



渤海銀行股份有限公司 CHINA BOHAI BANK CO., LTD.

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

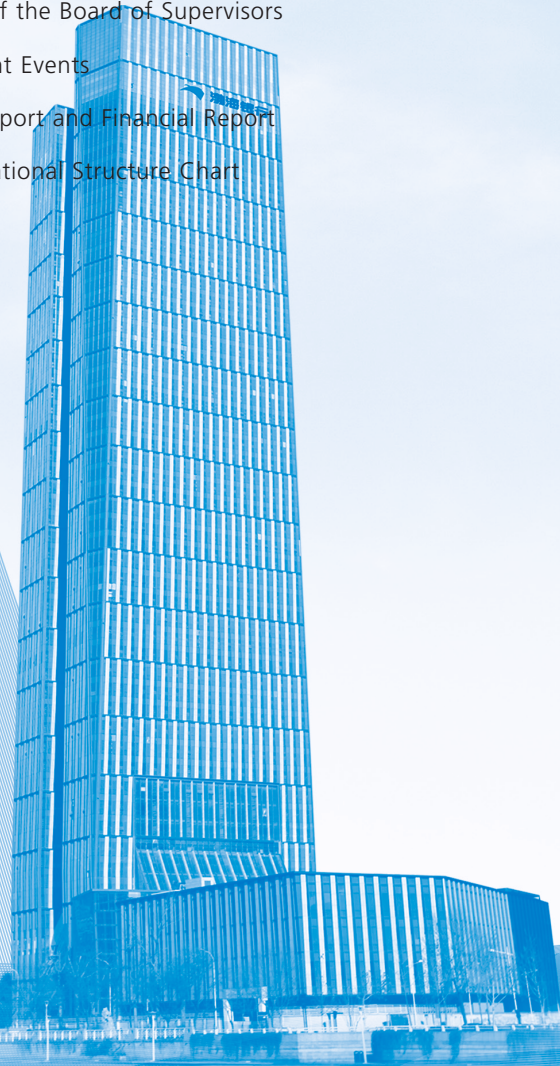
Stock Code : 9668



2020
ANNUAL REPORT

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Definitions

Articles of Association	the Articles of Association of CHINA BOHAI BANK CO., LTD.
Bank, our Bank, Company, our Company	CHINA BOHAI BANK CO., LTD. (渤海銀行股份有限公司), a joint stock company established on December 30, 2005 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and its H Shares were listed on the Hong Kong Stock Exchange (Stock Code: 9668)
CBIRC	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
CBRC	the former China Banking Regulatory Commission (中國銀行業監督管理委員會)
Central Bank, PBoC	the People's Bank of China
China Accounting Standards for Business Enterprises	Accounting Standards for Business Enterprises – Basic Standards, specific accounting standards, application guidance and interpretations to the Accounting Standards for Business Enterprises and other regulations issued by the Ministry of Finance of the PRC on and after February 15, 2006
Commercial Banking Law	the Commercial Banking Law of the PRC (中華人民共和國商業銀行法)
Company Law	the Company Law of the PRC (中華人民共和國公司法)
CSRC	China Securities Regulatory Commission (中國證券監督管理委員會)
Domestic Shares	ordinary shares issued by the Bank with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
Global Offering	the Hong Kong Public Offering and the International Offering, for details, please refer to the Prospectus
HKEX	Hong Kong Exchanges and Clearing Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
H Shares	the overseas listed foreign shares issued by the Bank with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong Dollars and listed and traded on the Hong Kong Stock Exchange
IFRS	International Financial Reporting Standards and International Accounting Standards ("IAS"), the related standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB")
Listing Date	July 16, 2020, the date on which dealings in the H Shares of the Bank commenced on the Hong Kong Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
Prospectus	the Prospectus of the Global Offering of the Bank

Reporting Period	the year ended December 31, 2020
SASAC	the State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
the Fourth “Five-Year Plan”	the Plan for Development Strategy of CHINA BOHAI BANK CO., LTD. (2021-2025) (渤海銀行股份有限公司2021-2025年發展戰略規劃)
the Third “Five-Year Plan”	the Plan for Development Strategy of CHINA BOHAI BANK CO., LTD. (2016-2020) (渤海銀行股份有限公司2016-2020年發展戰略規劃)
Tianjin SASAC	the State-owned Assets Supervision and Administration Commission of Tianjin People’s Government
2020 Final Dividend	The Board of Directors recommended to distribute cash dividends of RMB0.85 (tax inclusive) per 10 shares to all Shareholders of ordinary shares

Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and members of senior management of the Bank undertake that the information contained in this annual report does not include any false records, misleading statements or material omissions, and assume several and joint liabilities for the truthfulness, accuracy and completeness of the content of this annual report.

The Bank considered and approved the Annual Report 2020 of the Bank at the 18th meeting of the fifth session of the Board of Directors held on March 29, 2021. 18 Directors should attend the meeting, among which 18 Directors actually attended. Five Supervisors of the Bank attended the meeting.

The Bank considered and approved the Annual Report 2020 of the Bank at the 7th meeting of the fifth session of the Board of Supervisors held on March 29, 2021. Six Supervisors should attend the meeting, among which six Supervisors actually attended. The Board of Supervisors and the Supervisors of the Bank believe that after reviewing the information contained in the Annual Report 2020 of the Bank, no false records, misleading statements or material omissions have been found, and they have no objection to the truthfulness, accuracy and completeness of the content of this annual report.

Mr. LI Fuan, the legal representative and chairman of the Board of Directors of the Bank, Mr. QU Hongzhi, the president of the Bank, Mr. DU Gang, the person in charge of accounting affairs of the Bank, and Mr. WANG Fenglei, the person in charge of accounting department, hereby warrant the truthfulness, accuracy and completeness of the financial statements in this annual report.

The Profit Distribution Plan for 2020 of the Bank has been considered and approved at the 18th meeting of the fifth session of the Board of Directors, at which, the Board approved a cash dividend of RMB0.85 (tax inclusive) per 10 shares to all Shareholders of ordinary shares of the Bank. Such profit distribution plan shall be subject to the consideration and approval of the Shareholders' General Meeting. For details, please refer to "Report of the Board of Directors—PROFIT DISTRIBUTION" in this annual report.

The Bank's 2020 Annual Financial Reports prepared in accordance with the China Accounting Standards for Business Enterprises (中國企業會計準則) and IFRS have been audited by KPMG Huazhen LLP and KPMG in accordance with the Auditing Standards for Certified Public Accountants of China and Hong Kong Auditing Standards, respectively. And standard unqualified audit reports were issued.

Forward-looking statements such as future plans contained in this annual report do not constitute substantive commitments made by the Bank to its investors. Investors are cautioned against the investment risks and should understand the difference among plans, forecasts and commitments.

This annual report describes in detail the major risks that the Bank faces in its operational management, as well as the corresponding measures taken by the Bank. For details, please refer to the section "Management Discussion and Analysis – Comprehensive Risk Management" in this annual report.

Financial data and indicators contained in this annual report are prepared in accordance with IFRS. Unless otherwise stated, they are denominated in Renminbi (RMB). Certain amounts and percentage figures included in this report have been subject to rounding adjustments. Any discrepancy between the sum and total amounts in the tables is due to rounding.

This annual report is prepared in both Chinese and English. Should there be any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

Chairman's Statement



In 2020, amid the COVID-19 outbreak and unusually complex situations facing businesses at home and abroad, the Board of Directors remained steadfast in following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. We were keenly aware of the need to maintain political integrity, think in big-picture terms, follow the leadership core, and keep in alignment with the central Party leadership. We stayed confident in the path, theory, system and culture of socialism with Chinese characteristics. We also upheld General Secretary Xi Jinping's core position on the Party Central Committee and in the Party as a whole, and upheld the Party Central Committee's authority and its centralized, unified leadership. The decisions and plans of the CPC Committee and the State Council were thoroughly executed while epidemic prevention and control measures were applied to where they were most lacking. Apart from the endeavors above, we committed ourselves to serving the social and economic development with heart and soul. Consequently, the gains resulting from our transformation were deepened, along with encouraging achievements in our business development and stronger comprehensive competitiveness, which brought our high-quality development to a new level.

The role of Party construction was given full play; under the overall leadership of the Party and with Party construction continuously fortified, every aspect of our corporate governance embodied the leadership of the Party as the Party construction further merged with our cardinal work, which boosted the cohesion within and competitiveness of our staff team. In 2020, we made milestone breakthroughs in our priorities: Upon the initial public offering, our H Shares were successfully listed on July 16, with a total of 3,312 million shares issued and HKD15,896 million in aggregate raised after the green-shoe option was fully exercised; our Hong Kong branch, as our first overseas branch, officially commenced its business on December 18, and we were categorized into "Investment Grade" by both S&P Global Ratings and Moody's Investors Services when first introduced to international ratings. Our market competitiveness was further enhanced, our innovative transformation forwarded, our credit structure optimized, while our operating results thrived upwind and our asset quality maintained stable performance. In respect of stricter risk management, we set up a sound long-term risk control mechanism, strived to beef up our intelligent risk control and management, spared no effort to prevent and mitigate potential risk exposures, as well as made solid and effective progress in internal control and compliance management. Our branding efforts received further recognition, with our ranking moving up 45 places to 133rd among the Top 1000 World Banks 2020 compiled by The Banker, a British magazine, compared with the previous year. During the year, we won various awards including Gold Award for Bankers and Insurers with Growth Potential ("金牌銀保成長力獎"), Annual Award for Outstanding Contribution to Inclusive Finance ("年度普惠金融卓越貢獻獎"), Annual Award for Fintech Progress ("年度金融科技進步獎"), Top 10 SME Financial Service Innovations ("十佳小微企業金融服務創新獎") and Annual Golden Bull Award for Wealth Management Banking ("年度金牛理財銀行").

2021 witnesses the centenary of the Communist Party of China, and the initiation of both the 14th Five-Year Plan and our Fourth "Five-Year Plan". Starting a new journey of pursuing high-quality and sustainable development unflinchingly at a new stage of development, the Board of Directors will earnestly complete every task to convey the spirits of the 19th National Congress and the 2nd, 3rd, 4th and 5th Plenary Sessions of the 19th Central Committee without foregoing the general principle of delivering stability while pursuing progress. With the new development philosophy in mind as well as courage in heart, we will usher in, through relentless hard work, a fresh beginning of the high-quality development for China Bohai Bank to celebrate the centenary anniversary of the founding of the Communist Party of China.

A handwritten signature in black ink, consisting of stylized Chinese characters, which reads "李伏波" (Li Fuan).

