates for Financial Enterprises* (Cai Kuai [2018] No. 36), the Group has restated the financial statements for the six month period ended 30 June 2018.

Items in the Group's consolidated income statement for the six month period ended 30 June 2018 affected by the above adjustments are as follows. The above adjustments have no impact on the Group's profit and equity.

	For the six month period ended 30 June 2018		
	Before restatement	Impact of restatement	Restated
Interest income	334,583	(4,374)	330,209
Interest expense	(157,882)	124	(157,758)
Net interest income	176,701	(4,250)	172,451
Net trading gains	(127)	4,250	4,123
Net gains on financial asset transfers	1,160	692	1,852
Other operating income	25,560	(692)	24,868

II CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2018.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Net interest income

	For the six month period ended 30 June	
	2019	2018
Interest income		
Loans and advances to customers	253,135	224,817
Financial investments ⁽¹⁾	76,251	69,379
Due from and placements with and loans to banks and other financial institutions and central banks	35,978	36,013
Subtotal	365,364	330,209
Interest expense		
Due to customers	(134,919)	(110,411)
Due to and placements from banks and other financial institutions	(33,442)	(37,559)
Bonds issued and other ⁽²⁾	(15,319)	(9,788)
Subtotal	(183,680)	(157,758)
Net interest income	181,684	172,451
Interest income accrued on impaired financial assets (included within interest income)	790	881

(1) Interest income on "Financial investments" is principally derived from debt securities listed in the domestic interbank bond market and unlisted debt securities in Hong Kong, Macao, Taiwan and other countries and regions.

(2) For the six month period ended 30 June 2019, the Group's interest expense related to lease liabilities amounted to RMB408 million.

2 Net fee and commission income

	For the six month period ended 30 June	
	2019	2018
Bank card fees	16,805	13,975
Agency commissions	12,066	12,129
Settlement and clearing fees	8,337	7,693
Credit commitment fees	6,967	7,327
Spread income from foreign exchange business	3,549	3,763
Consultancy and advisory fees	3,295	2,766
Custodian and other fiduciary service fees	2,299	1,900
Other	4,147	4,088
Fee and commission income	57,465	53,641
Fee and commission expense	(6,901)	(5,453)
Net fee and commission income	50,564	48,188

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3 Net trading gains

	For the six month period ended 30 June	
	2019	2018
Net gains/(losses) from foreign exchange and foreign exchange products	3,875	(2,658)
Net gains from interest rate products	7,041	5,616
Net gains from equity products	2,670	776
Net gains from commodity products	998	389
Total⁽¹⁾	14,584	4,123

(1) Included in "Net trading gains" above for the six month period ended 30 June 2019 were gains of RMB2,666 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (for the six month period ended 30 June 2018: losses of RMB1,324 million).

4 Net gains on financial asset transfers

	For the six month period ended 30 June	
	2019	2018
Net gains on derecognition of financial assets at fair value through other comprehensive income	2,741	1,311
Net gains on derecognition of financial assets at amortised cost ⁽¹⁾	503	541
Total	3,244	1,852

(1) All the net gains on the derecognition of financial assets at amortised cost resulted from trading for the six month period ended 30 June 2019.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

5 Other operating income

	For the six month period ended 30 June	
	2019	2018
Insurance premiums		
— Life insurance contracts	10,234	7,736
— Non-life insurance contracts	3,143	2,950
Aircraft leasing income	5,640	4,811
Revenue from sale of precious metal products	4,057	4,507
Dividend income ⁽¹⁾	938	906
Changes in fair value of investment properties (Note III.19)	529	818
Gains on disposal of property and equipment, intangible assets and other assets	295	406
Gains on disposal of subsidiaries, associates and joint ventures	—	28
Other ⁽²⁾	1,776	2,706
Total	26,612	24,868

(1) For equity instruments classified as financial assets at fair value through other comprehensive income, RMB120 million of dividend income was recognised for the six month period ended 30 June 2019 (for the six month period ended 30 June 2018: RMB119 million).

(2) For the six month period ended 30 June 2019, the government subsidy income from operating activities, as part of other operating income, was RMB143 million (for the six month period ended 30 June 2018: RMB741 million).

6 Operating expenses

	For the six month period ended 30 June	
	2019	2018
Staff costs (Note III.7)	42,829	40,979
General operating and administrative expenses ⁽¹⁾	15,506	17,309
Insurance benefits and claims		
— Life insurance contracts	11,405	6,313
— Non-life insurance contracts	1,971	1,651
Depreciation and amortisation	9,837	6,529
Cost of sales of precious metal products	3,537	4,294
Taxes and surcharges	2,638	2,424
Other	3,407	2,633
Total⁽²⁾	91,130	82,132

(1) For the six month period ended 30 June 2019, included in the "General operating and administrative expenses" were lease expenses related to short-term leases and leases of low-value assets of RMB885 million.

(2) For the six month period ended 30 June 2019, included in the "Operating expenses" were premises and equipment-related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB5,090 million (for the six month period ended 30 June 2018: RMB4,842 million).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

7 Staff costs

	For the six month period ended 30 June	
	2019	2018
Salary, bonus and subsidy	30,576	29,006
Staff welfare	1,042	945
Retirement benefits	27	41
Social insurance		
— Medical	1,596	1,621
— Pension	3,306	3,377
— Annuity	1,039	1,021
— Unemployment	102	99
— Injury at work	39	46
— Maternity insurance	128	117
Housing funds	2,221	2,321
Labour union fee and staff education fee	1,054	1,012
Reimbursement for cancellation of labour contract	8	5
Other	1,691	1,368
Total	42,829	40,979

8 Impairment losses on assets

	For the six month period ended 30 June	
	2019	2018
Loans and advances		
— Loans and advances at amortised cost	35,691	31,407
— Loans and advances at fair value through other comprehensive income	30	450
Subtotal	35,721	31,857
Financial investments		
— Financial assets at amortised cost	(10)	774
— Financial assets at fair value through other comprehensive income	251	74
Subtotal	241	848
Credit commitments	(2,728)	(4,803)
Other	409	363
Subtotal of impairment losses on credit	33,643	28,265
Other impairment losses on assets	27	5
Total	33,670	28,270

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9 Income tax expense

	For the six month period ended 30 June	
	2019	2018
Current income tax		
— Chinese mainland income tax	21,803	6,685
— Hong Kong profits tax	2,718	2,589
— Macao, Taiwan and other countries and regions taxation	2,648	3,362
Adjustments in respect of current income tax of prior years	4,201	(390)
Subtotal	31,370	12,246
Deferred income tax (Note III.23.3)	(254)	14,140
Total	31,116	26,386

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations.

Taxation on profits of Hong Kong, Macao, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9 Income tax expense (Continued)

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	For the six month period ended 30 June	
	2019	2018
Profit before income tax	152,558	141,961
Tax calculated at the applicable statutory tax rate	38,140	35,490
Effect of different tax rates for Hong Kong, Macao, Taiwan and other countries and regions	(2,519)	(2,670)
Supplementary PRC tax on overseas income	1,542	887
Income not subject to tax ⁽¹⁾	(14,287)	(11,949)
Items not deductible for tax purposes ⁽²⁾	3,912	5,023
Other	4,328	(395)
Income tax expense	31,116	26,386

- (1) Income not subject to tax is mainly comprised of interest income from PRC Treasury bonds and local government bonds, and the tax-free income recognised by the overseas entities in accordance with the local tax law.
- (2) Non-deductible items primarily include non-deductible losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all potentially dilutive shares for the six month period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the six month period ended 30 June 2019 and 30 June 2018.

	For the six month period ended 30 June	
	2019	2018
Profit attributable to equity holders of the Bank	114,048	109,088
Less: dividends on preference shares declared	(1,540)	(1,540)
Profit attributable to ordinary shareholders of the Bank	112,508	107,548
Weighted average number of ordinary shares in issue (in million shares)	294,375	294,378
Basic and diluted earnings per share (in RMB)	0.38	0.37

Weighted average number of ordinary shares in issue (in million shares)

	For the six month period ended 30 June	
	2019	2018
Issued ordinary shares as at 1 January	294,388	294,388
Less: weighted average number of treasury shares	(13)	(10)
Weighted average number of ordinary shares in issue	294,375	294,378

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11 Other comprehensive income

Accrual amount of other comprehensive income:

	For the six month period ended 30 June	
	2019	2018
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on defined benefit plans	14	(70)
Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income	1,840	(28)
Less: related income tax impact	(442)	12
Other	(41)	(5)
Subtotal	1,371	(91)
Items that may be reclassified subsequently to profit or loss		
Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income	8,884	9,597
Less: related income tax impact	(2,044)	(1,633)
Amount transferred to the income statement	(2,794)	(1,042)
Less: related income tax impact	614	250
	4,660	7,172
Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income	285	518
Less: related income tax impact	(68)	(122)
	217	396
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(409)	(119)
Less: related income tax impact	96	12
	(313)	(107)
Exchange differences on translation of foreign operations	1,544	1,925
Less: net amount transferred to the income statement from other comprehensive income	(374)	481
	1,170	2,406
Other	191	251
Subtotal	5,925	10,118
Total	7,296	10,027

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	(Losses)/gains on financial assets at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Other	Total
As at 1 January 2018	(11,692)	(19,684)	2,922	(28,454)
Changes in amount for the previous year	21,087	8,725	59	29,871
As at 1 January 2019	9,395	(10,959)	2,981	1,417
Changes in amount for the period	5,297	732	(23)	6,006
As at 30 June 2019	14,692	(10,227)	2,958	7,423

12 Cash and due from banks and other financial institutions

	As at 30 June 2019	As at 31 December 2018
Cash	65,196	76,755
Due from banks in Chinese mainland	278,891	270,861
Due from other financial institutions in Chinese mainland	10,135	13,767
Due from banks in Hong Kong, Macao, Taiwan and other countries and regions	115,102	75,998
Due from other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	516	278
Subtotal ⁽¹⁾	404,644	360,904
Accrued interest	3,238	2,698
Less: allowance for impairment losses ⁽¹⁾	(490)	(426)
Subtotal	407,392	363,176
Total	472,588	439,931

(1) As at 30 June 2019 and 31 December 2018, the Group included all due from banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13 Balances with central banks

	As at 30 June 2019	As at 31 December 2018
Mandatory reserves ⁽¹⁾	1,537,787	1,575,873
Surplus reserves ⁽²⁾	89,328	82,598
Other ⁽³⁾	441,629	671,249
Subtotal	2,068,744	2,329,720
Accrued interest	820	1,333
Total	2,069,564	2,331,053

- (1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macao, Taiwan and other countries and regions where it has operations. As at 30 June 2019, mandatory reserve funds placed with the PBOC were calculated at 13.0% (31 December 2018: 14.0%) and 5.0% (31 December 2018: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.
- (2) This primarily represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland and other funds.
- (3) This mainly represented balances other than mandatory reserves and surplus reserves placed with the PBOC and the central banks in Hong Kong, Macao, Taiwan and other countries and regions.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

14 Placements with and loans to banks and other financial institutions

	As at 30 June 2019	As at 31 December 2018
Placements with and loans to:		
Banks in Chinese mainland	240,798	172,366
Other financial institutions in Chinese mainland	733,854	771,007
Banks in Hong Kong, Macao, Taiwan and other countries and regions	176,469	83,223
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	16,150	11,723
Subtotal ^{(1) (2)}	1,167,271	1,038,319
Accrued interest	3,274	4,404
Less: allowance for impairment losses ⁽²⁾	(445)	(365)
Total	1,170,100	1,042,358

- (1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 30 June 2019	As at 31 December 2018
Debt securities		
— Governments	95,718	52,716
— Policy banks	236,014	190,646
— Financial institutions	64,749	16,498
— Corporate	6,133	737
Subtotal	402,614	260,597
Less: allowance for impairment losses	—	—
Total	402,614	260,597

