

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 31 December 2019				
FVPL	14,766	5,091	116,079	135,936
FVOCI	74,707	–	7,014	81,721
OFA	–	375	–	375
Other financial liabilities	–	523	1,873	2,396
As at 31 December 2018				
FVPL	10,875	5,009	81,993	97,877
FVOCI	41,578	–	1,941	43,519
OFA	–	2,032	–	2,032
Other financial liabilities	–	40	4,466	4,506

The fair value of financial instruments traded in active markets is determined with reference to quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.



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3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments mainly include:

- Dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

During the year ended 31 December 2019, there was 1 transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 for the years ended 31 December 2019 and 2018:

	Financial assets		Financial liabilities	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Opening balance – IAS 39		77,131		2,154
Adjustment on adoption of IFRS 9		22,976		–
Opening balance – IFRS 9	83,934	100,107	4,466	2,154
Additions	39,116	51,185	75	3,301
Business combination	–	–	(977)	–
Disposals/Settlements	(6,714)	(9,899)	(1,193)	–
Transfers	(4,552)	(93,151)	–	–
Changes in fair value recognised in other comprehensive income	328	261	–	–
Changes in fair value recognised in profit or loss*	9,241	30,485	(463)	(1,063)
Currency translation differences	1,740	4,946	(35)	74
Closing balance	123,093	83,934	1,873	4,466
* Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	3,265	6,861	(463)	(1,063)