Li Fuan
Chairman
March 2021

President's Statement



2020 is a year witnessing extraordinariness. To fulfil the requirements of the plans developed by the party committee at the Head Office and the Board of Directors, our senior management rose up to the impacts posed by the coronavirus and the severe and intricate operating situations. At the same time, we became more aware of the need to maintain political integrity, think in big-picture terms, follow the leadership core, and keep in alignment with the central Party leadership. We were more committed to the path, theory, system, and culture of socialism with Chinese characteristics. We upheld General Secretary Xi Jinping's core position on the Party Central Committee and in the Party as a whole, as well as the Party Central Committee's authority and its centralized, unified leadership. Led by party building, we further advanced our high-quality transformation and development, and persisted with epidemic prevention and control on the one hand while focusing on the steady growth of our financial services on the other hand, so as to manage a "win-win" result. During the year, we completed the listing on the main board of the Hong Kong Stock Exchange and finished the annual tasks of business development, which ended our Third "Five-Year Plan" with a successful finale.

As of the end of the Reporting Period, our total assets amounted to RMB1,393,523 million, representing an increase of RMB276,593 million or 24.76% as compared to the end of the previous year; total liabilities amounted to RMB1,290,277 million, representing an increase of RMB255,986 million or 24.75% as compared to the end of the previous year; net assets amounted to RMB103,246 million, representing an increase of RMB20,607 million or 24.94% as compared to the previous year. Net assets per share attributable to ordinary Shareholders of the Bank was RMB4.69, representing an increase of RMB0.35 as compared to the previous year. Operating income amounted to RMB32,492 million, representing a year-on-year increase of RMB4,114 million or 14.50%; the non-performing loan ratio of the Bank was 1.77%, representing a decrease of 0.01 percentage point from the beginning of the year. The allowance to gross loan ratio, the allowance coverage ratio, and the capital adequacy ratio were 2.81%, 158.80% and 12.08%, respectively, which were all in line with regulatory requirements.

The above achievements were credited to the correct leadership of the Tianjin Municipal Party Committee and the Tianjin Municipal Government, the targeted guidance of the regulatory authorities, the strong support of our shareholders, customers at large and all walks of life, and our employees' united action, hard work and determination to pursue progress. On behalf of the senior management of China Bohai Bank, I hereby would like to express my heartfelt gratitude to our friends from all sectors of society who care about and support our development.

The road ahead is long; striving is the only way forward. In 2021, China Bohai Bank will proceed to take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as its guide, and thoroughly study and capture not only the spirits of the 19th CPC National Congress and the 2nd, 3rd, 4th, and 5th Plenary Sessions of the 19th Central Committee but the spirit of the central economic work conference. We will pursue progress while maintaining stable performance, move forward with a resolution to stay true to our mission as a bank, serve the real economy and prevent and mitigate financial risks. Moreover, we will push ahead with deepening innovation and transformation, and better serve the benefits of national strategies and Chinese people's well-being. We will bolster tech-driven empowerment, never cross the red line of compliance, and consolidate the quality and efficiency of management, in a bid to contribute to a good start with new accomplishments of our high-quality development, and to salute the 100th anniversary of the founding of the Communist Party of China with excellent operating results.

A handwritten signature in black ink, appearing to read 'QU Hongzhi', written in a cursive style.

QU Hongzhi
President
March 2021

Statement of the Chairman of the Board of Supervisors



Our successful listing on the Hong Kong Stock Exchange in 2020 represents a new milestone in the development history of China Bohai Bank. This year, the Board of Supervisors tirelessly followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. We were keenly aware of the need to maintain political integrity, think in big-picture terms, follow the leadership core, and keep in alignment with the central Party leadership. We stayed confident in the path, theory, system, and culture of socialism with Chinese characteristics. And we upheld General Secretary Xi Jinping's core position on the Party Central Committee and in the Party as a whole, as well as the Party Central Committee's authority and its centralized, unified leadership. Furthermore, implementing the plans of the CPC Committee, the State Council, Tianjin Municipal Party Committee and Tianjin Municipal Government without hesitation, we devoted ourselves to serving both the COVID-19 prevention and control and the social and economic development to secure desirable results on these two areas. In compliance with the requirements of laws and regulations, we faithfully performed the duties under the Articles of Association by focusing on supervising the duty performance by the Board of Directors, the senior management and their members, financial activities, internal control, and risk management, etc.

During the Reporting Period, the Board of Supervisors and its special committees held meetings on time, the meeting procedures were in compliance with laws and regulations and the decision-making of such meetings was timely and effective; through a variety of approaches, we enhanced our supervision over the Board of Directors, the senior management and their members during their performance of duties to identify any violations of laws and regulations; we attached great importance to financial activity supervision by paying attention to major financial decisions and their implementation; we tightened internal control supervision to urge continuous improvement in the internal control system construction; we promoted sound and comprehensive risk management mechanisms by intensifying day-to-day supervision on risk management and conducting special audits; we conducted in-depth special investigations around our priorities. Taking listing in Hong Kong as a good occasion, we continued to strengthen the engagement between the Board of Supervisors and all stakeholders; we also enhanced learning and communication and self-construction to further establish a robust system for the Board of Supervisors and improve its working standards.

2021 is the centenary anniversary of the founding of The Communist Party of China. China has commenced her "14th Five-Year Plan" and a new journey of comprehensively building a modern socialist country. It is also a crucial year for China Bohai Bank to carry out its Fourth "Five-Year Plan". The work of the Board of Supervisors will implement the guiding principles of the Party's 19th National Congress and the second through fifth Plenary Sessions of the 19th Party Central Committee in full. In the face of the new normal of COVID-19 prevention and control, the Board of Supervisors will prioritize active risk prevention, faithfully perform various supervisory duties, deepen the modernization of our governance system and governance capabilities, and further better the quality and effectiveness of our supervision, which will play an active part in promoting our high-quality transformation and development and building a high-quality listed company. By doing so, the Board of Supervisors will commemorate the centenary anniversary of the CPC with outstanding achievements in development.

A handwritten signature in black ink, appearing to be 'Wang Chunfeng', written in a cursive style.

WANG Chunfeng
Chairman of the Board of Supervisors
March 2021

Corporate Profile

- I. **Legal Chinese Name:** 渤海銀行股份有限公司 (Abbreviation: 渤海銀行)
- II. **Legal English Name:** CHINA BOHAI BANK CO., LTD. (Abbreviation: CBHB)
- III. **Legal Representative:** LI Fuan
- IV. **Authorized Representatives:** DU Gang and SO Shuk Yi Betty
- V. **Secretary to the Board of Directors:** DU Gang
Joint Company Secretaries: DU Gang and SO Shuk Yi Betty
- VI. **Registered Address and Office Address:** 218 Haihe East Road, Hedong District, Tianjin, China
Postcode: 300012
International Website: <http://www.cbhb.com.cn>
Customer Service and Complaints Hotline: (86) 95541, (86) 400 888 8811
E-mail: IR@cbhb.com.cn
Tel: (86)22-5878 9668
Fax: (86)22-5831 6529
- VII. **Principal Place of Business in Hong Kong:** Suites 1201-1209 and 1215-1216, 12/F, Two International Finance Centre, Central, Hong Kong
- VIII. **Websites for Information Disclosure:** website of the HKEX (www.hkexnews.hk) and website of the Bank (www.cbhb.com.cn)
Place where the annual report is kept: Office of the Board of Directors of the Bank
- IX. **Listing Stock Exchange of H Shares:** Hong Kong Stock Exchange
Stock Short Name: CBHB
Stock Code: 9668
- X. **Share Registrar**
Domestic Shares: China Securities Depository and Clearing Corporation Limited
No.17 Tai Ping Qiao Street, Xicheng District, Beijing
H Shares: Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
- XI. **Legal Advisors**
As to PRC Laws: Commerce & Finance Law Offices
6/F, NCI Tower, A12 Jianguomenwai Avenue, Beijing
As to Hong Kong Laws: Paul Hastings
21-22/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong

XII. Auditors

Domestic Accounting Firm: KPMG Huazhen LLP
8/F, Tower E2, Oriental Plaza, 1 East Chang'an Avenue, Dongcheng District, Beijing
Signed Certified Public Accountants: GUAN Yiming, ZHANG Zexu
International Accounting Firm: KPMG
8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

XIII. Compliance Advisor: Haitong International Capital Limited

22/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

XIV. Other Relevant Information

Initial Registration Date: December 30, 2005
Registered Capital: RMB17,762 million
Unified Social Credit Code: 911200007109339563
Financial Licence Institution Serial Number: B0017H112000001

Awards and Ranking

In 2020, the Bank ranked 133rd among the “Top 1000 World Banks” by the British magazine, The Banker, moving up 45 places compared with our ranking in the previous year.

The Bank won the “Listed Company Award of Excellence – Rising Star Award for Main Board (上市公司卓越大獎—主板新星獎)” by Hong Kong Economic Journal, which is the first top prize of capital market we won since we entered into the Main Board market of Hong Kong Stock Exchange. The Bank was also the only bank institution among the four listed enterprises who won the “Rising Star Award for Main Board (主板新星獎)” in 2020.

In the Forum of Poverty Alleviation Assisted by the Banking and Insurance Industry hosted by CBIRC and prepared by China Banking Association and China Insurance Association, the poverty relief case of Solid Designated Assistance Work with Remarkable Results (定點幫扶工作扎實,成效顯著) won the “Model Case of Outstanding Organization for Poverty Alleviation Assisted by China Banking Industry (全國銀行業助力脫貧攻堅優秀組織典型案例)”.

The Bank was granted with the title of “2019 Advanced Unit of Overall Evaluation for Green Banks (2019年度綠色銀行總體評價先進單位)”, in the evaluation work for green banks by China Banking Association in 2019.

The Bank won the “Golden Pixiu Award (金貔貅獎)” – 2020 Gold Bancassurance Growth Award, in the “Third Summit of Bancassurance Development (Beijing) in 2020 (2020第三屆銀保合作發展(北京)高峰論壇)” hosted by the Financial Money magazine and Each Finance.

In the “Golden Jubilee Award (金禧獎)” selection jointly hosted by China Investment Network and Biaodian Institute of Finance (標點財經研究院) in 2020, the Bank won the “Golden Jubilee Award 2020 Excellent Digital Bank (金禧獎·2020優秀數字化銀行)”.

In the “2020 China Golden Tripod Awards (2020中國金鼎獎)” selection hosted by the National Business Daily, the Bank won two awards: “Annual Outstanding Contribution to Inclusive Finance (年度普惠金融卓越貢獻)” and “Annual Financial Technology Progress (年度金融科技進步)”.