- (2) As at 30 June 2019 and 31 December 2018, the Group included the predominant majority of its placements with and loans to banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity-related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with the fair values of 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 market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	As at 30 June 2019			As at 31 December 2018		
	Contractual/ Notional amount	Fair value		Contractual/ Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps ⁽¹⁾	7,567,291	58,603	(44,446)	8,245,972	97,603	(73,652)
Currency options	288,041	1,498	(1,615)	220,694	2,210	(1,829)
Currency futures	1,645	4	(11)	1,718	4	(11)
Subtotal	7,856,977	60,105	(46,072)	8,468,384	99,817	(75,492)
Interest rate derivatives						
Interest rate swaps	2,932,073	18,358	(23,026)	2,443,952	19,637	(18,012)
Interest rate options	26,679	25	(27)	24,342	42	(44)
Interest rate futures	9,784	3	(5)	17,970	1	(39)
Subtotal	2,968,536	18,386	(23,058)	2,486,264	19,680	(18,095)
Equity derivatives	8,987	172	(162)	7,276	237	(208)
Commodity derivatives and other	327,107	8,319	(13,569)	247,867	4,392	(5,459)
Total ⁽²⁾	11,161,607	86,982	(82,861)	11,209,791	124,126	(99,254)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers, foreign exchange transactions to manage foreign currency exchange risks arising from customers, and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

(2) The derivative financial instruments above include those designated as hedging instruments by the Group.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers

16.1 Analysis of loans and advances to customers by measurement category

	As at 30 June 2019	As at 31 December 2018
Measured at amortised cost		
— Corporate loans and advances	7,499,515	7,117,954
— Personal loans	4,753,381	4,440,085
— Discounted bills	1,599	2,001
Measured at fair value through other comprehensive income ⁽¹⁾		
— Discounted bills	276,925	224,113
Subtotal	12,531,420	11,784,153
Measured at fair value through profit or loss ⁽²⁾		
— Corporate loans and advances	3,560	3,530
Total	12,534,980	11,787,683
Accrued interest	34,754	31,589
Total loans and advances	12,569,734	11,819,272
Less: allowance for loans at amortised cost	(311,950)	(303,508)
Loans and advances to customers, net	12,257,784	11,515,764

(1) As at 30 June 2019 and 31 December 2018, loans at fair value through other comprehensive income of the Group were discounted bills. The allowance for impairment losses amounted to RMB304 million and RMB273 million respectively and was credited to other comprehensive income.

(2) There was no significant change for the six month period ended 30 June 2019 and the year ended 31 December 2018, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

16.2 Analysis of loans and advances to customers (accrued interest excluded) by geographical area, industry, collateral type and analysis of overdue loans and advances to customers are presented in Note IV.1.1.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers (Continued)

16.3 Reconciliation of allowance for impairment losses on loans and advances to customers

(1) Allowance for loans at amortised cost:

	Six month period ended 30 June 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	95,789	76,603	131,116	303,508
Impairment losses for the period	31,603	23,650	18,957	74,210
Reversal	(25,482)	(17,293)	(15,248)	(58,023)
Transfers to Stage 1	3,347	(2,934)	(413)	–
Transfers to Stage 2	(802)	2,381	(1,579)	–
Transfers to Stage 3	(146)	(14,350)	14,496	–
Impairment (reversal)/losses due to stage transformation	(2,978)	5,697	17,103	19,822
Changes to contractual cash flows due to modifications not resulting in derecognition	(102)	(216)	–	(318)
Write-off and transfer out	(90)	–	(30,239)	(30,329)
Recovery of loans and advances written off	–	–	3,697	3,697
Unwinding of discount on allowance	–	–	(790)	(790)
Exchange differences and other	50	43	80	173
As at 30 June	101,189	73,581	137,180	311,950

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers (Continued)

16.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(1) Allowance for loans at amortised cost (Continued):

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	87,094	76,050	117,419	280,563
Impairment losses for the year	44,537	36,901	45,952	127,390
Reversal	(39,519)	(20,181)	(13,102)	(72,802)
Transfers to Stage 1	10,301	(9,636)	(665)	–
Transfers to Stage 2	(1,481)	1,929	(448)	–
Transfers to Stage 3	(350)	(25,985)	26,335	–
Impairment (reversal)/losses due to stage transformation	(9,674)	17,487	41,136	48,949
Changes to contractual cash flows due to modifications not resulting in derecognition	(29)	2,018	(587)	1,402
Model/risk parameter adjustment	3,929	(199)	–	3,730
Write-off and transfer out	(192)	(1,969)	(89,497)	(91,658)
Recovery of loans and advances written off	–	–	5,413	5,413
Unwinding of discount on allowance	–	–	(1,652)	(1,652)
Acquisition of subsidiaries	359	29	296	684
Exchange differences and other	814	159	516	1,489
As at 31 December	95,789	76,603	131,116	303,508

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers (Continued)

16.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) Allowance for loans at fair value through other comprehensive income:

	Six month period ended 30 June 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	234	39	–	273
Impairment losses for the period	151	14	–	165
Reversal	(133)	(2)	–	(135)
Exchange differences and other	1	–	–	1
As at 30 June	253	51	–	304

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	829	204	–	1,033
Impairment losses for the year	255	39	–	294
Reversal	(854)	(204)	–	(1,058)
Exchange differences and other	4	–	–	4
As at 31 December	234	39	–	273

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments

	As at 30 June 2019	As at 31 December 2018
Financial assets at fair value through profit or loss		
Financial assets held for trading and other financial assets at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	13,977	10,495
— Public sectors and quasi-governments	236	647
— Policy banks	38,837	33,708
— Financial institutions	130,970	113,103
— Corporate	37,283	50,646
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	21,834	20,595
— Public sectors and quasi-governments	679	23
— Financial institutions	16,101	14,575
— Corporate	6,597	5,085
	266,514	248,877
Equity instruments	59,700	47,061
Fund investments and other	68,576	49,983
Total financial assets held for trading and other financial assets at fair value through profit or loss	394,790	345,921
Financial assets designated as at fair value through profit or loss		
Debt securities ⁽¹⁾		
Issuers in Chinese mainland		
— Government	4,196	1,756
— Policy banks	3,516	1,083
— Financial institutions	14,549	3,472
— Corporate	463	966
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	3,045	2,916
— Public sectors and quasi-governments	1,538	1,494
— Financial institutions	8,984	7,977
— Corporate	12,711	4,906
Total financial assets designated as at fair value through profit or loss	49,002	24,570
Total financial assets at fair value through profit or loss	443,792	370,491

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

	As at 30 June 2019	As at 31 December 2018
Financial assets at fair value through other comprehensive income		
Debt securities		
Issuers in Chinese mainland		
— Government	570,795	570,820
— Public sectors and quasi-governments	40,012	41,294
— Policy banks	301,970	262,597
— Financial institutions	355,054	348,300
— Corporate	134,960	120,344
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	392,540	265,923
— Public sectors and quasi-governments	43,979	37,737
— Financial institutions	128,583	120,185
— Corporate	97,641	95,032
	2,065,534	1,862,232
Equity instruments	18,201	16,298
Other debt instruments	1,233	1,229
Total financial assets at fair value through other comprehensive income ⁽²⁾	2,084,968	1,879,759
Financial assets at amortised cost		
Debt securities		
Issuers in Chinese mainland		
— Government	2,183,296	2,079,661
— Public sectors and quasi-governments	43,077	43,610
— Policy banks	142,241	194,255
— Financial institutions	30,145	34,781
— Corporate	16,972	22,539
— China Orient Asset Management Corporation	153,627	153,627
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	71,655	78,075
— Public sectors and quasi-governments	67,790	69,650
— Financial institutions	33,289	33,991
— Corporate	47,792	49,299
	2,789,884	2,759,488
Investment trusts, asset management plans and other	12,952	14,757
Accrued interest	37,468	37,810
Less: allowance for impairment losses	(7,746)	(7,754)
Total financial assets at amortised cost	2,832,558	2,804,301
Total financial investments⁽³⁾⁽⁵⁾	5,361,318	5,054,551

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

	As at 30 June 2019	As at 31 December 2018
Analysed as follows:		
Financial assets at fair value through profit or loss		
— Listed in Hong Kong	51,206	35,821
— Listed outside Hong Kong ⁽⁶⁾	218,718	209,996
— Unlisted	173,868	124,674
Financial assets at fair value through other comprehensive income		
Debt securities		
— Listed in Hong Kong	132,271	129,653
— Listed outside Hong Kong ⁽⁶⁾	1,416,890	1,363,984
— Unlisted	516,373	368,595
Equity instruments and other		
— Listed in Hong Kong	5,991	6,233
— Listed outside Hong Kong ⁽⁶⁾	9,321	2,018
— Unlisted	4,122	9,276
Financial assets at amortised cost⁽⁴⁾		
— Listed in Hong Kong	35,760	38,550
— Listed outside Hong Kong ⁽⁶⁾	2,343,747	2,304,434
— Unlisted	453,051	461,317
Total	5,361,318	5,054,551
Listed in Hong Kong	225,228	210,257
Listed outside Hong Kong ⁽⁶⁾	3,988,676	3,880,432
Unlisted	1,147,414	963,862
Total	5,361,318	5,054,551

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

- (1) In order to eliminate or significantly reduce accounting mismatches, certain debt securities are designated as financial assets at fair value through profit or loss.
- (2) The Group exercises its option irrevocably on certain unlisted equity investments, which are classified as financial assets at fair value through other comprehensive income.

The Group's accumulated impairment allowance for the debt securities at fair value through other comprehensive income as at 30 June 2019 amounted to RMB1,116 million (31 December 2018: RMB862 million).

- (3) During the six month period ended 30 June 2019 and the year ended 31 December 2018, the Group did not reclassify any debt securities.
- (4) The market values of the above listed debt securities at amortised cost are set out below:

	As at 30 June 2019		As at 31 December 2018	
	Carrying value	Market value	Carrying value	Market value
Debt securities at amortised cost				
— Listed in Hong Kong	35,760	39,294	38,550	38,155
— Listed outside Hong Kong ⁽⁶⁾	2,343,747	2,358,040	2,304,434	2,318,733

- (5) As at 30 June 2019, RMB1,125 million of impaired debt securities of the Group was classified into Stage 3 (31 December 2018: RMB1,123 million), with the impairment allowance fully accrued; RMB2,191 million of debt securities was classified into Stage 2 (31 December 2018: RMB1,755 million), with an impairment allowance of RMB9 million (31 December 2018: RMB4 million); and the remaining debt securities at fair value through other comprehensive income and debt securities at amortised cost were classified into Stage 1, with impairment allowance measured based on 12-month expected credit losses.
- (6) Debt securities traded in the domestic interbank bond market are included in "Listed outside Hong Kong".