At the 8th Golden Bull Asset Management Forum (金牛資產管理論壇) hosted by China Securities Golden Bull (中證金牛), the Bank won the “2019 Golden Bull Wealth Management Bank” award and won the “Golden Bull Award (金牛獎)” for six consecutive years.

In the 11th “Golden Wealth Management (金理財)” Award selection held by Shanghai Securities News, the “Bohai Infinite Wealth Management” brand of the Bank won the Annual Outstanding Bank Wealth Management Brand Award (年度銀行財富管理品牌卓越獎) of “Golden Wealth Management”.

The “Bohai Business Loans (渤海貸)” innovation case of the Bank won the 2020 China’s Financial Innovation Award (2020中國金融創新獎) “Top 10 Small and Micro Enterprise Financial Service Innovation Award (十佳小微企業金融服務創新獎)” granted by The Chinese Banker magazine; “Bohai Bank – Online Domestic Reverse Factoring (渤海銀行—線上國內反向保理)” won the 2020 China’s Financial Innovation Award “Top 10 Supply Chain Financial Innovation Award (十佳供應鏈金融創新獎)”.

At the 4th China Digital Banking Forum, the “‘Boyin Smart Brain’ Artificial Intelligence Platform (‘渤銀智腦’人工智能平台)” project declared by the Bank won the Excellent Case Award in the 2020 China Banking Industry Fintech Application Achievement Competition (中國銀行業金融科技應用成果大賽).

In the “China Bond Outstanding Member (中債優秀成員)” selection hosted by China Central Depository & Clearing Co., Ltd., the Bank won the “2020 Excellent Issuers – Financial Debt Securities Issuer (2020年度優秀發行機構—金融債發行人)” Award.

The Bank won the “Bond Business Progress Award (債券業務進步獎)” in the “2020 Comprehensive Evaluation of China Bond Members (2020年度中債成員綜合評定)” selection hosted by China Central Depository & Clearing Co., Ltd.

In the 2020 Banking Wealth Management Registration Work Appraisal of the Banking Wealth Management Registration and Custody Center Co., Ltd. (銀行業理財登記託管中心有限公司), the Bank was awarded the title of “2020 Excellent Bank for Banking Wealth Management Registration (2020年度銀行業理財登記優秀銀行)”.

At the 2020 (4th) China Customer Service Festival (中國客戶服務節) hosted by China Information Industry Association, our customer service center won the two awards of “2020 Best Happy Team in Customer Contact Center Industry of China (2020年中國客戶聯絡中心行業最佳幸福團隊)” and “2020 Best Service Case of Customer Contact Centers in China (2020年中國客戶聯絡中心最佳服務案例)”.

Summary of Accounting Data and Business Data

I. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

(Unit: RMB'000)

	2020	2019	Increase (decrease) for the year as compared to the previous year (%)	2018	2017	2016
Operating results data:						
Operating income	32,492,170	28,378,394	14.50	23,210,064	25,250,147	21,893,372
Profit before taxation	10,085,092	9,901,850	1.85	8,027,462	8,425,428	7,997,224
Net profit	8,444,571	8,192,756	3.07	7,080,155	6,753,820	6,473,428
Net profit attributable to equity holders of the Bank	8,444,571	8,192,756	3.07	7,080,155	6,753,820	6,473,428
Net cash flows generated from operating activities	52,085,407	(41,679,518)	N/A	(167,616,433)	(25,917,585)	(55,802,138)
Indicators per share (RMB):						
Basic earnings per share attributable to ordinary Shareholders of the Bank	0.47	0.57	(17.54)	0.49	0.49	0.47
Diluted earnings per share attributable to ordinary Shareholders of the Bank	0.47	0.57	(17.54)	0.49	0.49	0.47
Net cash flows generated from operating activities per share	3.27	(2.88)	N/A	(11.60)	(1.86)	(4.03)
Financial ratios (%):						
Average return on total assets attributable to ordinary Shareholders of the Bank	0.60	0.76	a decrease of 0.16 percentage point	0.70	0.73	0.80
Weighted average return on net assets attributable to ordinary Shareholders of the Bank ⁽¹⁾	10.68	13.71	a decrease of 3.03 percentage points	13.59	15.12	16.77

	December 31, 2020	December 31, 2019	Increase (decrease) as at the end of the year as compared to the end of the previous year (%)	December 31, 2018	December 31, 2017	December 31, 2016
Scale indicators:						
Total assets	1,393,523,125	1,116,930,025	24.76	1,034,451,332	1,002,567,049	856,119,678
Gross loans and advances to customers ⁽²⁾	887,537,545	708,057,530	25.35	565,453,709	464,889,833	353,681,707
Total liabilities	1,290,277,295	1,034,291,428	24.75	978,592,211	954,101,747	814,656,311
Gross deposits from customers ⁽²⁾	746,725,783	637,934,899	17.05	598,166,690	582,103,318	490,190,821
Total equity	103,245,830	82,638,597	24.94	55,859,121	48,465,302	41,463,367
Net assets per share attributable to ordinary Shareholders of the Bank (RMB) ⁽³⁾	4.69	4.34	8.06	3.87	3.35	2.99
Share capital	17,762,000	14,450,000	22.92	14,450,000	14,450,000	13,855,000

Notes: (1) Weighted average return on net assets attributable to ordinary Shareholders of the Bank is calculated pursuant to the Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號-淨資產收益率和每股收益的計算及披露(2010年修訂)》) issued by the CSRC;

(2) Gross loans and advances to customers and gross deposits from customers exclude interests accrued;

(3) Net assets per share attributable to ordinary Shareholders of the Bank equals equity attributable to holders of ordinary shares of the Bank at the end of the period, which has excluded other equity instruments, divided by total share capital at the end of the period.

II. SUPPLEMENTARY FINANCIAL INDICATORS

(Unit: %)

		2020	2019	Increase (decrease) for the year as compared to the previous year	2018	2017	2016
Profitability indicators:							
Net interest spread ^{(1) (2)}		2.18	2.04	an increase of 0.14 percentage point	1.46	1.60	1.70
Net interest margin ^{(1) (3)}		2.35	2.22	an increase of 0.13 percentage point	1.54	1.77	1.87
Cost-to-income ratio ⁽⁴⁾		26.52	29.50	a decrease of 2.98 percentage points	35.40	34.22	34.57
		December 31, 2020	December 31, 2019	Increase (decrease) as at the end of the year as compared to the end of the previous year	December 31, 2018	December 31, 2017	December 31, 2016
Asset quality indicators:							
NPL ratio ⁽⁵⁾		1.77	1.78	a decrease of 0.01 percentage point	1.84	1.74	1.69
Allowance coverage ratio ⁽⁶⁾		158.80	187.73	a decrease of 28.93 percentage points	186.96	185.89	181.59
Allowance to gross loan ratio ⁽⁷⁾		2.81	3.34	a decrease of 0.53 percentage point	3.44	3.24	3.06
Capital adequacy indicators ⁽⁸⁾ :							
Capital adequacy ratio ⁽⁹⁾		12.08	13.07	a decrease of 0.99 percentage point	11.77	11.43	11.44
Tier-one capital adequacy ratio ⁽⁹⁾		11.01	10.63	an increase of 0.38 percentage point	8.61	8.12	7.89
Core tier-one capital adequacy ratio ⁽⁹⁾		8.88	8.06	an increase of 0.82 percentage point	8.61	8.12	7.89
Leverage ratio ⁽¹⁰⁾		6.32	6.22	an increase of 0.10 percentage point	4.52	4.24	4.15
Other indicators:							
Liquidity ratio							
	RMB	48.70	59.98	a decrease of 11.28 percentage points	55.39	40.77	45.92
	Foreign currency against RMB	165.37	214.20	a decrease of 48.83 percentage points	293.44	226.38	53.37
	Total	53.40	63.85	a decrease of 10.45 percentage points	56.37	42.62	46.00
Proportion of loans to the single largest customer ⁽¹¹⁾		8.10	6.37	an increase of 1.73 percentage points	9.09	7.90	7.25
Proportion of loans to top ten customers ⁽¹¹⁾		50.57	48.13	an increase of 2.44 percentage points	55.24	47.59	44.20
Inter-bank ratio							
(RMB)	Inter-bank borrowings ratio	0.37	0.42	a decrease of 0.05 percentage point	1.07	0.22	0.15
	Inter-bank loans ratio	0.27	0.32	a decrease of 0.05 percentage point	0.17	0.14	0.14

- Notes: (1) Since year of 2020, the Bank reclassified the installment income of credit cards from fee and commission income to interest income, and restated the data for the same period of 2019;
- (2) Net interest spread is calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities;
- (3) Net interest margin is calculated by dividing net interest income by the average balance of total interest-earning assets;
- (4) Cost-to-income ratio is calculated by dividing total operating expenses (excluding tax and surcharges, etc.) by total operating income;
- (5) NPL ratio equals the balance of non-performing loans divided by gross loans and advances to customers (excluding accrued interest);
- (6) Allowance coverage ratio equals the sum of allowance for impairment losses on the loans measured at amortised cost and allowance for impairment losses on the loans measured at fair value through other comprehensive income divided by the NPL balances;
- (7) Allowance to gross loan ratio equals the sum of allowance for impairment losses on the loans measured at amortised cost and allowance for impairment losses on the loans measured at fair value through other comprehensive income divided by gross loans and advances to customers (excluding accrued interest);
- (8) According to the relevant requirements of the Regulatory Requirement on Information Disclosure of Capital Composition in Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》) and the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》), the Bank disclosed the capital composition, leverage ratio and other statements for the reporting period on the website of the Bank (www.cbhb.com.cn);
- (9) We calculate the capital adequacy ratios for each tier according to the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》);
- (10) We calculate the leverage ratio according to the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) and China Accounting Standards for Business Enterprises (中國企業會計準則);
- (11) Proportion of loans to the single largest customer and proportion of loans to top ten customers are the ratio of the gross loan of the single largest customer to the net capital and the ratio of the gross loan of the top ten customers to the net capital, respectively.

Management Discussion and Analysis

I. ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENT IN 2020

The global economy was affected by the COVID-19, and the fiscal and monetary policies were significantly eased

In 2020, the abrupt outbreak of COVID-19 epidemic hit the global economy hard. The lockdown measures by many countries once caused a large-scale shutdown of the economy and a surge in unemployment. Global GDP in the second quarter generally fell to historical extreme; after the pandemic eased, certain countries ended their lockdowns and restarted their economies. Stimulated by record-breaking extent of monetary easing and fiscal relief measures, GDP rebounded sharply in the third quarter. But the strong comeback of the pandemic forced some countries to restart the lockdown, resulting in another contraction in economic activities in the fourth quarter. More countries preferred the latter in the difficult balance between “preserving life” and “preserving livelihood”. Although the encouraging news from vaccine research and development is beneficial for medium-term economic growth, significant challenges and uncertainties still remain. The recovery momentum of western developed countries and most emerging economies has slowed down significantly.