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

Reconciliation of allowance for impairment losses on financial investments at amortised cost:

	Six month period ended 30 June 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	328	3	7,423	7,754
Impairment losses/(reversal) for the period	45	(1)	(54)	(10)
Exchange differences and other	–	–	2	2
As at 30 June	373	2	7,371	7,746

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	428	4	6,127	6,559
Impairment (reversal)/losses for the year	(150)	(2)	1,284	1,132
Write-off and transfer out	–	–	(41)	(41)
Exchange differences and other	50	1	53	104
As at 31 December	328	3	7,423	7,754

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

Reconciliation of allowance for impairment losses on financial investments at fair value through other comprehensive income:

	Six month period ended 30 June 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	861	1	–	862
Impairment losses for the period	245	6	–	251
Exchange differences and other	3	–	–	3
As at 30 June	1,109	7	–	1,116

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	906	–	–	906
Impairment (reversal)/losses during the year	(47)	1	–	(46)
Exchange differences and other	2	–	–	2
As at 31 December	861	1	–	862

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18 Property and equipment

	Six month period ended 30 June 2019				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 31 December of prior year	117,948	74,319	30,233	115,153	337,653
Additions	27	1,196	7,433	5,697	14,353
Transfer from/(to) investment properties (Note III.19)	155	-	(9)	-	146
Construction in progress transfer in/(out)	538	235	(5,394)	4,621	-
Deductions	(596)	(1,541)	(1,008)	(2,444)	(5,589)
Exchange differences	163	47	88	478	776
As at 30 June	118,235	74,256	31,343	123,505	347,339
Accumulated depreciation					
As at 31 December of prior year	(38,041)	(58,752)	-	(12,437)	(109,230)
Additions	(1,878)	(3,007)	-	(2,006)	(6,891)
Deductions	460	1,462	-	595	2,517
Transfer to investment properties (Note III.19)	8	-	-	-	8
Exchange differences	(51)	(37)	-	(85)	(173)
As at 30 June	(39,502)	(60,334)	-	(13,933)	(113,769)
Allowance for impairment losses					
As at 31 December of prior year	(770)	-	(217)	(42)	(1,029)
Additions	-	-	-	-	-
Deductions	4	-	-	38	42
Exchange differences	(4)	-	-	-	(4)
As at 30 June	(770)	-	(217)	(4)	(991)
Net book value					
As at 31 December of prior year	79,137	15,567	30,016	102,674	227,394
As at 30 June	77,963	13,922	31,126	109,568	232,579

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18 Property and equipment (Continued)

	Year ended 31 December 2018				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	113,913	72,096	22,522	100,551	309,082
Additions	321	5,715	19,850	11,662	37,548
Transfer from investment properties (Note III.19)	1,665	–	–	–	1,665
Construction in progress transfer in/(out)	1,928	807	(11,960)	9,225	–
Deductions	(834)	(4,712)	(816)	(11,181)	(17,543)
Exchange differences	955	413	637	4,896	6,901
As at 31 December	117,948	74,319	30,233	115,153	337,653
Accumulated depreciation					
As at 1 January	(34,732)	(56,683)	–	(10,954)	(102,369)
Additions	(3,626)	(6,185)	–	(3,592)	(13,403)
Deductions	567	4,409	–	2,763	7,739
Transfer to investment properties (Note III.19)	47	–	–	–	47
Exchange differences	(297)	(293)	–	(654)	(1,244)
As at 31 December	(38,041)	(58,752)	–	(12,437)	(109,230)
Allowance for impairment losses					
As at 1 January	(789)	–	(217)	(93)	(1,099)
Additions	–	–	–	–	–
Deductions	15	–	–	56	71
Exchange differences	4	–	–	(5)	(1)
As at 31 December	(770)	–	(217)	(42)	(1,029)
Net book value					
As at 1 January	78,392	15,413	22,305	89,504	205,614
As at 31 December	79,137	15,567	30,016	102,674	227,394

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

19 Investment properties

	Six month period ended 30 June 2019	Year ended 31 December 2018
As at 1 January	22,086	21,026
Additions	228	1,094
Transfer to property and equipment, net (Note III.18)	(154)	(1,712)
Deductions	(10)	(61)
Fair value changes (Note III.5)	529	919
Exchange differences	109	820
As at 30 June/31 December	22,788	22,086

20 Other assets

	As at 30 June 2019	As at 31 December 2018
Accounts receivable and prepayments	108,483	82,521
Right-of-use assets ⁽¹⁾	22,637	N/A
Intangible assets	12,206	12,467
Land use rights	7,119	6,985
Long-term deferred expense	3,077	3,306
Goodwill ⁽²⁾	2,631	2,620
Repossessed assets ⁽³⁾	2,523	2,318
Interest receivable	793	1,422
Other	17,378	10,587
Total	176,847	122,226

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

20 Other assets (Continued)

(1) Right-of-use assets

	Six month period ended 30 June 2019		
	Buildings	Motor vehicles and other	Total
Cost			
As at 1 January	22,652	120	22,772
Additions	3,108	18	3,126
Deductions	(117)	–	(117)
Exchange differences	52	–	52
As at 30 June	25,695	138	25,833
Accumulated depreciation			
As at 1 January	(209)	–	(209)
Additions	(2,984)	(25)	(3,009)
Deductions	32	–	32
Exchange differences	(10)	–	(10)
As at 30 June	(3,171)	(25)	(3,196)
Net book value			
As at 1 January	22,443	120	22,563
As at 30 June	22,524	113	22,637

(2) Goodwill

	Six month period ended 30 June 2019	Year ended 31 December 2018
As at 1 January	2,620	2,481
Addition through acquisition of subsidiaries	–	44
Exchange differences	11	95
As at 30 June/31 December	2,631	2,620

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,658 million).

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

20 Other assets (Continued)

(3) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

	As at 30 June 2019	As at 31 December 2018
Commercial properties	2,551	2,391
Residential properties	648	606
Other	158	158
Subtotal	3,357	3,155
Less: allowance for impairment	(834)	(837)
Repossessed assets, net	2,523	2,318

The total book value of repossessed assets disposed of for the six month period ended 30 June 2019 amounted to RMB54 million (for the year ended 31 December 2018: RMB348 million). The Group plans to dispose of the repossessed assets held at 30 June 2019 by auction, bidding or transfer.

21 Financial liabilities held for trading

As at 30 June 2019 and 31 December 2018, financial liabilities held for trading mainly included short position in debt securities.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

22 Due to customers

	As at 30 June 2019	As at 31 December 2018
Demand deposits		
— Corporate deposits	4,351,120	4,178,962
— Personal deposits	3,273,492	2,935,661
Subtotal	7,624,612	7,114,623
Time deposits		
— Corporate deposits	3,611,835	3,507,071
— Personal deposits	3,316,849	3,148,265
Subtotal	6,928,684	6,655,336
Structured deposits ⁽¹⁾		
— Corporate deposits	283,248	246,380
— Personal deposits	324,239	338,544
Subtotal	607,487	584,924
Certificates of deposit	251,700	287,808
Other deposits	66,813	73,751
Subtotal due to customers	15,479,296	14,716,442
Accrued interest	165,338	167,154
Total due to customers ⁽²⁾	15,644,634	14,883,596

(1) According to risk management policy, in order to match derivatives and reduce market risk, the Group designates some structured deposits as financial liabilities at fair value through profit or loss. As at 30 June 2019, the carrying amount of the above-mentioned financial liabilities was RMB19,354 million (31 December 2018: RMB24,141 million). At the financial reporting date, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders. During the six month period ended 30 June 2019 and the year ended 31 December 2018, there was no significant change in the Group's own credit risk for the above structured deposits, so the amount of change in fair value due to the change in own credit risk was not significant.

(2) Due to customers included margin deposits for security received by the Group as at 30 June 2019 of RMB316,707 million (31 December 2018: RMB304,388 million).

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Deferred income taxes

23.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and the related temporary differences.

	As at 30 June 2019		As at 31 December 2018	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	139,117	37,115	144,757	38,204
Deferred income tax liabilities	(27,607)	(4,959)	(25,729)	(4,548)
Net	111,510	32,156	119,028	33,656

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Deferred income taxes (Continued)

23.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 30 June 2019		As at 31 December 2018	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
Deferred income tax assets				
Asset impairment allowances	186,027	46,325	184,629	45,993
Pension, retirement benefits and salary payables	13,666	3,406	18,371	4,582
Financial instruments at fair value through profit or loss and derivative financial instruments	74,656	18,626	89,473	22,327
Financial assets at fair value through other comprehensive income	1,092	265	5,386	1,059
Other temporary differences	27,855	6,322	30,132	6,889
Subtotal	303,296	74,944	327,991	80,850
Deferred income tax liabilities				
Financial instruments at fair value through profit or loss and derivative financial instruments	(85,655)	(21,340)	(112,457)	(28,114)
Financial assets at fair value through other comprehensive income	(21,058)	(5,224)	(17,028)	(4,174)
Depreciation of property and equipment	(18,043)	(3,082)	(18,909)	(3,208)
Revaluation of property and investment properties	(8,914)	(1,704)	(8,775)	(1,675)
Other temporary differences	(58,116)	(11,438)	(51,794)	(10,023)
Subtotal	(191,786)	(42,788)	(208,963)	(47,194)
Net	111,510	32,156	119,028	33,656

As at 30 June 2019, deferred tax liabilities relating to temporary differences of RMB151,737 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2018: RMB142,076 million).

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Deferred income taxes (Continued)

23.3 The movements of the deferred income tax are as follows:

	Six month period ended 30 June 2019	Year ended 31 December 2018
As at 1 January	33,656	53,565
Credited/(charged) to the income statement (Note III.9)	254	(14,784)
Charged to other comprehensive income	(1,844)	(5,028)
Other	90	(97)
As at 30 June/31 December	32,156	33,656

23.4 The deferred income tax credit/charge in the condensed consolidated income statement comprises the following temporary differences:

	For the six month period ended 30 June	
	2019	2018
Asset impairment allowances	332	(3,588)
Financial instruments at fair value through profit or loss and derivative financial instruments	3,073	(6,948)
Pension, retirement benefits and salary payables	(1,176)	(932)
Other temporary differences	(1,975)	(2,672)
Total	254	(14,140)

24 Other liabilities

	As at 30 June 2019	As at 31 December 2018
Insurance liabilities		
— Life insurance contracts	106,173	96,719
— Non-life insurance contracts	10,315	9,346
Items in the process of clearance and settlement	63,212	63,647
Salary and welfare payables	25,277	30,997
Lease liabilities	21,508	N/A
Provision		
— Allowance for credit commitments	18,649	21,354
— Allowance for litigation losses (Note III. 27.1)	622	656
Deferred income	9,889	9,264
Other	75,865	66,379
Total	331,510	298,362

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

25 Other equity instruments

For the six month period ended 30 June 2019, the movements of the Bank's other equity instruments were as follows:

	As at 1 January 2019		Increase/(Decrease)		As at 30 June 2019	
	Quantity (million shares/ pieces)	Carrying amount	Quantity (million shares/ pieces)	Carrying amount	Quantity (million shares/ pieces)	Carrying amount
Preference Shares						
Offshore Preference Shares	399.4	39,782	-	-	399.4	39,782
Domestic Preference Shares (First Tranche)	320.0	31,963	-	-	320.0	31,963
Domestic Preference Shares (Second Tranche)	280.0	27,969	-	-	280.0	27,969
Domestic Preference Shares (Third Tranche) ⁽¹⁾	-	-	730.0	72,979	730.0	72,979
Subtotal	999.4	99,714	730.0	72,979	1,729.4	172,693
Perpetual Bonds						
Undated Capital Bonds ⁽²⁾	-	-	400.0	39,992	400.0	39,992
Total	999.4	99,714	1,130.0	112,971	2,129.4	212,685

- (1) With the approvals by relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares (Third Tranche) on 24 June 2019, in the aggregate par value of RMB73 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 730 million Domestic Preference Shares were issued. The dividend rate of the Preference Shares for the first five years is 4.50%, resetting every 5 years.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the China Banking and Insurance Regulatory Commission ("CBIRC"), the Bank may at its discretion redeem all or part of the Domestic Preference Shares on 27 June 2024 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The above preference shares are paid by non-cumulative dividend. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not constitute a default. However, the Bank shall not distribute profits to ordinary shareholders until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall convert the preference shares into ordinary shares in whole or in part after reporting to CBIRC for its examination and approval decision.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

25 Other equity instruments (Continued)

- (2) With the approvals by relevant regulatory authorities in China, the Bank issued RMB40 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 25 January 2019, and completed the issuance on 29 January 2019. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first 5 years is 4.50%, resetting every 5 years.

The duration of the Bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date 5 years after the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above Bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bonds are paid by non-cumulative interest. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilize the proceeds from the cancelled distribution to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the Bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

26 Dividends

Dividends for Ordinary Shares

A dividend of RMB0.184 per ordinary share in respect of the profit for the year ended 31 December 2018 amounting to RMB54,167 million was approved at the Annual General Meeting held on 17 May 2019. Such dividend was distributed on 3 June 2019 after the appropriate withholding of individual and enterprise income taxes.