A large-scale COVID-19 outbreak occurred in the United States in late March. The stock market plummeted for several times, and employment and consumption were severely affected. Stimulated by unprecedented monetary policy and fiscal relief measures, the US stock market began to rebound at the end of March. The main economic indicators obviously recovered as the US restarted the economy in May and June. However, as pandemic has not yet been controlled, coupled with the chaotic situation after the general election, the prospect for continued economic recovery in the United States was still clouded. The pace of economic recovery in the Eurozone also slowed down with the “second round of the pandemic”, especially in countries such as Spain and France, which have a tendency to enter a second recession. The widening of the economic gap among European countries will also increase the risk of conflicts in the allocation of interests among EU countries, thereby weakening the collective resistance ability of member states to protect against risks.

The domestic economy has been recovering rapidly with risk factors gradually mitigated

In 2020, facing the huge impact of COVID-19 epidemic and the complex and severe domestic and international environment, the resumption of production and civil life was effectively promoted through scientific coordination of epidemic prevention and control and of economic and social development. The industrial service sector continued to rebound, investment and consumption continued to improve, and the national economy recovered on a continuous and stable basis. China’s economy has showed strong risk resistance ability, resilience and vitality. The GDP exceeded RMB100 trillion in 2020, which amounted to RMB101,598.6 billion with a growth rate of 2.3%. China was the world’s only major economy to achieve positive economic growth and achieve general success in poverty alleviation and decisive accomplishments in building a moderately prosperous society in all respects.

China’s economy has experienced a sharp decline in early 2020 due to the impact of the epidemic. But as the epidemic has been effectively controlled, factors affecting economic and social development have gradually been resolved. Consumption and employment have recovered, investment growth has steadily rebounded, and import and export growth has continued to rise. The trade surplus has risen sharply compared to the same period of the previous year. The RMB exchange rate experienced wide two-way fluctuations within a reasonable range. Since the second quarter, the data on industrial added value, investment, consumption, and foreign investment have been generally in a positive trend. The tensions between the United States and China and the suppression to China’s high-tech enterprises by the United States have caused adjustments in global value chains. The safety risk brought about by the interruption of external supply chain has become a subject of concern. The desire for a safe supply chain has entailed a guideline advocating domestic circulation as the main body, with the dual circulation of domestic and international markets supporting each other, in a drive to carry out new development concept and create new development pattern.

With precise implementation of monetary policies, financial supervision has been further advanced

In response to the impact of the epidemic, the central bank of China has continued to release liquidity through reserve requirement ratio (RRR) cuts and open market operations. With the rebound of the growth rate of M1 and M2, inter-bank market interest rates declined to fully ensure the overall adequate liquidity. New social financing, new loans, corporate loans, and bond financing have hit new highs. In response to the impact of the epidemic on the real economy, monetary and fiscal policies provided active and accurate coordination to implement targeted RRR cuts, lower medium-term lending facility and reverse repurchase rate, guide short-term interest rates downward and enhance the support for private enterprises, and small and micro enterprises.

The general principle of seeking progress amid stability has been kept in financial policies and supervision. The relationship between development promotion and risk prevention was managed in the principle of marketization, legalization and internationalization to promote the continuous healthy development of bond market. Further emphasis has been put on issues such as the difficulty and high cost of financing for small and medium-sized enterprises, financial support for epidemic prevention and control, acceleration of the reform and development of small and medium banks, reform of capital market, and regulation of the development of the bond market to strengthen the protection for capital market investors, crack down on capital market fraud and treat illegal and criminal activities in capital market with “zero tolerance”. The supervision for financial innovation and Internet platforms has been strengthened, and regulatory requirements have been strictly implemented, thereby ensuring sufficient capital and the compliance of related transactions. With a resolution to break down monopolies, licensed operation of financial business has been insisted to ensure data safety. The over-expansion of financial assets has been fundamentally reversed. Shadow banking risks have continued to decline. Risks in the Internet finance sector have dropped significantly, with all P2P online lending institutions shut down. The trend of real estate financialization and bubblization has been contained.

In 2020, the banking industry has made every effort to fight against the COVID-19 outbreak, making major progress on serving the real economy, preventing and controlling financial risks, and deepening financial reform. Under the guidance of the central bank of China and the China Banking and Insurance Regulatory Commission, the banking industry has increased its credit support to the real economy and small and micro enterprises through policies such as targeted RRR cuts, refinancing, deferred capital and interest repayment, and adjustments to provision coverage ratio, reducing cost and boosting profits of various market entities. Key progress has been made in the battle to prevent and resolve financial risks, with prominent risks in key areas resolved in an orderly manner. The banking industry has continued to deepen reforms, to promote and implement the reform plans for development financial institutions, policy banks, small and medium banks and rural credit cooperatives. The banking industry has replenished capital funds through multiple channels such as issuing special bonds, perpetual bonds, and convertible bonds, helping the successful listing of certain banks in capital markets. The opening up of the banking industry has been further promoted, with opening-up measures implemented successively, the market access, business scope and business activities of foreign-funded banking institutions operated in China comprehensively expanded.

II. DEVELOPMENT STRATEGIES

The Bank’s strategic mission is to become “a modern wealth and treasury manager offering the best experience (最佳體驗的現代財資管家)”. The Bank is devoted to offering customers a “caring” comprehensive financial services solution, creating sustainable and stable value for shareholders and establishing an optimum development platform for employees.

Through continuous developing and improving fields including accurate marketing, precise management, lean cooperation, talents cultivation, and culture sincerity building, the Bank intends to achieve high quality realization of our strategic vision by strengthening its customer oriented financial services capabilities that can “work through (穿行)” different ecosystems, “penetrate through (穿透)” centralized management and “pass through (穿越)” relevant financial markets.

The Bank fortifies its strategy execution from six perspectives, namely customers, products, channels, risk control, internationalization, corporate organization structure and cultures. The Bank is determined to transform into a retail bank and transaction bank, and promote high quality development: continuously improving customer experience and improving the brand recognition of “wealth and treasury manager (財資管家)” with craftsmanship spirit; keeping expanding product portfolio and continuously improving comprehensive and stewardship-style financial service capability; continuously enhancing multi-channel product offering and introduces banking services through its open ecosystems; adhering to a risk management concept featuring “comprehensive, proactive, agile and effective (全面、主動、敏捷、到位)”, improving a risk management system featuring “integration, vertical, independence, balance and integration (集中、垂直、獨立、制衡、融入)” and further improving risk management capability; continuing to develop its international business and steadily promoting cross-border financial services ecosystems; continuing to optimize its lean management model, corporate culture and talents recruitment so that we can offer the best customer experience through a high-quality and efficient management and operation system.

III. SCOPE OF PRINCIPAL BUSINESSES

The principal activities of the Bank include: absorbing public deposits; offering short-term, medium-term and long-term loans; arranging settlement of domestic and international accounts; handling acceptance and discount of bill; issuing financial bonds; acting as agent to issue, settle and underwrite government bonds and proprietary trading bonds issued by financial institutions and government; inter-bank borrowing and lending; trading of foreign currencies on behalf of its customers; selling and purchasing foreign exchange, bank card business; letters of credit and financial guarantees; acting as agent on inward and outward payments; acting as an insurance agent, safe-deposit facilities, derivative trading, securities investment custody, insurance fund custody, selling securities investment fund and other business approved by the banking regulatory institutions of the State Council. (Projects that are subject to approval in accordance with laws shall only be carried out upon approval by relevant authorities)

IV. GENERAL OPERATING CONDITIONS

During the Reporting Period, in light of various requirements in respect of serving the real economy, furthering financial reform and preventing financial risks, the Bank firmly carried out the deployment on fights against epidemic to support production and work resumption. With aim of seeking victory on two fronts and taking advantage of the Bank’s successful listing, we actively made adjustments to and optimized the business structure of assets and liabilities, dedicated to promote innovative transformation development, strived to improve the abilities to serve real economy and continued to motivate financial technology transformation, making the scale of major business grow rapidly, as the performance indicators slowly improved and the asset quality remained stable.

Rapid growth in assets base and corresponding improvement in deposits

As of the end of the Reporting Period, total assets of the Bank amounted to RMB1,393,523 million, representing an increase of 24.76% as compared to the end of the previous year. Under the regulatory guidance of returning to the origin, on-balance sheet loan business rapidly expanded. As of the end of the Reporting Period, net loans and advances to customers amounted to RMB867,120 million, representing an increase of 26.17% as compared to the end of the previous year. Total liabilities amounted to RMB1,290,277 million, representing an increase of 24.75% as compared to the end of the previous year, among which deposits amounted to RMB758,236 million, representing an increase of 17.05% as compared to the end of the previous year. The scales of both deposits and loans realized rapid growth.

Retail business developed rapidly and the retail transformation strategy achieved initial results

During the Reporting Period, the Bank’s retail business continued to innovate and transform and achieved rapid development by focusing on the construction of financial technology and ecological scenarios. As of the end of the Reporting Period, the Bank’s total retail loans amounted to RMB310.372 billion, representing a growth rate of 32.97%, nearly 8 percentage points higher than the growth rate of gross loans, and the percentage of balance increased to 34.97%; as at the end of the year, balance of retail deposits was RMB101.942 billion, successfully exceeding RMB100 billion, achieved an increase of RMB49,796 million, or a growth rate of 95.49% for the year.

Indicators of asset quality maintained stable

As of the end of the Reporting Period, non-performing loans of the Bank amounted to RMB15,714 million, representing an increase of RMB3,122 million as compared to the end of last year. The NPL ratio was 1.77%, representing a decrease of 0.01 percentage point as compared to the end of last year. Allowance for loans loss was adequate, the allowance for loan impairment of the Bank was RMB24,953 million, representing an increase of RMB1,315 million as compared to the end of last year, whereas non-bond investment impairment provisions was RMB9,734 million. Allowance to gross loan ratio was 2.81%, and allowance coverage ratio was 158.80%. Asset quality was stable and allowance indicators met the regulatory requirements.