Dividends for Preference Shares

The dividend distribution of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million was approved by the Board of Directors of the Bank at the Board Meeting held on 25 January 2019 and the dividend was distributed on 13 March 2019.

27 Contingent liabilities and commitments

27.1 Legal proceedings and arbitrations

As at 30 June 2019, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions. As at 30 June 2019, provisions of RMB622 million (31 December 2018: RMB656 million) were made based on court judgements or the advice of counsel (Note III.24). After consulting legal professionals, the senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

27 Contingent liabilities and commitments (Continued)

27.2 Assets pledged

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 30 June 2019	As at 31 December 2018
Debt securities	894,889	990,743
Bills	1,548	1,603
Total	896,437	992,346

27.3 Collateral accepted

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 30 June 2019, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB29,075 million (31 December 2018: RMB27,218 million). As at 30 June 2019, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB1,496 million (31 December 2018: RMB2,631 million). These transactions are conducted under standard terms in the normal course of business.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

27 Contingent liabilities and commitments (Continued)

27.4 Capital commitments

	As at 30 June 2019	As at 31 December 2018
Property and equipment		
— Contracted but not provided for	56,579	64,650
— Authorised but not contracted for	1,598	1,597
Intangible assets		
— Contracted but not provided for	1,098	934
— Authorised but not contracted for	57	25
Investment properties		
— Contracted but not provided for	1,524	7
Total	60,856	67,213

27.5 Treasury bonds redemption commitments

The Bank is entrusted by the Ministry of Finance of the People's Republic of China (the "MOF") to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2019, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB56,061 million (31 December 2018: RMB52,635 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption through the Bank prior to the maturity dates of these bonds will not be material.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

27 Contingent liabilities and commitments (Continued)

27.6 Credit commitments

	As at 30 June 2019	As at 31 December 2018
Loan commitments ⁽¹⁾		
— with an original maturity of less than 1 year	218,026	186,425
— with an original maturity of 1 year or over	1,199,870	1,127,891
Undrawn credit card limits	1,004,902	954,394
Letters of guarantee issued ⁽²⁾	1,040,425	1,070,825
Bank bill acceptance	255,774	256,360
Letters of credit issued	136,262	130,625
Accepted bills of exchange under letters of credit	97,252	98,849
Other	175,207	167,642
Total⁽³⁾	4,127,718	3,993,011

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 30 June 2019, the unconditionally revocable loan commitments of the Group amounted to RMB252,765 million (31 December 2018: RMB254,033 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payments are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. The amounts are determined based on the creditworthiness of the counterparties, the maturity characteristics of each type of contracts and other factors.

	As at 30 June 2019	As at 31 December 2018
Credit commitments	1,135,475	1,102,554

27.7 Underwriting obligations

As at 30 June 2019, there was no firm commitment in underwriting securities of the Group (31 December 2018: Nil).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

28 Note to the condensed consolidated statement of cash flows

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 30 June 2019	As at 30 June 2018
Cash and due from banks and other financial institutions	316,066	277,178
Balances with central banks	490,207	408,027
Placements with and loans to banks and other financial institutions	670,102	450,529
Financial investments	43,491	88,768
Total	1,519,866	1,224,502

29 Related party transactions

29.1 China Investment Corporation (“CIC”) was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary, Central Huijin Investment Ltd. (“Huijin”).

The Group entered into banking transactions with CIC in the normal course of its business on commercial terms.

29.2 Transactions with Huijin and companies under Huijin

(1) *General information of Huijin*

Central Huijin Investment Ltd.

Legal representative	PENG Chun
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	64.02%
Voting rights in the Bank	64.02%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council.
Unified social credit code	91100007109329615

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Related party transactions (Continued)

29.2 Transactions with Huijin and companies under Huijin (Continued)

(2) Transactions with Huijin

The Group enters into banking transactions with Huijin in the normal course of its business on commercial terms. Purchase of the bonds issued by Huijin was in the ordinary course of business and in compliance with the requirements of the related regulations and corporate governance.

Transaction balances

	As at 30 June 2019	As at 31 December 2018
Debt securities	26,737	18,511
Due to Huijin	(30,203)	(9,254)

Transaction amounts

	Six month period ended 30 June	
	2019	2018
Interest income	453	238
Interest expense	(169)	(126)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business on commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Related party transactions (Continued)

29.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin (Continued)

In the ordinary course of the business, main transactions that the Group entered into with the affiliates of parent company are as follows:

Transaction balances

	As at 30 June 2019	As at 31 December 2018
Due from banks and other financial institutions	21,912	19,184
Placements with and loans to banks and other financial institutions	156,522	98,754
Financial investments	403,014	375,075
Derivative financial assets	6,294	10,874
Loans and advances to customers	37,196	32,275
Due to customers, banks and other financial institutions	(235,670)	(164,636)
Placements from banks and other financial institutions	(172,769)	(124,456)
Derivative financial liabilities	(4,705)	(6,434)
Credit commitments	15,066	12,159

Transaction amounts

	Six month period ended 30 June	
	2019	2018
Interest income	8,129	6,084
Interest expense	(3,655)	(3,142)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Related party transactions (Continued)

29.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business on commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit taking.

29.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business on commercial terms. These include loans and advances, deposit taking and other normal banking businesses. In the ordinary course of the business, the main transactions that the Group entered into with associates and joint ventures are as follows:

Transaction balances

	As at 30 June 2019	As at 31 December 2018
Loans and advances to customers	1,538	763
Due to customers, banks and other financial institutions	(14,384)	(4,709)
Credit commitments	43	43

Transaction amounts

	Six month period ended 30 June	
	2019	2018
Interest income	25	14
Interest expense	(99)	(104)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Related party transactions (Continued)

29.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to the Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the six month period ended 30 June 2019 and the year ended 31 December 2018.

29.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the six month period ended 30 June 2019 and the year ended 31 December 2018, there were no material transactions and balances with key management personnel on an individual basis.

29.7 Transactions with Connected Natural Persons

As at 30 June 2019, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* and the *Administrative Measures for the Disclosure of Information of Listed Companies* totalled RMB388 million (31 December 2018: RMB168 million) and RMB28 million (31 December 2018: RMB21 million) respectively.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Related party transactions (Continued)

29.8 Transactions with subsidiaries

The main transactions with subsidiaries are as follows:

Transaction balances

	As at 30 June 2019	As at 31 December 2018
Due from banks and other financial institutions	20,406	44,911
Placements with and loans to banks and other financial institutions	91,739	127,644
Due to banks and other financial institutions	(94,242)	(87,797)
Placements from banks and other financial institutions	(45,557)	(76,215)

Transaction amounts

	Six month period ended 30 June	
	2019	2018
Interest income	812	672
Interest expense	(1,251)	(1,553)

30 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong, Macao and Taiwan; and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect current situation.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services, etc. are performed in Chinese mainland.

Hong Kong, Macao and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macao and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited (“BOCHK Group”).

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including saving deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

As at and for the six month period ended 30 June 2019

	Hong Kong, Macao and Taiwan				Other countries and regions	Eliminations	Total
	Chinese mainland	BOCHK Group	Other	Subtotal			
Interest income	310,968	28,046	19,932	47,978	25,931	(19,513)	365,364
Interest expense	(155,945)	(11,699)	(17,340)	(29,039)	(18,253)	19,557	(183,680)
Net interest income	155,023	16,347	2,592	18,939	7,678	44	181,684
Fee and commission income	45,862	6,736	3,624	10,360	3,129	(1,886)	57,465
Fee and commission expense	(4,221)	(1,790)	(1,000)	(2,790)	(1,028)	1,138	(6,901)
Net fee and commission income	41,641	4,946	2,624	7,570	2,101	(748)	50,564
Net trading gains	6,173	4,027	2,867	6,894	1,517	–	14,584
Net gains on financial asset transfers	2,496	619	61	680	68	–	3,244
Other operating income ⁽¹⁾	7,690	9,654	9,793	19,447	47	(572)	26,612
Operating income	213,023	35,593	17,937	53,530	11,411	(1,276)	276,688
Operating expenses ⁽¹⁾	(64,078)	(16,062)	(8,666)	(24,728)	(3,282)	958	(91,130)
Impairment losses on assets	(34,270)	(618)	122	(496)	1,096	–	(33,670)
Operating profit	114,675	18,913	9,393	28,306	9,225	(318)	151,888
Share of results of associates and joint ventures	12	(5)	663	658	–	–	670
Profit before income tax	114,687	18,908	10,056	28,964	9,225	(318)	152,558
Income tax expense							(31,116)
Profit for the period							121,442
Segment assets	17,465,346	2,592,420	1,495,377	4,087,797	2,045,707	(1,356,210)	22,242,640
Investments in associates and joint ventures	7,626	1,127	14,631	15,758	–	–	23,384
Total assets	17,472,972	2,593,547	1,510,008	4,103,555	2,045,707	(1,356,210)	22,266,024
Include: non-current assets ⁽²⁾	114,762	30,508	153,956	184,464	9,245	(2,561)	305,910
Segment liabilities	16,000,786	2,361,121	1,374,479	3,735,600	1,978,239	(1,356,053)	20,358,572
Other segment items:							
Intersegment net interest (expense)/income	(3,563)	824	5,878	6,702	(3,183)	44	–
Intersegment net fee and commission income/ (expense)	86	46	803	849	(187)	(748)	–
Capital expenditure	2,499	1,053	12,815	13,868	220	–	16,587
Depreciation and amortisation	8,174	840	2,597	3,437	353	(121)	11,843
Credit commitments	3,539,974	302,327	123,812	426,139	494,596	(332,991)	4,127,718

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

As at 31 December 2018 and for the six month period ended 30 June 2018

	Hong Kong, Macao and Taiwan				Other countries and regions	Eliminations	Total
	Chinese mainland	BOCHK Group	Other	Subtotal			
Interest income	283,796	22,891	16,837	39,728	22,000	(15,315)	330,209
Interest expense	(137,910)	(7,788)	(13,776)	(21,564)	(13,599)	15,315	(157,758)
Net interest income	145,886	15,103	3,061	18,164	8,401	-	172,451
Fee and commission income	41,971	6,744	3,600	10,344	2,863	(1,537)	53,641
Fee and commission expense	(2,802)	(1,784)	(921)	(2,705)	(825)	879	(5,453)
Net fee and commission income	39,169	4,960	2,679	7,639	2,038	(658)	48,188
Net trading gains	808	615	1,803	2,418	897	-	4,123
Net gains on financial asset transfers	1,775	71	6	77	-	-	1,852
Other operating income ⁽¹⁾	9,810	7,601	8,485	16,086	88	(1,116)	24,868
Operating income	197,448	28,350	16,034	44,384	11,424	(1,774)	251,482
Operating expenses ⁽¹⁾	(61,990)	(10,498)	(7,556)	(18,054)	(2,974)	886	(82,132)
Impairment losses on assets	(29,137)	(279)	38	(241)	1,108	-	(28,270)
Operating profit	106,321	17,573	8,516	26,089	9,558	(888)	141,080
Share of results of associates and joint ventures	10	(4)	875	871	-	-	881
Profit before income tax	106,331	17,569	9,391	26,960	9,558	(888)	141,961
Income tax expense							(26,386)
Profit for the period							115,575
Segment assets	16,925,075	2,553,366	1,627,527	4,180,893	2,009,680	(1,871,742)	21,243,906
Investments in associates and joint ventures	7,231	164	15,974	16,138	-	-	23,369
Total assets	16,932,306	2,553,530	1,643,501	4,197,031	2,009,680	(1,871,742)	21,267,275
Include: non-current assets ⁽²⁾	100,098	27,719	143,779	171,498	5,837	(161)	277,272
Segment liabilities	15,625,811	2,332,126	1,512,393	3,844,519	1,943,129	(1,871,581)	19,541,878
Other segment items:							
Intersegment net interest (expense)/income	(4,625)	1,246	5,762	7,008	(2,383)	-	-
Intersegment net fee and commission income/ (expense)	143	15	758	773	(258)	(658)	-
Capital expenditure	1,591	536	13,595	14,131	50	-	15,772
Depreciation and amortisation	5,479	478	2,095	2,573	178	-	8,230
Credit commitments	3,519,912	278,653	102,467	381,120	462,753	(370,774)	3,993,011