Active fulfillment of social responsibilities and stable improvement of profitability

Since the outbreak of COVID-19 epidemic, the central government issued multiple policies calling on the financial institutions to offer rebates to real economy and lead the market to reduce financing costs of enterprises by regulating downward LPR. The Bank consciously implemented central economic and financial policies, strongly supported real economy and volunteered in offering rebates for enterprises to overcome difficulties. Firstly, for companies and individuals who encountered difficulties in the epidemic, the Bank released multiple policies such as providing special loans with preferential interest rate during the epidemic, and reduction or exemption of handling fees to help customers overcome the difficulties; secondly, the Bank focused on providing services for inclusive small and micro enterprises, and supported the resumption of production and works of entity enterprises through loan release, loan extension, loan renewal, etc.; thirdly, the Bank donated RMB20 million to Hubei Province through the Red Cross to fully support the fights against COVID-19 epidemic, and actively fulfilled the social responsibilities attributed to national joint-stock commercial bank during the Reporting Period; fourthly, the Bank's prevention expenditure against epidemic during the Reporting Period was approximately RMB30 million to ensure the normal operation of business and the safety of employees. To some extent, the above circumstances induced pressure on the Bank to increase its profitability, while at the same time, a series of stimulus policies issued by the government has offset the adverse effects caused by the epidemic to a certain extent, which has a positive effect on the financial conditions of the Bank. During the Reporting Period, the Bank achieved a net profit of RMB8,445 million, representing an increase of 3.07% as compared to the previous year. The overall profitability remains stable.

V. ANALYSIS OF FINANCIAL STATEMENTS**(I) Key Items in the Statement of Profit or Loss and Other Comprehensive Income****1. Changes in items in the statement of profit or loss and other comprehensive income**

During the Reporting Period, the Bank realized a net profit of RMB8,445 million, representing an increase of 3.07% as compared to the previous year.

The following table sets forth the changes in key items in the statement of profit or loss and other comprehensive income for the periods indicated:

(Unit: RMB'000)

	2020	2019	Change	Change (%)
Net interest income ^{Note}	28,477,036	23,021,283	5,455,753	23.70
Net non-interest income ^{Note}	4,015,134	5,357,111	(1,341,977)	(25.05)
Operating income	32,492,170	28,378,394	4,113,776	14.50
Operating expenses	(9,182,900)	(8,856,860)	(326,040)	3.68
Impairment losses on assets	(13,224,178)	(9,566,913)	(3,657,265)	38.23
Profit before taxation	10,085,092	9,901,850	183,242	1.85
Income tax	(1,640,521)	(1,709,094)	68,573	(4.01)
Net profit	8,444,571	8,192,756	251,815	3.07
Total comprehensive income	7,513,156	8,878,837	(1,365,681)	(15.38)

Note: Since year of 2020, the Bank reclassified the installment income of credit cards from fee and commission income to interest income, and restated the data for the same period of 2019.

2. Net interest income

During the Reporting Period, the net interest income of the Bank amounted to RMB28,477 million, representing an increase of 23.70% as compared to the previous year.

(1) Net interest spread and net interest margin

During the Reporting Period, the net interest spread of the Bank was 2.18%, representing an increase of 0.14 percentage point as compared to the previous year; and the net interest margin was 2.35%, representing an increase of 0.13 percentage point as compared to the previous year.

The following table sets forth the interest-earning assets and interest-bearing liabilities of the Bank for the periods indicated:

(Unit: RMB'000)

	2020			2019		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Assets:						
Loans and advances to customers	813,182,773	46,689,830	5.74	637,887,815	36,769,626	5.76
Financial investments	273,884,632	11,461,869	4.18	268,466,459	12,286,730	4.58
Deposits with the central bank	74,866,111	1,047,020	1.40	79,069,481	1,152,852	1.46
Deposits with banks and other financial institutions	26,459,350	208,053	0.79	32,133,827	822,305	2.56
Placements with banks and other financial institutions	10,214,120	272,487	2.67	9,292,034	331,144	3.56
Financial assets held under resale agreements	13,667,815	227,950	1.67	11,078,584	235,512	2.13
Total interest-earning assets	1,212,274,801	59,907,209	4.94	1,037,928,200	51,598,169	4.97
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Liabilities:						
Deposits from customers	720,572,624	19,327,768	2.68	629,608,603	16,789,672	2.67
Deposits from banks and other financial institutions	94,150,338	2,508,869	2.66	75,744,377	2,302,108	3.04
Placements from banks and other financial institutions	25,091,549	502,793	2.00	21,021,980	652,526	3.10
Financial assets sold under repurchase agreements	30,503,300	630,760	2.07	26,401,305	682,957	2.59
Debt securities issued	210,324,409	6,551,656	3.12	194,448,380	7,207,783	3.71
Borrowing from the central bank	59,813,934	1,908,327	3.19	28,657,534	941,840	3.29
Total interest-bearing liabilities	1,140,456,154	31,430,173	2.76	975,882,179	28,576,886	2.93
Net interest income		28,477,036			23,021,283	
Net interest spread			2.18			2.04
Net interest margin			2.35			2.22

(2) Interest income

During the Reporting Period, the interest income of the Bank amounted to RMB59,907 million, representing an increase of 16.10% as compared to the previous year, among which the interest income arising from loans and advances to customers amounted to RMB46,690 million, representing an increase of 26.98% as compared to the previous year; the interest income arising from deposits with the central bank, deposits with banks and other financial institutions and placements with banks and other financial institutions totaled RMB1,527 million, representing a decrease of 33.77% as compared to the previous year; the interest income arising from financial assets held under resale agreements amounted to RMB228 million, representing a decrease of 3.21% as compared to the previous year; and the interest income arising from financial investments amounted to RMB11,462 million, representing a decrease of 6.71% as compared to the previous year.

Interest income arising from loans and advances to customers

During the Reporting Period, the Bank's interest income arising from loans and advances to customers amounted to RMB46,690 million, representing a year-on-year increase of 26.98%, primarily due to an increase in the average balance of loans (including discounts) as compared to the same period of the previous year.

The following table sets forth the average balance, interest income and average yield for components of loans and advances to customers of the Bank for the periods indicated:

(Unit: RMB'000)

	2020			2019		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances	518,874,332	27,082,088	5.22	430,815,864	23,679,813	5.50
Personal loans	267,148,844	18,758,719	7.02	195,427,118	12,639,918	6.47
Discounted bills	27,159,597	849,023	3.13	11,644,833	449,895	3.86
Gross loans and advances to customers	813,182,773	46,689,830	5.74	637,887,815	36,769,626	5.76

Interest income arising from deposits with the central bank, deposits with banks and other financial institutions and placements with banks and other financial institutions and interest income arising from financial assets held under resale agreements

During the Reporting Period, the Bank's interest income arising from deposits with the central bank, deposits with banks and other financial institutions and placements with banks and other financial institutions totaled RMB1,527 million, representing a year-on-year decrease of 33.77%; and the interest income arising from financial assets held under resale agreements amounted to RMB228 million, representing a year-on-year decrease of 3.21%.

Interest income arising from financial investments

During the Reporting Period, the Bank's interest income arising from financial investments amounted to RMB11,462 million, representing a year-on-year decrease of 6.71%.

(3) **Interest expense**

During the Reporting Period, the Bank's interest expense amounted to RMB31,430 million, representing a year-on-year increase of 9.98%.

Interest expense on deposits from customers

During the Reporting Period, the Bank's interest expense on deposits from customers amounted to RMB19,328 million, representing a year-on-year increase of 15.12%.

The following table sets forth the average balance, interest expense and average cost on corporate deposits, personal deposits and other deposits of the Bank for the periods indicated:

(Unit: RMB'000)

	2020			2019		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits	429,974,198	10,790,225	2.51	418,149,808	10,345,060	2.47
Of which: Demand deposits	162,329,484	1,213,861	0.75	175,765,717	1,267,951	0.72
Time deposits	267,644,714	9,576,364	3.58	242,384,091	9,077,109	3.74
Personal deposits	80,604,433	2,328,284	2.89	46,660,701	1,059,007	2.27
Of which: Demand deposits	22,902,271	82,040	0.36	21,341,432	76,176	0.36
Time deposits	57,702,162	2,246,244	3.89	25,319,269	982,831	3.88
Pledged deposits and others	209,993,993	6,209,259	2.96	164,798,094	5,385,605	3.27
Gross deposits from customers	720,572,624	19,327,768	2.68	629,608,603	16,789,672	2.67

Interest expense on borrowing from the central bank, deposits from banks and other financial institutions and placements from banks and other financial institutions and interest expense on financial assets sold under repurchase agreements

During the Reporting Period, the Bank's interest expense on borrowing from the central bank, deposits from banks and other financial institutions and placements from banks and other financial institutions totaled RMB4,919 million, representing a year-on-year increase of 26.27%; interest expense on financial assets sold under repurchase agreements amounted to RMB631 million, representing a year-on-year decrease of 7.64%.

Interest expense on debts securities issued

During the Reporting Period, the Bank's interest expense on debts securities issued amounted to RMB6,552 million, representing a year-on-year decrease of 9.10%.

(4) Impact of changes in volume and interest rate on interest income and interest expense

The following table sets forth the allocation of changes in the interest income and interest expense of the Bank due to changes in volume and changes in rate for the periods indicated:

(Unit: RMB'000)

	2020 vs. 2019 due to changes in volume	2020 vs. 2019 due to changes in rate	Net increase (decrease) (%)
Loans and advances to customers	10,047,782	(127,578)	26.98
Financial investments	249,005	(1,073,866)	(6.71)
Deposits with the central bank	(58,390)	(47,442)	(9.18)
Deposits with banks and other financial institutions	(45,483)	(568,769)	(74.70)
Placements with banks and other financial institutions	24,042	(82,699)	(17.71)
Financial assets held under resale agreements	43,399	(50,961)	(3.21)
Changes in interest income	10,260,355	(1,951,315)	16.10
Deposits from customers	2,475,135	62,961	15.12
Deposits from banks and other financial institutions	494,590	(287,829)	8.98
Placements from banks and other financial institutions	81,509	(231,242)	(22.95)
Financial assets sold under repurchase agreements	85,090	(137,287)	(7.64)
Debt securities issued	491,118	(1,147,245)	(9.10)
Borrowing from the central bank	995,145	(28,658)	102.62
Changes in interest expense	4,622,587	(1,769,300)	9.98
Changes in net interest income	5,637,768	(182,015)	23.70

Note: Changes in interest income and expense caused by both changes in volume and changes in rate have been allocated to the amount of impact of changes in volume on changes in interest income and expense.

3. Net non-interest income

During the Reporting Period, the net non-interest income of the Bank amounted to RMB4,015 million, representing a decrease of 25.05% as compared to the previous year.

(1) Net fee and commission income

During the Reporting Period, the net fee and commission income of the Bank amounted to RMB2,902 million, representing a decrease of 29.46% as compared to the previous year, primarily because: firstly, the custodian service, consulting service and other service fee income decreased significantly; secondly, the information service fee expenditure largely increased.

The following table sets forth the principal components of the Bank's net fee and commission income for the periods indicated:

(Unit: RMB'000)

	2020	2019	Change (%)
Fee and commission income	5,196,988	5,323,397	(2.37)
Of which: Agency service fees	3,075,667	2,455,269	25.27
Custodian service fees	770,970	1,090,351	(29.29)
Settlement and clearing fees	591,198	486,237	21.59
Credit commitments and asset management fees	367,637	279,897	31.35
Consulting service fees	284,057	678,372	(58.13)
Bank card fees	47,851	42,997	11.29
Others	59,608	290,274	(79.46)
Fee and commission expense	2,294,532	1,208,526	89.86
Of which: Information service fees	2,023,435	936,113	116.15
Agency service fees	106,269	72,591	46.39
Consulting service fees	74,475	32,916	126.26
Settlement and clearing fees	39,289	37,272	5.41
Bank card fees	33,212	115,467	(71.24)
Others	17,852	14,167	26.01
Net fee and commission income	2,902,456	4,114,871	(29.46)

(2) Other net non-interest income

During the Reporting Period, other net non-interest income of the Bank amounted to RMB1,113 million, representing a decrease of 10.43% as compared to the previous year.

(Unit: RMB'000)

	2020	2019	Change (%)
Net trading gains	44,600	196,392	(77.29)
Net gains arising from investment securities	997,253	961,857	3.68
Other operating income	70,825	83,991	(15.68)
Total	1,112,678	1,242,240	(10.43)

4. Operating expenses

During the Reporting Period, the operating expenses of the Bank amounted to RMB9,183 million, representing an increase of 3.68% as compared to the previous year.

The following table sets forth the principal components of operating expenses of the Bank for the periods indicated:

(Unit: RMB'000)

	2020	2019	Change (%)
Staff costs	5,447,384	5,350,863	1.80
Depreciation and amortisation	1,428,134	1,398,794	2.10
Taxes and surcharges	437,697	354,167	23.58
Interest expense on lease liabilities	165,020	174,000	(5.16)
Other general and administrative expenses	1,704,665	1,579,036	7.96
Total	9,182,900	8,856,860	3.68

5. Impairment losses on assets

The Bank strictly followed the regulatory requirements to provide impairment losses on credit based on the principle of prudence. During the Reporting Period, the impairment losses on credit provided by the Bank amounted to RMB13,224 million, representing an increase of 38.23% as compared to the same period of the previous year, among which the provision for impairment losses on credit on loans and advances to customers amounted to RMB6,784 million, the provision for impairment losses on credit on investments amounted to RMB6,118 million, and other impairment losses on credit amounted to RMB322 million.

6. Income tax

During the Reporting Period, the income tax of the Bank amounted to RMB1,641 million and the effective tax rate was 16.27%. The decrease in income tax was primarily due to an increase in deductible items of interest expense on undated capital bonds this year.

The following table sets forth the difference between the income tax of the Bank and the calculation based on the statutory rate of 25% for the periods indicated:

(Unit: RMB'000)

	2020	2019	Change (%)
Profit before taxation	10,085,092	9,901,850	1.85
Income tax calculated at statutory tax rate of 25%	2,521,273	2,475,463	1.85
Tax impacts of the adjustment for:			
Non-deductible	254,518	94,409	169.59
Non-taxable income	(900,194)	(868,858)	3.61
Deductible items of interest expense on undated capital bonds	(237,500)	–	N/A
Others	2,424	8,080	(70.00)
Income tax	1,640,521	1,709,094	(4.01)

(II) Balance Sheet Items

1. Items of assets

As of the end of the Reporting Period, the total assets of the Bank amounted to RMB1,393,523 million, representing an increase of 24.76% as compared to the end of the previous year, which was mainly due to an increase in asset scale led by the rapid development of loans and advances to customers.

The following table sets forth the composition of total assets of the Bank as of the dates indicated:

(Unit: RMB'000)

	December 31, 2020		December 31, 2019		Change (%)
	Amount	%	Amount	%	
Cash and deposits with the central bank	96,548,417	6.93	93,013,699	8.33	3.80
Deposits with banks and other financial institutions	27,805,363	2.00	14,051,627	1.26	97.88
Placements with banks and other financial institutions and financial assets held under resale agreements	6,063,668	0.43	6,261,067	0.56	(3.15)
Derivative financial assets	232,498	0.02	158,709	0.01	46.49
Net loans and advances to customers	867,120,217	62.22	687,279,098	61.53	26.17
Financial investments	375,926,746	26.98	300,306,891	26.89	25.18
Property and equipment	3,630,154	0.26	3,804,211	0.34	(4.58)
Deferred tax assets	8,664,618	0.62	6,365,091	0.57	36.13
Other assets	7,531,444	0.54	5,689,632	0.51	32.37
Total assets	1,393,523,125	100.00	1,116,930,025	100.00	24.76

(1) Loans and advances to customers

As of the end of the Reporting Period, the Bank's gross loans and advances to customers (including discounts) amounted to RMB887,538 million, representing an increase of 25.35% as compared to the end of the previous year.

The following table sets forth the distribution of loans and advances to customers of the Bank by product type as of the dates indicated:

(Unit: RMB'000)

	December 31, 2020		December 31, 2019		Change (%)
	Amount	%	Amount	%	
Corporate loans and advances	546,118,850	61.53	465,224,102	65.70	17.39
Discounted bills	31,046,668	3.50	9,413,518	1.33	229.81
Personal loans	310,372,027	34.97	233,419,910	32.97	32.97
Gross loans and advances to customers	887,537,545	100.00	708,057,530	100.00	25.35
Interests accrued	4,408,520		2,822,439		56.20
Total	891,946,065		710,879,969		25.47

(2) Financial investments

As of the end of the Reporting Period, the financial investments of the Bank amounted to RMB375,927 million, representing an increase of 25.18% as compared to the end of the previous year.

The following table sets forth the composition of financial investments of the Bank as of the dates indicated:

(Unit: RMB'000)

	December 31, 2020		December 31, 2019		Change (%)
	Amount	%	Amount	%	
Financial investments measured at fair value through profit or loss	72,597,497	19.31	36,238,313	12.07	100.33
Financial investments measured at fair value through other comprehensive income	61,813,595	16.44	64,967,327	21.63	(4.85)
Financial investments measured at amortised cost	241,515,654	64.25	199,101,251	66.30	21.30
Total	375,926,746	100.00	300,306,891	100.00	25.18

Further details of the Bank's financial investments are set forth in "Audit Report and Financial Report – Notes to the Financial Statements" in this annual report.

The following table sets forth the top 10 financial bonds held by the Bank as of the end of the Reporting Period:

(Unit: RMB'000)

	Total price	Return rate (%)	Maturity
Financial bond A	3,970,000	2.20	2023-04-01
Financial bond B	3,850,000	2.25	2025-04-22
Financial bond C	3,240,000	3.12	2022-07-17
Financial bond D	3,110,000	3.06	2023-08-05
Financial bond E	2,960,000	3.30	2021-11-21
Financial bond F	2,870,000	3.23	2025-01-10
Financial bond G	2,790,000	3.24	2024-08-14
Financial bond H	2,470,000	4.24	2021-06-01
Financial bond I	2,340,000	3.28	2024-02-11
Financial bond J	2,270,000	3.42	2024-07-02

(3) Financial derivatives transactions

The Bank's financial derivatives transactions mainly consists of interest rate swaps, interest rate options, standard bond forwards, foreign exchange swaps and foreign exchange forwards. The Bank flexibly uses various derivative financial instruments to hedge exchange rate and interest rate risks, and actively uses derivative financial instruments to hedge transaction risk exposure, manage the portfolio of liability position and optimize the structure of liability maturity in order to cooperate with the Bank's liquidity management.

As of the end of the Reporting Period, the contractual amounts and fair value of the main types of unexpired derivative financial instruments held by the Bank are set out as follows:

(Unit: RMB'000)

	December 31, 2020			December 31, 2019		
	Contract/ Notional amount	Fair value		Contract/ Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate swaps	130,258,400	82,861	(73,125)	149,834,098	79,267	(68,938)
Exchange rate swaps	25,338,865	16,575	(255,739)	15,694,803	47,843	(75,839)
Exchange rate forwards	6,921,165	123,941	(115,620)	660,085	10,962	(8,934)
Precious metal swaps	2,739,600	-	(82,149)	-	-	-
Option contracts	1,725,576	9,121	(6,531)	1,837,080	20,637	(18,047)
Total	166,983,606	232,498	(533,164)	168,026,066	158,709	(171,758)

(4) Items related to fair value measurement

The following table sets forth the Bank's items relating to fair value measurement:

(Unit: RMB'000)

	December 31, 2019	Profit or loss on fair value changes for the current period	Cumulative changes in fair value recorded in equity	Impairment provided for the current period	December 31, 2020
Financial assets	110,623,840	582,345	(435,997)	(660,343)	164,905,660
Of which: 1. Financial assets measured at fair value through profit or loss	36,996,978	508,556	N/A	N/A	72,671,557
2. Derivative financial assets	158,709	73,789	N/A	N/A	232,498
3. Financial assets measured at fair value through other comprehensive income	73,468,153	N/A	(435,997)	(660,343)	92,001,605
Financial liabilities	171,758	361,192	214	N/A	533,164
Of which: Derivative financial liabilities	171,758	361,192	214	N/A	533,164

Note: The items set out in the above table do not represent any reconciliation, and the assets and liabilities mentioned above exclude accrued interest.

2. Items of liabilities

As of the end of the Reporting Period, the total liabilities of the Bank amounted to RMB1,290,277 million, representing an increase of 24.75% as compared to the end of the previous year, which was mainly due to an increase in total liabilities led by the increase of borrowing from central bank and deposits from customers.

The following table sets forth the composition of total liabilities of the Bank as of the dates indicated:

(Unit: RMB'000)

Item	December 31, 2020		December 31, 2019		Change (%)
	Amount	%	Amount	%	
Borrowing from the central bank	71,592,485	5.55	46,905,557	4.54	52.63
Deposits from banks and other financial institutions	130,273,359	10.10	78,547,430	7.59	65.85
Placements from banks and other financial institutions	31,920,614	2.47	21,500,177	2.08	48.47
Derivative financial liabilities	533,164	0.04	171,758	0.02	210.42
Financial assets sold under repurchase agreements	52,406,083	4.06	23,069,093	2.23	127.17
Deposits from customers	758,235,794	58.77	647,764,551	62.63	17.05
Income tax payable	2,485,405	0.19	1,887,990	0.18	31.64
Debt securities issued	225,154,090	17.45	196,603,843	19.01	14.52
Other liabilities	17,676,301	1.37	17,841,029	1.72	(0.92)
Total liabilities	1,290,277,295	100.00	1,034,291,428	100.00	24.75

Deposits from customers

As of the end of the Reporting Period, the gross deposits from customers of the Bank amounted to RMB746,726 million, representing an increase of 17.05% as compared to the end of the previous year.