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties, right-of-use assets and other long-term assets.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

As at and for the six month period ended 30 June 2019

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Eliminations	Total
Interest income	177,105	120,777	104,369	938	1,459	1,920	(41,204)	365,364
Interest expense	(84,913)	(57,584)	(78,707)	(295)	(33)	(3,402)	41,254	(183,680)
Net interest income/(expense)	92,192	63,193	25,662	643	1,426	(1,482)	50	181,684
Fee and commission income	18,693	28,057	9,205	1,845	1	1,057	(1,393)	57,465
Fee and commission expense	(577)	(3,820)	(1,127)	(490)	(2,039)	(72)	1,224	(6,901)
Net fee and commission income/(expense)	18,116	24,237	8,078	1,355	(2,038)	985	(169)	50,564
Net trading gains	1,484	491	7,757	124	1,745	2,956	27	14,584
Net gains on financial asset transfers	784	81	2,365	-	14	-	-	3,244
Other operating income	143	4,090	327	128	14,459	8,984	(1,519)	26,612
Operating income	112,719	92,092	44,189	2,250	15,606	11,443	(1,611)	276,688
Operating expenses	(28,748)	(34,783)	(9,106)	(1,085)	(14,731)	(4,287)	1,610	(91,130)
Impairment losses on assets	(26,435)	(6,696)	(427)	1	(72)	(41)	-	(33,670)
Operating profit	57,536	50,613	34,656	1,166	803	7,115	(1)	151,888
Share of results of associates and joint ventures	-	48	1	225	(12)	424	(16)	670
Profit before income tax	57,536	50,661	34,657	1,391	791	7,539	(17)	152,558
Income tax expense								(31,116)
Profit for the period								121,442
Segment assets	8,026,175	4,762,856	8,852,720	67,133	165,831	475,625	(107,700)	22,242,640
Investments in associates and joint ventures	-	330	-	4,876	-	18,254	(76)	23,384
Total assets	8,026,175	4,763,186	8,852,720	72,009	165,831	493,879	(107,776)	22,266,024
Segment liabilities	9,730,014	6,711,173	3,562,458	51,788	149,534	261,143	(107,538)	20,358,572
Other segment items:								
Intersegment net interest income/(expense)	15,450	24,504	(39,424)	174	21	(775)	50	-
Intersegment net fee and commission income/ (expense)	443	774	14	(152)	(1,053)	143	(169)	-
Capital expenditure	812	944	43	40	32	14,716	-	16,587
Depreciation and amortisation	3,656	4,535	1,121	124	123	2,476	(192)	11,843
Credit commitments	2,946,378	1,181,340	-	-	-	-	-	4,127,718

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

As at 31 December 2018 and for the six month period ended 30 June 2018

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Eliminations	Total
Interest income	166,644	104,832	96,541	848	1,580	1,547	(41,783)	330,209
Interest expense	(80,480)	(45,584)	(71,217)	(249)	(4)	(2,007)	41,783	(157,758)
Net interest income/(expense)	86,164	59,248	25,324	599	1,576	(460)	-	172,451
Fee and commission income	17,961	24,067	9,649	2,393	1	810	(1,240)	53,641
Fee and commission expense	(591)	(2,558)	(932)	(662)	(1,741)	(54)	1,085	(5,453)
Net fee and commission income/(expense)	17,370	21,509	8,717	1,731	(1,740)	756	(155)	48,188
Net trading gains/(losses)	1,345	502	2,553	190	(1,489)	992	30	4,123
Net gains on financial asset transfers	695	-	1,116	-	41	-	-	1,852
Other operating income	670	5,189	177	133	11,571	8,361	(1,233)	24,868
Operating income	106,244	86,448	37,887	2,653	9,959	9,649	(1,358)	251,482
Operating expenses	(27,231)	(33,222)	(8,483)	(1,067)	(9,085)	(4,402)	1,358	(82,132)
Impairment losses on assets	(25,614)	(1,233)	(1,134)	-	(114)	(175)	-	(28,270)
Operating profit	53,399	51,993	28,270	1,586	760	5,072	-	141,080
Share of results of associates and joint ventures	-	-	-	224	(151)	851	(43)	881
Profit before income tax	53,399	51,993	28,270	1,810	609	5,923	(43)	141,961
Income tax expense								(26,386)
Profit for the period								115,575
Segment assets	7,628,839	4,438,581	8,629,971	65,239	149,592	423,944	(92,260)	21,243,906
Investments in associates and joint ventures	-	143	-	4,690	-	18,622	(86)	23,369
Total assets	7,628,839	4,438,724	8,629,971	69,929	149,592	442,566	(92,346)	21,267,275
Segment liabilities	9,435,725	6,218,896	3,574,230	50,915	134,988	219,223	(92,099)	19,541,878
Other segment items:								
Intersegment net interest income/(expense)	17,945	22,752	(40,353)	32	26	(402)	-	-
Intersegment net fee and commission income/ (expense)	378	646	54	(122)	(924)	123	(155)	-
Capital expenditure	490	542	26	26	21	14,667	-	15,772
Depreciation and amortisation	2,332	2,921	767	55	45	2,110	-	8,230
Credit commitments	2,859,851	1,133,160	-	-	-	-	-	3,993,011

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. If the value of securities increases or decreases, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 30 June 2019		As at 31 December 2018	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	18,868	18,835	108,146	104,434

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Transfers of financial assets (Continued)

Credit asset transfers

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB1,087 million as at 30 June 2019 (31 December 2018: RMB1,273 million), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. For the six month period ended 30 June 2019, the carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB17,991 million (for the six month period ended 30 June 2018: RMB15,636 million) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB10,949 million as at 30 June 2019 (31 December 2018: RMB9,639 million).

32 Interests in the structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit asset transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

32 Interests in the structured entities (Continued)

32.1 Interests in the unconsolidated structured entities

The interests held by the Group in the unconsolidated structured entities are mainly set out below:

Structured entities sponsored by the Group

In conducting the asset management business in Chinese mainland, the Group established various structured entities to provide customers specialised investment opportunities within narrow and well-defined objectives, including non-principal guaranteed wealth management products, publicly offered funds and asset management plans, and earned management fee, commission and custodian fee in return.

As at 30 June 2019, the balance of the above unconsolidated wealth management products sponsored by the Group amounted to RMB1,058,089 million (31 December 2018: RMB1,157,201 million). The balance of unconsolidated publicly offered funds and asset management plans sponsored by the Group amounted to RMB681,166 million (31 December 2018: RMB762,725 million).

For the six month period ended 30 June 2019, the above-mentioned commission, custodian fee and management fee amounted to RMB3,799 million (for the six month period ended 30 June 2018: RMB5,002 million).

As at 30 June 2019, the balance of interest and commission receivable held by the Group in the above-mentioned structured entities was not material. For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the six month period ended 30 June 2019, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB180,050 million (for the six month period ended 30 June 2018: RMB75,260 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 30 June 2019, the balance of the above transactions was RMB180,050 million (31 December 2018: RMB107,000 million). The maximum exposure to loss of those placements approximated to their carrying amount.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

32 Interests in the structured entities (Continued)

32.1 Interests in the unconsolidated structured entities (Continued)

Structured entities sponsored by the Group (Continued)

In addition, there were no credit assets transferred by the Group into the unconsolidated structured entities during the six month period ended 30 June 2019 (for the six month period ended 30 June 2018: RMB163 million). For the description of the portion of asset-backed securities issued by the above structured entities and held by the Group, refer to Note III.31.

Structured entities sponsored by other financial institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 30 June 2019					
Fund investments	52,897	–	–	52,897	52,897
Investment trusts and asset management plans	2,958	–	6,779	9,737	9,737
Asset-backed securitisations	2,092	57,308	47,339	106,739	106,739

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 31 December 2018					
Fund investments	39,237	–	–	39,237	39,237
Investment trusts and asset management plans	2,420	–	8,561	10,981	10,981
Asset-backed securitisations	759	49,195	48,613	98,567	98,567

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

32 Interests in the structured entities (Continued)

32.2 Consolidated structured entities

The Group's consolidated structured entities mainly consist of open-end funds, private equity funds, trusts for asset-backed securities, and special-purpose companies. The Group controls these entities because the Group has power over, is exposed to, or has rights 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. Except for providing financial guarantees for the companies established solely for financing purposes, the Group does not provide financial or other support to the other consolidated structured entities.

33 Events after the financial reporting date

Subordinated Bonds Redemption

On 8 July 2019, the Bank redeemed at face value all of the fixed-rate subordinated bonds issued in 2009 with a maturity of 15 years amounting to RMB24 billion. The redemption details have been set out in the Bank's announcement dated 9 July 2019.

Tier 2 Capital Bonds Redemption

On 12 August 2019, the Bank redeemed at face value all of the fixed-rate tier 2 capital bonds issued in 2014 with a maturity of 10 years amounting to RMB30 billion. The redemption details have been set out in the Bank's announcement dated 12 August 2019.

The issuance of Domestic Preference Shares (Fourth Tranche)

With the approvals by relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares (Fourth Tranche), in the aggregate par value of RMB27 billion. As at 29 August 2019, capital raised from the issuance had been recorded and capital verification had been completed. Subsequently, the share registration will be processed and the issuance report will be disclosed.

Dividend distribution plan of Offshore Preference Shares and Domestic Preference Shares (First Tranche)

The dividend distribution of Offshore Preference Shares and Domestic Preference Shares (First Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 30 August 2019. The annual dividend rate is 6.75% (calculated on the basis of RMB and paid out in US Dollars per a fixed exchange rate) for the Offshore Preference Shares amounting to approximately USD439 million in total after tax and the dividend is to be paid on 23 October 2019. The annual dividend for the Domestic Preference Shares (First Tranche) amounting to RMB1,920 million before tax is set to be paid on 21 November 2019 at a dividend rate of 6.00%. The dividend payable is not reflected in liabilities of the financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT

1 Credit risk

1.1 Loans and advances

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Chinese mainland	9,894,443	78.93%	9,273,549	78.67%
Hong Kong, Macao and Taiwan	1,606,792	12.82%	1,515,844	12.86%
Other countries and regions	1,033,745	8.25%	998,290	8.47%
Total	12,534,980	100.00%	11,787,683	100.00%

Chinese mainland

	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Northern China	1,538,858	15.55%	1,456,249	15.70%
Northeastern China	505,749	5.11%	501,420	5.41%
Eastern China	3,833,492	38.75%	3,622,159	39.06%
Central and Southern China	2,713,116	27.42%	2,499,434	26.95%
Western China	1,303,228	13.17%	1,194,287	12.88%
Total	9,894,443	100.00%	9,273,549	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

	Chinese mainland	Hong Kong, Macao and Taiwan	Other countries and regions	Total
As at 30 June 2019				
Corporate loans and advances				
— Trade bills	909,126	110,171	134,568	1,153,865
— Other	4,770,707	1,012,276	844,751	6,627,734
Personal loans	4,214,610	484,345	54,426	4,753,381
Total	9,894,443	1,606,792	1,033,745	12,534,980
As at 31 December 2018				
Corporate loans and advances				
— Trade bills	778,907	95,793	128,916	1,003,616
— Other	4,559,625	964,102	820,255	6,343,982
Personal loans	3,935,017	455,949	49,119	4,440,085
Total	9,273,549	1,515,844	998,290	11,787,683