The following table sets forth the distribution of deposits from customers of the Bank by product type and customer type as of the dates indicated:

(Unit: RMB'000)

	December 31, 2020		December 31, 2019		Change (%)
	Amount	%	Amount	%	
Corporate deposits	476,289,401	63.78	414,949,501	65.05	14.78
Of which: Demand deposits	187,615,249	25.12	170,847,236	26.78	9.81
Time deposits	288,674,152	38.66	244,102,265	38.27	18.26
Personal deposits	101,942,200	13.65	52,146,661	8.17	95.49
Of which: Demand deposits	20,467,078	2.74	18,912,350	2.96	8.22
Time deposits	81,475,122	10.91	33,234,311	5.21	145.15
Pledged deposits	168,289,715	22.54	170,526,417	26.73	(1.31)
Fiscal deposits	119,136	0.02	258,723	0.04	(53.95)
Inward and outward remittances	85,331	0.01	53,597	0.01	59.21
Gross deposits from customers	746,725,783	100.00	637,934,899	100.00	17.05
Interests accrued	11,510,011		9,829,652		17.09
Total	758,235,794		647,764,551		17.05

The following table sets forth the distribution of the Bank's deposits from customers by currency as of the dates indicated:

(Unit: RMB'000)

	December 31, 2020		December 31, 2019		Change (%)
	Amount	%	Amount	%	
RMB	674,607,125	88.97	607,404,401	93.77	11.06
Foreign currency	83,628,669	11.03	40,360,150	6.23	107.21
Total	758,235,794	100.00	647,764,551	100.00	17.05

3. Total equity

As of the end of the Reporting Period, the total equity of the Bank amounted to RMB103,246 million, representing an increase of RMB20,607 million or 24.94% as compared to the end of the previous year, primarily due to the issuance of H shares of the Bank and the increase in its net profit during the Reporting Period.

The following table sets forth the composition of the items in the Bank's total equity as of the dates indicated:

(Unit: RMB'000)

	December 31, 2020	December 31, 2019	Change (%)
Share capital	17,762,000	14,450,000	22.92
Other equity instruments	19,961,604	19,961,604	–
Other comprehensive income	38,078	969,493	(96.07)
Capital reserve	10,732,077	–	N/A
Surplus reserve	5,868,637	5,009,612	17.15
General reserve	17,664,811	14,081,733	25.44
Retained earnings	31,218,623	28,166,155	10.84
Total	103,245,830	82,638,597	24.94

4. Off-balance-sheet items that may have a significant impact on the financial position and operating results

The off-balance sheet items of the Bank are set out in "Audit Report and Financial Report – Notes to the Financial Statements" in this annual report.

5. Market share of primary goods or services

According to the Statements of Incomes and Expenditures Related to Lendings from Banks published by the PBoC in December 2020, as of the end of the Reporting Period, the market share of the gross deposits and loans of the Bank among the 12 national joint-stock commercial banks in Mainland China is as follows:

	Market share (%)
Gross deposits	2.18
Of which: Gross savings deposits	1.34
Gross loans	2.64

(III) Items of the cash flow statement

During the Reporting Period, net cash flow generated from operating activities of the Bank amounted to RMB52,085 million. Cash inflow generated from operating activities amounted to RMB18,950 million, cash outflow generated from changes in operating assets amounted to RMB188,066 million, cash inflow generated from changes in operating liabilities amounted to RMB224,233 million. Net cash flow used in the investment activities of the Bank amounted to RMB63,580 million, of which proceeds from disposal sale and redemption of investments amounted to RMB314,521 million, payments on acquisition of investments amounted to RMB388,584 million. Net cash flow generated from financing activities of the Bank amounted to RMB34,347 million, of which proceeds from debt securities issued amounted to RMB368,426 million, repayment of debt securities issued amounted to RMB341,414 million.

(IV) Other Financial Information

1. The items with change rate over 30% in the accounting statements and the brief analysis on the reasons

(Unit : RMB'000)

Items of balance sheet	December 31, 2020	December 31, 2019	Change (%)	Main reasons for changes during the Reporting Period
Deposits with banks and other financial institutions	27,805,363	14,051,627	97.88	Increase in deposits with domestic and overseas financial institutions
Placements with banks and other financial institutions	6,063,668	4,410,809	37.47	Increase in placements with domestic and overseas financial institutions
Derivative financial assets	232,498	158,709	46.49	Increase in derivative financial assets
Financial assets held under resale agreements	–	1,850,258	(100.00)	Decrease in financial assets held under resale agreements
Financial investments:				
– Financial investments measured at fair value through profit or loss	72,597,497	36,238,313	100.33	Increase in investment funds and debt securities
Deferred tax assets	8,664,618	6,365,091	36.13	Increase in deductible temporary differences
Other assets	7,531,444	5,689,632	32.37	Increase in interest receivable
Borrowings from the central bank	71,592,485	46,905,557	52.63	Increase in borrowings from the central bank
Deposits from banks and other financial institutions	130,273,359	78,547,430	65.85	Increase in deposits from banks and other financial institutions
Placements from banks and other financial institutions	31,920,614	21,500,177	48.47	Increase in domestic and foreign placements from banks and other financial institutions
Derivative financial liabilities	533,164	171,758	210.42	Increase in derivative financial liabilities
Financial assets sold under repurchase agreements	52,406,083	23,069,093	127.17	Increase in financial assets sold under repurchase agreements
Income tax payable	2,485,405	1,887,990	31.64	Increase in income tax payable
Other comprehensive income	38,078	969,493	(96.07)	Decrease in fair value change of and impairment allowance on financial assets at fair value through other comprehensive income
Items of profit or loss and other comprehensive income	2020	2019	Change (%)	Main reasons for changes during the Reporting Period
Fee and commission expense	2,294,532	1,208,526	89.86	Increase in information service fees
Net trading gains	44,600	196,392	(77.29)	Decrease in exchange gains due to exchange rate fluctuations
Impairment losses on assets	13,224,178	9,566,913	38.23	Increase in impairment losses on assets
Share of losses of associate	–	52,771	(100.00)	Decrease in share of losses of associate

2. *Changes in off-balance sheet interest receivable and provision for bad debts for other receivables*

(1) Changes in off-balance sheet interest receivable

(Unit: RMB'000)

	Amount at the beginning of the period	Increase in amount in the year	Amount recovered in the year	Amount at the end of the period
Off-balance sheet interest receivable	4,221,635	2,812,004	3,095,426	3,938,213

(2) Provision for bad debts for other receivables

The Bank made no provision for bad debts in respect of other receivables.

3. *Pledge of assets*

Details for the pledge of assets of the Bank as of the end of the Reporting Period are set out in "Audit Report and Financial Report – Notes to the Financial Statements" in this annual report.

4. *Overdue and outstanding debts*

The Bank had no overdue and outstanding debts as of the end of the Reporting Period.

VI. ANALYSIS OF CAPITAL ADEQUACY RATIOS

As of the end of the Reporting Period, the Bank calculated the capital adequacy ratios at all levels in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) promulgated by the CBRC and other relevant regulatory requirements, among which, the core tier-one capital adequacy ratio was 8.88%, the tier-one capital adequacy ratio was 11.01% and the capital adequacy ratio was 12.08%, all of which were in compliance with the regulatory requirements.

In calculating its capital adequacy ratios, the Bank considers itself and the financial institutions it invests directly or indirectly in compliance with the requirements of the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). The items related to capital adequacy ratios at all levels calculated by the Bank in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and the relevant requirements are as follows:

(Unit: RMB'000)

	December 31, 2020	December 31, 2019
Core tier-one capital	83,572,689	62,819,774
Core tier-one capital regulatory deductions	(468,892)	(232,140)
Net core tier-one capital	83,103,797	62,587,634
Other tier-one capital	19,961,604	19,961,604
Net tier-one capital	103,065,401	82,549,238
Tier-two capital	10,056,377	18,914,482
Of which: Qualifying portion of tier-two capital instruments enjoying favorable policies during the transitional period	817,124	946,747
Tier-two capital regulatory deductions	–	–
Net capital	113,121,778	101,463,720
Capital adequacy ratio ^{Note} (%)	12.08	13.07
Tier-one capital adequacy ratio (%)	11.01	10.63
Core tier-one capital adequacy ratio (%)	8.88	8.06

Note: Capital adequacy ratio equals net capital/risk-weighted assets*100%. See table below for details of risk-weighted assets.

The following table sets forth the risk-weighted assets calculated by the Bank in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), among which, credit risk-weighted assets are calculated using the method of weighting, market risk-weighted assets are calculated using the standardized approach, and operational risk-weighted assets are calculated using basic indicator approach.

(Unit: RMB'000)

	December 31, 2020	December 31, 2019
Credit risk-weighted assets	881,225,155	727,158,613
Of which: On-balance sheet credit risk	819,831,605	664,964,981
Off-balance sheet credit risk	60,787,483	61,677,273
Counterparty credit risk	606,067	516,359
Market risk-weighted assets	2,622,352	1,454,974
Operational risk-weighted assets	52,259,283	47,739,953
Total risk-weighted assets	936,106,790	776,353,540

According to the information disclosure requirements on asset securitization in Appendix 15 of the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), as of the end of the Reporting Period, the Bank's on-balance sheet credit risk exposure included RMB43.583 billion of on-balance sheet asset securitization risk exposure and RMB8.719 billion of risk-weighted assets.

VII. LEVERAGE RATIO

During the Reporting Period, the Bank measured the leverage ratio pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) and relevant regulatory rules as follows:

(Unit: RMB'000)

	December 31, 2020	December 31, 2019
Tier-one capital	103,534,293	82,781,378
Tier-one capital deductions	(468,892)	(232,140)
Total adjusted on-balance sheet and off-balance sheet assets	1,630,457,496	1,327,961,659
Of which: Total adjusted on-balance sheet assets	1,388,973,883	1,110,875,661
Total adjusted off-balance sheet assets	238,803,364	213,537,311
Others	2,680,249	3,548,687
Leverage ratio (%)	6.32	6.22

Note: "Others" include the assets balance of derivatives and securities financing transactions.