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,686,705	13.47%	1,674,340	14.21%
Commerce and services	1,632,680	13.02%	1,516,354	12.86%
Transportation, storage and postal services	1,234,110	9.85%	1,182,411	10.03%
Real estate	997,200	7.96%	915,793	7.77%
Production and supply of electricity, heating, gas and water	661,803	5.28%	648,849	5.50%
Financial services	538,959	4.30%	398,478	3.38%
Mining	310,138	2.47%	320,369	2.72%
Construction	267,662	2.14%	239,397	2.03%
Water, environment and public utility management	172,592	1.37%	167,811	1.42%
Public utilities	143,658	1.15%	125,917	1.07%
Other	136,092	1.08%	157,879	1.34%
Subtotal	7,781,599	62.09%	7,347,598	62.33%
Personal loans				
Mortgages	3,754,833	29.95%	3,503,563	29.72%
Credit cards	457,676	3.65%	426,338	3.62%
Other	540,872	4.31%	510,184	4.33%
Subtotal	4,753,381	37.91%	4,440,085	37.67%
Total	12,534,980	100.00%	11,787,683	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,300,257	13.15%	1,296,509	13.98%
Commerce and services	1,196,694	12.09%	1,130,498	12.19%
Transportation, storage and postal services	1,072,599	10.84%	1,009,087	10.88%
Real estate	529,608	5.35%	469,358	5.06%
Production and supply of electricity, heating, gas and water	503,763	5.09%	504,348	5.44%
Financial services	369,795	3.74%	253,212	2.73%
Mining	171,396	1.73%	178,471	1.92%
Construction	227,236	2.30%	200,982	2.17%
Water, environment and public utility management	162,448	1.64%	157,594	1.70%
Public utilities	112,938	1.14%	107,201	1.16%
Other	33,099	0.33%	31,272	0.34%
Subtotal	5,679,833	57.40%	5,338,532	57.57%
Personal loans				
Mortgages	3,380,660	34.17%	3,154,164	34.01%
Credit cards	443,611	4.48%	411,145	4.43%
Other	390,339	3.95%	369,708	3.99%
Subtotal	4,214,610	42.60%	3,935,017	42.43%
Total	9,894,443	100.00%	9,273,549	100.00%

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Unsecured loans	4,183,987	33.38%	3,636,400	30.84%
Guaranteed loans	1,539,453	12.28%	1,837,442	15.59%
Collateralised and other secured loans	6,811,540	54.34%	6,313,841	53.57%
Total	12,534,980	100.00%	11,787,683	100.00%

Chinese mainland

	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Unsecured loans	3,004,590	30.37%	2,585,343	27.88%
Guaranteed loans	1,156,329	11.69%	1,417,321	15.28%
Collateralised and other secured loans	5,733,524	57.94%	5,270,885	56.84%
Total	9,894,443	100.00%	9,273,549	100.00%

(2) Analysis of impaired loans and advances to customers

(i) Impaired loans and advances by geographical area

Group

	As at 30 June 2019			As at 31 December 2018		
	Amount	% of total	Impaired	Amount	% of total	Impaired
			loan ratio			loan ratio
Chinese mainland	170,645	97.01%	1.72%	162,778	97.50%	1.76%
Hong Kong, Macao and Taiwan	3,097	1.76%	0.19%	2,720	1.63%	0.18%
Other countries and regions	2,157	1.23%	0.21%	1,454	0.87%	0.15%
Total	175,899	100.00%	1.40%	166,952	100.00%	1.42%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(i) Impaired loans and advances by geographical area (Continued)

Chinese mainland

	As at 30 June 2019			As at 31 December 2018		
	Amount	% of total	Impaired	Amount	% of total	Impaired
			loan ratio			loan ratio
Northern China	33,753	19.78%	2.19%	23,053	14.16%	1.58%
Northeastern China	41,150	24.11%	8.14%	40,580	24.93%	8.09%
Eastern China	52,528	30.79%	1.37%	56,423	34.66%	1.56%
Central and Southern China	26,559	15.56%	0.98%	28,114	17.28%	1.12%
Western China	16,655	9.76%	1.28%	14,608	8.97%	1.22%
Total	170,645	100.00%	1.72%	162,778	100.00%	1.76%

(ii) Impaired loans and advances by customer type

Group

	As at 30 June 2019			As at 31 December 2018		
	Amount	% of total	Impaired	Amount	% of total	Impaired
			loan ratio			loan ratio
Corporate loans and advances	147,655	83.94%	1.90%	139,108	83.32%	1.89%
Personal loans	28,244	16.06%	0.59%	27,844	16.68%	0.63%
Total	175,899	100.00%	1.40%	166,952	100.00%	1.42%

Chinese mainland

	As at 30 June 2019			As at 31 December 2018		
	Amount	% of total	Impaired	Amount	% of total	Impaired
			loan ratio			loan ratio
Corporate loans and advances	143,150	83.89%	2.52%	135,421	83.19%	2.54%
Personal loans	27,495	16.11%	0.65%	27,357	16.81%	0.70%
Total	170,645	100.00%	1.72%	162,778	100.00%	1.76%

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(iii) Impaired loans and advances by geographical area and industry

	As at 30 June 2019			As at 31 December 2018		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	68,128	38.73%	5.24%	70,092	41.98%	5.41%
Commerce and services	36,818	20.93%	3.08%	38,579	23.11%	3.41%
Transportation, storage and postal services	7,960	4.53%	0.74%	7,453	4.46%	0.74%
Real estate	4,105	2.33%	0.78%	4,370	2.62%	0.93%
Production and supply of electricity, heating, gas and water	11,480	6.53%	2.28%	1,952	1.17%	0.39%
Financial services	124	0.07%	0.03%	127	0.08%	0.05%
Mining	5,944	3.38%	3.47%	5,494	3.29%	3.08%
Construction	2,890	1.64%	1.27%	2,423	1.45%	1.21%
Water, environment and public utility management	1,763	1.00%	1.09%	1,223	0.73%	0.78%
Public utilities	425	0.24%	0.38%	159	0.10%	0.15%
Other	3,513	2.00%	10.61%	3,549	2.13%	11.35%
Subtotal	143,150	81.38%	2.52%	135,421	81.12%	2.54%
Personal loans						
Mortgages	10,337	5.88%	0.31%	10,225	6.12%	0.32%
Credit cards	9,946	5.65%	2.24%	9,636	5.77%	2.34%
Other	7,212	4.10%	1.85%	7,496	4.49%	2.03%
Subtotal	27,495	15.63%	0.65%	27,357	16.38%	0.70%
Total for Chinese mainland	170,645	97.01%	1.72%	162,778	97.50%	1.76%
Hong Kong, Macao, Taiwan and other countries and regions	5,254	2.99%	0.20%	4,174	2.50%	0.17%
Total	175,899	100.00%	1.40%	166,952	100.00%	1.42%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) *Analysis of impaired loans and advances to customers (Continued)*

(iv) Impaired loans and advances and related allowance by geographical area

	Impaired loans	Allowance for impairment losses	Net
As at 30 June 2019			
Chinese mainland	170,645	(133,868)	36,777
Hong Kong, Macao and Taiwan	3,097	(1,849)	1,248
Other countries and regions	2,157	(1,463)	694
Total	175,899	(137,180)	38,719
As at 31 December 2018			
Chinese mainland	162,778	(128,714)	34,064
Hong Kong, Macao and Taiwan	2,720	(1,407)	1,313
Other countries and regions	1,454	(995)	459
Total	166,952	(131,116)	35,836

(3) *Loans and advances restructured*

Restructuring (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, restructured credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group restructures a non-performing loan only if the borrower has good prospects. In addition, prior to approving the restructuring of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Restructured loans are generally subject to a surveillance period of six months. During the surveillance period, restructured loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, restructured loans may be upgraded to "Special-mention" upon review if certain criteria are met. If the restructured loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "Doubtful" or below. All restructured loans within the surveillance period were determined to be impaired as at 30 June 2019 and 31 December 2018.

As at 30 June 2019 and 31 December 2018, within impaired loans and advances, restructured loans and advances that were overdue for 90 days or less were insignificant.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(4) Overdue loans and advances to customers

Analysis of overdue loans and advances by geographical area

	As at 30 June 2019	As at 31 December 2018
Chinese mainland	167,689	200,639
Hong Kong, Macao and Taiwan	6,993	7,972
Other countries and regions	3,900	11,340
Subtotal	178,582	219,951
Percentage	1.42%	1.87%
Less: total loans and advances to customers which have been overdue for less than 3 months	(49,125)	(84,754)
Total loans and advances to customers which have been overdue for more than 3 months	129,457	135,197

(5) Loans and advances three-staging exposure

Loans and advances to customers by five-tier loan classification and three-staging are analysed as follows:

	As at 30 June 2019			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
Pass	11,939,782	73,581	–	12,013,363
Special-mention	–	342,158	–	342,158
Substandard	–	–	71,652	71,652
Doubtful	–	–	42,159	42,159
Loss	–	–	62,088	62,088
Total	11,939,782	415,739	175,899	12,531,420

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(5) *Loans and advances three-staging exposure (Continued)*

	As at 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
Pass	11,183,826	91,017	6	11,274,849
Special-mention	–	342,358	5	342,363
Substandard	–	–	49,788	49,788
Doubtful	–	–	49,341	49,341
Loss	–	–	67,812	67,812
Total	11,183,826	433,375	166,952	11,784,153

As at 30 June 2019 and 31 December 2018, loans and advances by five-tier loan classification and three-staging did not include loans and advances to customers measured at fair value through profit or loss.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities

The Group adopted a credit rating approach to manage the credit risk of the debt securities by referring to both internal and external credit rating. The carrying amounts (accrued interest excluded) of the debt investments analysed by external credit rating at the financial reporting date are as follows:

	Unrated	A to AAA	Lower than A	Total
As at 30 June 2019				
Issuers in Chinese mainland				
— Government	7,619	2,754,975	–	2,762,594
— Public sectors and quasi-governments	82,664	–	–	82,664
— Policy banks	–	481,205	–	481,205
— Financial institutions	70,491	225,165	230,830	526,486
— Corporate	63,700	97,285	26,177	187,162
— China Orient Asset Management Corporation	153,627	–	–	153,627
Subtotal	378,101	3,558,630	257,007	4,193,738
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	757	472,319	15,149	488,225
— Public sectors and quasi-governments	54,510	59,294	–	113,804
— Financial institutions	5,724	139,367	39,871	184,962
— Corporate	13,617	121,454	28,299	163,370
Subtotal	74,608	792,434	83,319	950,361
Total	452,709	4,351,064	340,326	5,144,099
As at 31 December 2018				
Issuers in Chinese mainland				
— Government	3,965	2,650,164	–	2,654,129
— Public sectors and quasi-governments	84,364	–	–	84,364
— Policy banks	–	484,992	–	484,992
— Financial institutions	88,468	179,041	229,166	496,675
— Corporate	64,555	102,771	24,364	191,690
— China Orient Asset Management Corporation	153,627	–	–	153,627
Subtotal	394,979	3,416,968	253,530	4,065,477
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	59	355,291	11,252	366,602
— Public sectors and quasi-governments	51,915	56,824	–	108,739
— Financial institutions	3,022	129,934	41,763	174,719
— Corporate	10,824	117,569	24,663	153,056
Subtotal	65,820	659,618	77,678	803,116
Total	460,799	4,076,586	331,208	4,868,593

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.3 Derivatives

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs").

The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the *Assets Measurement Rules for Counterparty Default Risks of Derivatives* since 1 January 2019.

The risk-weighted assets for CCR of derivatives are as follows:

	As at 30 June 2019	As at 31 December 2018
Risk-weighted assets for default risk		
Currency derivatives	78,175	54,280
Interest rate derivatives	10,888	2,888
Equity derivatives	523	233
Commodity derivatives and other	8,661	3,334
	98,247	60,735
Risk-weighted assets for CVA	90,677	51,107
Risk-weighted assets for CCPs	2,586	10,220
Total	191,510	122,062

1.4 Repossessed assets

The Group obtains assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note III.20.

2 Market risk

2.1 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, Bank of China Hong Kong (Holdings) Limited (“BOCHK (Holdings)”) and BOC International Holdings Limited (“BOCI”). The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore, statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group’s market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

The accuracy and reliability of the VaR model is verified by daily back-testing of the VaR results in the trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact on transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk for the six month period ended 30 June 2019 and 2018:

Unit: USD million

	Six month period ended 30 June					
	2019			2018		
	Average	High	Low	Average	High	Low
The Bank’s trading VaR						
Interest rate risk	17.68	21.46	13.24	18.06	23.85	12.24
Foreign exchange risk	14.77	20.84	9.80	7.61	10.64	4.99
Volatility risk	0.43	0.78	0.17	0.40	0.71	0.11
Commodity risk	1.12	1.54	0.75	0.95	3.68	0.13
Total of the Bank’s trading VaR	20.76	26.64	17.11	19.72	23.17	14.82

The Bank’s VaR for the six month period ended 30 June 2019 and 2018 were calculated based on the Group’s trading positions, excluding those of BOCHK (Holdings) and BOCI.

The reporting of risk in relation to bullion is included in foreign exchange risk above.

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Six month period ended 30 June					
	2019			2018		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	2.24	3.12	1.26	3.67	5.50	2.39
Foreign exchange risk	1.86	2.69	0.98	1.95	2.58	1.37
Equity risk	0.07	0.32	0.03	0.34	0.90	0.16
Commodity risk	2.83	5.39	1.32	0.21	0.44	0.11
Total BOCHK (Holdings)'s trading VaR	3.89	6.16	2.96	4.18	5.84	3.07
BOCI's trading VaR⁽ⁱ⁾						
Equity derivatives unit	0.60	1.13	0.38	0.91	2.03	0.54
Fixed income unit	0.66	0.97	0.50	1.48	1.86	0.98
Global commodity unit	0.18	0.27	0.10	0.33	0.52	0.21
Total BOCI's trading VaR	1.43	2.21	1.17	2.72	3.84	1.95

(i) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs was not added up to the total VaR as there was a diversification effect due to correlation amongst the risk factors.

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group assesses interest rate risk in the banking book primarily through an interest rate repricing gap analysis. The interest rate gap analysis is set out in Note IV.2.2 and also covers the trading book.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis

The tables below summarise the Group's exposure to interest rate risks. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 30 June 2019						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non- interest bearing	
Assets							
Cash and due from banks and other financial institutions	265,791	43,206	91,985	2,836	-	68,770	472,588
Balances with central banks	1,845,440	987	620	-	-	222,517	2,069,564
Placements with and loans to banks and other financial institutions	687,663	176,576	286,272	16,280	-	3,309	1,170,100
Derivative financial assets	-	-	-	-	-	86,982	86,982
Loans and advances to customers, net	2,750,636	2,218,815	6,635,773	124,708	60,076	467,776	12,257,784
Financial investments							
— financial assets at fair value through profit or loss	24,049	31,199	91,286	50,643	118,138	128,477	443,792
— financial assets at fair value through other comprehensive income	143,616	225,346	466,361	788,391	420,644	40,610	2,084,968
— financial assets at amortised cost	53,675	60,738	396,484	1,445,296	837,412	38,953	2,832,558
Other	11,127	-	-	-	9,155	827,406	847,688
Total assets	5,781,997	2,756,867	7,968,781	2,428,154	1,445,425	1,884,800	22,266,024
Liabilities							
Due to banks and other financial institutions	1,041,773	269,655	264,270	3,257	-	205,527	1,784,482
Due to central banks	382,614	108,520	404,921	6,665	-	10,465	913,185
Placements from banks and other financial institutions	391,720	63,921	70,749	1,398	-	1,613	529,401
Derivative financial liabilities	-	-	-	-	-	82,861	82,861
Due to customers	9,083,498	1,314,464	2,719,332	2,137,273	9,757	380,310	15,644,634
Bonds issued	130,837	163,635	208,758	271,510	42,490	10,345	827,575
Other	25,553	19,254	4,683	3,170	10,095	513,679	576,434
Total liabilities	11,055,995	1,939,449	3,672,713	2,423,273	62,342	1,204,800	20,358,572
Total interest repricing gap	(5,273,998)	817,418	4,296,068	4,881	1,383,083	680,000	1,907,452

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 31 December 2018						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non- interest bearing	Total
Assets							
Cash and due from banks and							
other financial institutions	211,195	29,873	115,397	3,356	–	80,110	439,931
Balances with central banks	2,113,231	2,085	619	–	–	215,118	2,331,053
Placements with and loans to banks and							
other financial institutions	668,153	98,129	225,933	45,694	–	4,449	1,042,358
Derivative financial assets	–	–	–	–	–	124,126	124,126
Loans and advances to customers, net	3,146,270	2,145,073	5,613,781	119,794	53,241	437,605	11,515,764
Financial investments							
— financial assets at fair value through profit or loss	19,425	37,327	75,423	44,898	96,195	97,223	370,491
— financial assets at fair value through other comprehensive income	112,091	172,122	406,442	789,385	360,876	38,843	1,879,759
— financial assets at amortised cost	14,863	83,459	283,575	1,605,967	777,123	39,314	2,804,301
Other	5,188	–	–	–	3,661	750,643	759,492
Total assets	6,290,416	2,568,068	6,721,170	2,609,094	1,291,096	1,787,431	21,267,275
Liabilities							
Due to banks and other financial institutions	1,011,125	313,145	181,766	49,045	–	176,128	1,731,209
Due to central banks	275,905	156,600	456,671	8,071	–	10,274	907,521
Placements from banks and							
other financial institutions	428,797	122,663	57,583	1,417	–	1,807	612,267
Derivative financial liabilities	–	–	–	–	–	99,254	99,254
Due to customers	8,515,651	1,354,989	2,668,074	1,960,185	105	384,592	14,883,596
Bonds issued	91,311	157,934	179,233	311,777	35,125	6,747	782,127
Other	17,849	24,535	1,560	2,515	5,246	474,199	525,904
Total liabilities	10,340,638	2,129,866	3,544,887	2,333,010	40,476	1,153,001	19,541,878
Total interest repricing gap	(4,050,222)	438,202	3,176,283	276,084	1,250,620	634,430	1,725,397

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2019 and 31 December 2018. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the tables are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in net off-balance sheet position using notional amounts.

	As at 30 June 2019							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Assets								
Cash and due from banks and other financial institutions	289,518	137,561	15,760	6,425	9,106	1,389	12,829	472,588
Balances with central banks	1,611,220	271,369	43,706	37,280	31,691	45,687	28,611	2,069,564
Placements with and loans to banks and other financial institutions	873,792	181,198	39,769	9,633	–	2,198	63,510	1,170,100
Derivative financial assets	38,275	15,686	24,101	491	23	5,196	3,210	86,982
Loans and advances to customers, net	9,464,817	1,165,430	978,976	240,481	11,553	68,959	327,568	12,257,784
Financial investments								
— financial assets at fair value through profit or loss	281,640	78,686	82,186	1,128	–	29	123	443,792
— financial assets at fair value through other comprehensive income	1,243,380	474,231	143,331	32,787	104,370	2,743	84,126	2,084,968
— financial assets at amortised cost	2,589,007	215,814	3,597	4,345	768	1,360	17,667	2,832,558
Other	246,837	168,359	189,071	1,395	1,600	2,642	237,784	847,688
Total assets	16,638,486	2,708,334	1,520,497	333,965	159,111	130,203	775,428	22,266,024
Liabilities								
Due to banks and other financial institutions	1,065,156	423,073	29,932	45,342	18,493	7,056	195,430	1,784,482
Due to central banks	646,312	238,380	21,663	4,884	–	122	1,824	913,185
Placements from banks and other financial institutions	172,621	275,512	48,393	14,741	5,935	5,690	6,509	529,401
Derivative financial liabilities	30,699	21,665	22,000	704	57	4,478	3,258	82,861
Due to customers	11,892,454	1,726,813	1,279,750	205,888	55,735	50,801	433,193	15,644,634
Bonds issued	481,518	271,561	11,504	43,005	1,911	2,176	15,900	827,575
Other	210,672	99,767	244,419	2,626	947	1,555	16,448	576,434
Total liabilities	14,499,432	3,056,771	1,657,661	317,190	83,078	71,878	672,562	20,358,572
Net on-balance sheet position	2,139,054	(348,437)	(137,164)	16,775	76,033	58,325	102,866	1,907,452
Net off-balance sheet position	(511,075)	340,069	355,645	(8,052)	(76,145)	(54,921)	(32,460)	13,061
Credit commitments	2,789,809	809,034	240,990	118,125	9,703	50,310	109,747	4,127,718

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 31 December 2018							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Assets								
Cash and due from banks and other financial institutions	308,697	79,058	17,818	6,442	5,694	1,575	20,647	439,931
Balances with central banks	1,855,438	280,029	40,625	39,770	36,838	47,950	30,403	2,331,053
Placements with and loans to banks and other financial institutions	878,861	93,903	30,994	7,636	3,094	283	27,587	1,042,358
Derivative financial assets	67,601	17,913	29,945	621	37	5,237	2,772	124,126
Loans and advances to customers, net	8,830,692	1,146,207	923,070	201,731	12,637	65,563	335,864	11,515,764
Financial investments								
— financial assets at fair value through profit or loss	238,495	56,988	72,981	2,011	—	16	—	370,491
— financial assets at fair value through other comprehensive income	1,191,739	453,918	116,376	30,629	8,573	3,023	75,501	1,879,759
— financial assets at amortised cost	2,548,402	229,300	3,496	3,450	746	1,456	17,451	2,804,301
Other	213,438	148,481	185,113	568	1,244	2,097	208,551	759,492
Total assets	16,133,363	2,505,797	1,420,418	292,858	68,863	127,200	718,776	21,267,275
Liabilities								
Due to banks and other financial institutions	1,060,308	404,757	34,551	40,090	14,270	7,049	170,184	1,731,209
Due to central banks	628,327	246,540	26,758	5,461	—	434	1	907,521
Placements from banks and other financial institutions	266,692	271,303	39,642	12,669	11,242	5,411	5,308	612,267
Derivative financial liabilities	50,554	14,104	26,366	678	46	5,059	2,447	99,254
Due to customers	11,256,454	1,716,821	1,202,357	194,439	58,478	46,334	408,713	14,883,596
Bonds issued	447,679	252,059	6,682	48,465	1,852	9,793	15,597	782,127
Other	191,501	84,330	230,918	2,327	480	1,323	15,025	525,904
Total liabilities	13,901,515	2,989,914	1,567,274	304,129	86,368	75,403	617,275	19,541,878
Net on-balance sheet position	2,231,848	(484,117)	(146,856)	(11,271)	(17,505)	51,797	101,501	1,725,397
Net off-balance sheet position	(795,575)	520,806	355,983	21,144	19,415	(49,526)	(40,626)	31,621
Credit commitments	2,715,693	794,823	223,494	111,092	10,425	44,054	93,430	3,993,011

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period from the financial reporting date to the contractual maturity date.

	As at 30 June 2019							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	20	212,532	114,412	44,641	98,147	2,836	-	472,588
Balances with central banks	1,551,422	482,084	9,335	4,739	21,295	689	-	2,069,564
Placements with and loans to banks and other financial institutions	-	-	677,592	167,814	293,662	31,032	-	1,170,100
Derivative financial assets	-	10,094	17,652	10,750	27,877	15,965	4,644	86,982
Loans and advances to customers, net	41,237	189,532	501,462	1,142,340	2,831,110	3,058,564	4,493,539	12,257,784
Financial investments								
— financial assets at fair value through profit or loss	124,714	-	22,111	28,132	89,364	56,726	122,745	443,792
— financial assets at fair value through other comprehensive income	18,395	-	106,168	173,973	496,625	852,269	437,538	2,084,968
— financial assets at amortised cost	2,009	-	60,634	73,443	408,641	1,449,570	838,261	2,832,558
Other	344,798	380,227	24,033	6,533	15,328	53,155	23,614	847,688
Total assets	2,082,595	1,274,469	1,533,399	1,652,365	4,282,049	5,520,806	5,920,341	22,266,024
Liabilities								
Due to banks and other financial institutions	-	1,090,857	153,697	263,556	272,968	3,404	-	1,784,482
Due to central banks	-	192,304	180,827	112,108	421,281	6,665	-	913,185
Placements from banks and other financial institutions	-	-	391,912	63,546	72,351	1,592	-	529,401
Derivative financial liabilities	-	8,832	13,460	9,230	25,545	19,342	6,452	82,861
Due to customers	-	7,855,770	1,478,365	1,279,826	2,823,825	2,187,229	19,619	15,644,634
Bonds issued	-	-	108,160	109,628	218,535	346,420	44,832	827,575
Other	-	271,733	55,916	10,294	80,486	95,546	62,459	576,434
Total liabilities	-	9,419,496	2,382,337	1,848,188	3,914,991	2,660,198	133,362	20,358,572
Net liquidity gap	2,082,595	(8,145,027)	(848,938)	(195,823)	367,058	2,860,608	5,786,979	1,907,452

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	As at 31 December 2018							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	178,645	110,908	30,365	116,636	3,356	–	439,931
Balances with central banks	1,588,770	511,244	216,281	2,087	12,329	342	–	2,331,053
Placements with and loans to banks and other financial institutions	44	–	659,399	92,855	231,633	58,427	–	1,042,358
Derivative financial assets	–	10,055	22,259	30,528	38,686	18,634	3,964	124,126
Loans and advances to customers, net	69,539	154,707	397,574	1,086,838	2,478,055	3,036,778	4,292,273	11,515,764
Financial investments								
— financial assets at fair value through profit or loss	93,524	–	16,772	32,788	71,133	52,863	103,411	370,491
— financial assets at fair value through other comprehensive income	16,456	–	71,630	120,021	428,041	870,105	373,506	1,879,759
— financial assets at amortised cost	2,001	–	15,328	78,810	306,782	1,623,516	777,864	2,804,301
Other	301,633	338,223	22,683	7,554	18,968	50,792	19,639	759,492
Total assets	2,071,988	1,192,874	1,532,834	1,481,846	3,702,263	5,714,813	5,570,657	21,267,275
Liabilities								
Due to banks and other financial institutions	–	1,038,168	143,392	314,126	186,252	49,271	–	1,731,209
Due to central banks	–	172,280	104,114	157,466	465,590	8,071	–	907,521
Placements from banks and other financial institutions	–	–	429,492	123,223	58,135	1,417	–	612,267
Derivative financial liabilities	–	7,314	19,861	18,267	33,305	17,434	3,073	99,254
Due to customers	–	7,368,721	1,405,144	1,349,078	2,740,128	2,010,860	9,665	14,883,596
Bonds issued	–	–	45,983	99,061	196,535	323,057	117,491	782,127
Other	–	276,288	36,307	12,145	76,623	66,329	58,212	525,904
Total liabilities	–	8,862,771	2,184,293	2,073,366	3,756,568	2,476,439	188,441	19,541,878
Net liquidity gap	2,071,988	(7,669,897)	(651,459)	(591,520)	(54,305)	3,238,374	5,382,216	1,725,397

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value

4.1 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchanges or debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: Valuation technique using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter (“OTC”) derivative contracts, debt securities for which quotations are available from pricing service providers, discounted bills, etc.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group’s policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), OTC structured derivative transactions and unlisted funds held by the Group, management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including the discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have a significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as Level 3. Management determines whether to make necessary adjustments to the fair value for the Group’s Level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group’s exposure to such financial instruments.

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

	As at 30 June 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities	3,218	300,570	11,728	315,516
— Equity instruments	8,387	105	51,208	59,700
— Fund investments and other	26,267	5,168	37,141	68,576
Derivative financial assets	11,279	75,703	—	86,982
Loans and advances to customers at fair value	—	280,485	—	280,485
Financial assets at fair value through other comprehensive income				
— Debt securities	224,930	1,839,012	1,592	2,065,534
— Equity instruments and other	6,171	9,083	4,180	19,434
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	—	(6,016)	—	(6,016)
Due to customers at fair value	—	(19,354)	—	(19,354)
Bonds issued at fair value	—	(25,879)	—	(25,879)
Short position in debt securities	(1,478)	(16,795)	—	(18,273)
Derivative financial liabilities	(10,214)	(72,647)	—	(82,861)

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

	As at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities	3,448	261,582	8,417	273,447
— Equity instruments	3,868	104	43,089	47,061
— Fund investments and other	10,730	4,741	34,512	49,983
Derivative financial assets	11,655	112,465	6	124,126
Loans and advances to customers at fair value				
	–	227,643	–	227,643
Financial assets at fair value through other comprehensive income				
— Debt securities	121,859	1,738,951	1,422	1,862,232
— Equity instruments and other	6,592	5,571	5,364	17,527
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value				
	–	(876)	–	(876)
Due to customers at fair value	–	(24,141)	–	(24,141)
Bonds issued at fair value	–	(20,517)	–	(20,517)
Short position in debt securities	(2,642)	(11,685)	–	(14,327)
Derivative financial liabilities	(8,928)	(90,326)	–	(99,254)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 items

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
	Debt securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other	Derivative financial assets
As at 1 January 2019	8,417	43,089	34,512	1,422	5,364	6
Total gains and losses						
— profit	665	421	1,606	—	—	—
— other comprehensive income	—	—	—	164	(1,184)	—
Sales	—	(744)	(916)	—	—	—
Purchases	2,639	8,442	1,860	—	—	—
Settlements	—	—	—	—	—	—
Transfers in/(out) of Level 3, net	—	—	59	—	—	(6)
Other changes	7	—	20	6	—	—
As at 30 June 2019	11,728	51,208	37,141	1,592	4,180	—
Total gains for the period included in the income statement for assets/liabilities held as at 30 June 2019	665	479	1,596	—	—	—

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 items (Continued)

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income		Derivative financial assets
	Debt securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other	
As at 1 January 2018	3,034	23,205	27,899	1,405	4,695	–
Total gains and losses						
— (loss)/profit	(273)	98	2,678	–	–	6
— other comprehensive income	–	–	–	(50)	(911)	–
Sales	(5)	(538)	(1,767)	(1)	(3)	–
Purchases	5,582	20,324	5,681	–	1,588	–
Settlements	(1)	–	–	–	–	–
Transfers out of Level 3, net	–	–	–	–	–	–
Other changes	80	–	21	68	(5)	–
As at 31 December 2018	8,417	43,089	34,512	1,422	5,364	6
Total (losses)/gains for the period included in the income statement for assets/liabilities held as at 31 December 2018	(273)	98	2,677	–	–	6

Total gains or losses for the six month period ended 30 June 2019 and for the year ended 31 December 2018 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held as at 30 June 2019 and 31 December 2018 are presented in “Net trading gains”, “Net gains on financial asset transfers” or “Impairment losses on assets” depending on the nature or category of the related financial instruments.

Gains or losses on Level 3 financial assets and liabilities included in the income statement comprise:

	For the six month period ended 30 June 2019			For the six month period ended 30 June 2018		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total (losses)/gains for the period	(48)	2,740	2,692	2	879	881

There were no significant transfers for the financial assets and liabilities measured at fair value between Level 1 and Level 2 during the six month period ended 30 June 2019.

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.2 Financial instruments not measured at fair value

Financial assets and liabilities not presented at fair value in the statement of financial position mainly represent “Balances with central banks”, “Due from banks and other financial institutions”, “Placements with and loans to banks and other financial institutions”, “Due to central banks”, “Due to banks and other financial institutions”, “Loans and advances to customers measured at amortised cost”, “Financial investments measured at amortised cost”, “Placements from banks and other financial institutions at amortised cost”, “Due to customers at amortised cost”, and “Bonds issued at amortised cost”.

The tables below summarise the carrying amounts and fair values of “Debt securities at amortised cost”, and “Bonds issued” not presented at fair value on the statement of financial reporting date.

	As at 30 June 2019		As at 31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Debt securities at amortised cost ⁽¹⁾	2,825,779	2,837,021	2,795,740	2,806,772
Financial liabilities				
Bonds issued ⁽²⁾	801,696	806,589	761,610	766,005

(1) Debt securities at amortised cost

The China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on the stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.2 Financial instruments not measured at fair value (Continued)

The tables below summarise the fair values of three levels of “Debt securities at amortised cost” (excluding the China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond), and “Bonds issued” not presented at fair value on the statement of financial reporting date.

	As at 30 June 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at amortised cost	64,613	2,573,374	1,983	2,639,970
Financial liabilities				
Bonds issued	–	801,089	5,500	806,589

	As at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at amortised cost	73,055	2,534,891	2,237	2,610,183
Financial liabilities				
Bonds issued	–	758,805	7,200	766,005

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value in the statement of financial position is insignificant. Fair value is measured using a discounted cash flow model.

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.
- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, to steadily improve the efficiency and return of capital, achieving the reciprocal matchup and dynamic equilibrium among risks, assets and returns.
- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations. With the approval of the CBIRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management (Continued)

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management (Continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio⁽¹⁾ calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations.

	As at 30 June 2019	As at 31 December 2018
Common equity tier 1 capital adequacy ratio	11.21%	11.41%
Tier 1 capital adequacy ratio	12.85%	12.27%
Capital adequacy ratio	15.33%	14.97%
Composition of the Group's capital base		
Common equity tier 1 capital	1,549,186	1,488,010
Common shares	294,388	294,388
Capital reserve	140,497	140,422
Surplus reserve	156,969	156,711
General reserve	231,565	231,416
Undistributed profits	691,566	637,609
Eligible portion of minority interests	29,479	28,229
Other ⁽²⁾	4,722	(765)
Regulatory deductions	(22,558)	(22,241)
Of which:		
Goodwill	(182)	(182)
Other intangible assets (except land use rights)	(11,825)	(12,078)
Direct or indirect investments in own shares	(57)	(68)
Reserve relating to cash-flow hedge items not measured at fair value	–	–
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	(9,920)	(9,913)
Net common equity tier 1 capital	1,526,628	1,465,769
Additional tier 1 capital	222,677	109,524
Preference shares and related premium	172,693	99,714
Additional capital instruments and premiums	39,992	–
Eligible portion of minority interests	9,992	9,810
Net tier 1 capital	1,749,305	1,575,293
Tier 2 capital	338,053	347,473
Tier 2 capital instruments issued and related premium	239,778	256,189
Excess loan loss provisions	88,921	82,093
Eligible portion of minority interests	9,354	9,191
Regulatory deductions	–	(416)
Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation	–	(416)
Net capital	2,087,358	1,922,350
Risk-weighted assets	13,618,292	12,841,526

(1) When calculating the capital adequacy ratios, Bank of China Group Investment Limited ("BOCG Investment"), Bank of China Insurance Company Limited ("BOC Insurance"), Bank of China Group Insurance Company Limited ("BOCG Insurance") and Bank of China Group Life Assurance Company Limited ("BOCG Life") were excluded from the scope of consolidation in accordance with requirements of the CBIRC.

(2) This mainly represented exchange differences from the translation of foreign operations and gains/(losses) on financial assets at fair value through other comprehensive income.