VIII. SEGMENT REPORTING

The following table shows the segment performance of the Bank by business segment for the periods indicated:

(Unit: RMB'000)

	2020		2019	
	Operating income	Profit before taxation	Operating income	Profit before taxation
Corporate banking	13,936,171	5,662,397	12,455,816	886,657
Retail banking	8,617,163	2,350,749	5,478,633	679,505
Financial markets	9,549,509	1,855,100	10,361,425	8,534,023
Others	389,327	216,846	82,520	(198,335)
Total	32,492,170	10,085,092	28,378,394	9,901,850

The following table shows the segment performance of the Bank by geographic region for the periods indicated:

(Unit: RMB'000)

	2020		2019	
	Operating income	Profit before taxation	Operating income	Profit before taxation
Northern and Northeastern China	20,358,742	7,312,177	17,362,171	6,456,398
Eastern China	5,333,119	685,611	4,130,485	(340,740)
Central and Southern China	4,855,826	922,032	5,177,278	2,466,886
Western China	1,944,483	1,165,272	1,708,460	1,319,306
Total	32,492,170	10,085,092	28,378,394	9,901,850

IX. LOAN QUALITY ANALYSIS

(I) Distribution of Loans by Five-category Classification

(Unit: RMB'000)

	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Normal loans	846,131,237	95.34	674,702,232	95.29
Special mention loans	25,692,529	2.89	20,763,849	2.93
NPLs	15,713,779	1.77	12,591,449	1.78
Of which: Substandard loans	8,633,726	0.97	4,010,263	0.57
Doubtful loans	4,852,977	0.55	6,365,517	0.90
Loss loans	2,227,076	0.25	2,215,669	0.31
Gross loans and advances to customers	887,537,545	100.00	708,057,530	100.00

(II) Loan Migration

(Unit: %)

	December 31, 2020	December 31, 2019	December 31, 2018
Migration rate of normal loans	4.57	2.71	1.15
Migration rate of special mention loans	12.16	22.84	27.09
Migration rate of substandard loans	83.46	76.28	99.71
Migration rate of doubtful loans	12.08	13.98	38.48

(III) Distribution of Loans and NPLs by Product Type

(Unit: RMB'000)

	December 31, 2020				December 31, 2019			
	Amount	%	NPL amount	NPL ratio (%)	Amount	%	NPL amount	NPL ratio (%)
Corporate loans and advances	546,118,850	61.53	12,728,869	2.33	465,224,102	65.70	11,324,839	2.43
Of which: Short-term corporate loans	202,826,916	22.85	8,116,015	4.00	155,725,026	21.99	9,199,181	5.91
Medium- and long-term corporate loans	343,291,934	38.68	4,612,854	1.34	309,499,076	43.71	2,125,658	0.69
Discounted bills	31,046,668	3.50	-	-	9,413,518	1.33	-	-
Of which: Bank acceptance bills	24,189,841	2.73	-	-	7,111,743	1.00	-	-
Commercial acceptance bills	6,856,827	0.77	-	-	2,301,775	0.33	-	-
Personal loans	310,372,027	34.97	2,984,910	0.96	233,419,910	32.97	1,266,610	0.54
Of which: Residential and commercial housing loans	167,701,283	18.90	500,713	0.30	127,816,279	18.05	311,538	0.24
Personal consumption loans	112,697,982	12.70	1,869,816	1.66	95,605,758	13.50	601,542	0.63
Personal business loans	25,665,459	2.89	344,885	1.34	6,711,807	0.95	277,019	4.13
Credit cards	4,307,303	0.48	269,496	6.26	3,286,066	0.47	76,511	2.33
Gross loans and advances to customers	887,537,545	100.00	15,713,779	1.77	708,057,530	100.00	12,591,449	1.78

(IV) Distribution of Corporate Loans and NPLs by Industry

(Unit: RMB'000)

	December 31, 2020				December 31, 2019			
	Amount	%	NPL amount	NPL ratio (%)	Amount	%	NPL amount	NPL ratio (%)
Lease and business services	171,383,263	19.31	3,135,737	1.83	137,274,963	19.39	647,630	0.47
Real estate	111,774,970	12.59	2,385,067	2.13	109,253,881	15.43	150,701	0.14
Manufacturing	78,572,827	8.85	3,841,511	4.89	60,302,305	8.52	6,680,759	11.08
Water conservancy, environment and public facilities management	57,281,338	6.45	59,876	0.10	50,870,045	7.18	30,000	0.06
Wholesale and retail	46,695,083	5.26	1,781,545	3.82	37,309,397	5.27	1,561,334	4.18
Construction	25,998,522	2.93	284,057	1.09	19,738,814	2.79	366,972	1.86
Transportations and communications, storage and post	15,266,620	1.72	42,528	0.28	14,567,757	2.06	45,172	0.31
Mining	10,576,481	1.19	184,837	1.75	7,737,664	1.09	411,164	5.31
Production and supply of electricity, heat, gas and water	8,434,143	0.95	4,939	0.06	6,880,007	0.97	49,861	0.72
Finance	5,220,010	0.59	500,000	9.58	5,628,543	0.79	500,000	8.88
Education	2,712,058	0.31	-	-	2,246,370	0.32	-	-
Hygiene and social welfare	2,588,730	0.29	170,000	6.57	1,498,471	0.21	-	-
Agriculture, forestry, animal husbandry and fishery	2,381,667	0.27	-	-	1,070,480	0.15	60,000	5.60
Others	7,233,138	0.82	338,772	4.68	10,845,405	1.53	821,246	7.57
Total corporate loans and advances	546,118,850	61.53	12,728,869	2.33	465,224,102	65.70	11,324,839	2.43

(V) Distribution of Loans and NPLs by Geographical Areas

(Unit: RMB'000)

	December 31, 2020				December 31, 2019			
	Amount	%	NPL amount	NPL ratio (%)	Amount	%	NPL amount	NPL ratio (%)
Northern and Northeastern China	389,592,957	43.89	6,510,978	1.67	326,296,386	46.08	7,215,263	2.21
Eastern China	211,867,272	23.87	2,242,715	1.06	159,014,593	22.46	3,405,342	2.14
Central and Southern China	209,862,150	23.65	6,445,485	3.07	167,258,342	23.62	1,277,418	0.76
Western China	76,215,166	8.59	514,601	0.68	55,488,209	7.84	693,426	1.25
Gross loans and advances to customers	887,537,545	100.00	15,713,779	1.77	708,057,530	100.00	12,591,449	1.78

(VI) Distribution of Loans and NPLs by Security Type

(Unit: RMB'000)

	December 31, 2020				December 31, 2019			
	Amount	%	NPL amount	NPL ratio (%)	Amount	%	NPL amount	NPL ratio (%)
Collateralized loans	294,096,608	33.14	3,313,043	1.13	236,573,764	33.40	3,005,355	1.27
Pledged loans	95,062,754	10.71	3,131,023	3.29	71,142,981	10.05	48,531	0.07
Guaranteed loans	275,929,006	31.09	6,876,835	2.49	248,288,907	35.07	8,224,530	3.31
Unsecured loans	191,402,509	21.56	2,392,878	1.25	142,638,360	20.15	1,313,033	0.92
Discounted bills	31,046,668	3.50	-	-	9,413,518	1.33	-	-
Gross loans and advances to customers	887,537,545	100.00	15,713,779	1.77	708,057,530	100.00	12,591,449	1.78

(VII) Distribution of Loans by Overdue Period

As of the end of the Reporting Period, the Bank's overdue loans amounted to RMB24,650.21 million, representing an increase of RMB2,972.59 million as compared to the end of the previous year.

(Unit: RMB'000)

	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Overdue within three months	10,606,590	1.20	10,653,312	1.50
Overdue more than three months to one year	8,270,669	0.93	2,815,404	0.40
Overdue more than one year to three years	4,069,444	0.46	4,645,943	0.66
Overdue more than three years	1,703,509	0.19	3,562,961	0.50
Total overdue loans	24,650,212	2.78	21,677,620	3.06
Gross loans and advances to customers	887,537,545	100.00	708,057,530	100.00

(VIII) Loans to Ten Largest Customers Who Are Single Borrowers

(Unit: RMB'000)

Borrowers	Industry	December 31, 2020			
		Amount	NPL amount	% of net capital base	% of gross loans
Customer A	Manufacturing	9,159,915	–	8.10	1.03
Customer B	Manufacturing	8,147,828	–	7.20	0.92
Customer C	Lease and business services	7,582,887	–	6.70	0.85
Customer D	Real estate	5,904,000	–	5.22	0.67
Customer E	Lease and business services	5,817,749	–	5.14	0.66
Customer F	Lease and business services	4,630,000	–	4.09	0.52
Customer G	Lease and business services	4,500,000	–	3.98	0.51
Customer H	Lease and business services	4,100,000	–	3.62	0.46
Customer I	Manufacturing	3,923,940	–	3.47	0.44
Customer J	Lease and business services	3,436,000	–	3.05	0.39
Total	–	57,202,319	–	50.57	6.45

(IX) Restructured Loans

Restructured loans refer to those loans that the financial status of the relevant borrowers deteriorates, or that borrowers are not capable of repaying and therefore certain clauses on the loan contract are adjusted. As of the end of the Reporting Period, the Bank's balance of restructured loans amounted to RMB4,928.4141 million, representing a decrease of 24.30% as compared to the end of the previous year.

(X) Repossessed Assets

As of the end of the Reporting Period, the Bank had no repossessed assets.

(XI) Risk Management on Credit Extension to Group Customers

Our Bank has attached great importance to the risk management on credit extension to group customers, and has achieved online management of group customer relationships with ever-growing management capabilities. In the process of investigation, evaluation and review of credit extension to group customers, we have strengthened the risk identification, prevention and control of credit extension to group customers, and avoided the uncertainties caused by complex equity structure and diversified expansion operations. We have focused on the review of the authenticity of the background of the credit extension plan and the reliability of the source of repayment, preventing enterprises from whitewashing the statements and transferring funds through improper related transactions. We have been aiming to strengthen the identification for our overall development trend. In principle, we have been making sure the credit extension funds are invested in our core enterprises and core sectors, preventing misappropriation of funds, long-term use of short-term loans, and credit funds from entering the construction or operations of our other sectors. We have been conducting in-depth analysis to group customers' scale, growth, risk tolerance and existing credit extensions of other banks and other factors. Combining with the Bank's capital scale and risk tolerance, we have reasonably determined the overall credit line for group customers, and prevented the risk of excessive concentration of credit extension. We have established an early warning mechanism to provide early warnings and take corresponding risk control measures in time by collecting and analyzing relevant information of group customers.

(XII) Disposal of Non-Performing Assets

As of the end of the Reporting Period, the Bank had disposed of RMB11,198 million of non-performing assets through means such as cash collection, bulk transfer, write-off of bad debts, and bankruptcy reorganization.

(XIII) Allowance for Loan Impairment

1. Loans and advances to customers measured at amortised cost

(Unit: RMB'000)

	2020	2019
Opening balance	23,600,871	19,449,834
Charge	6,694,215	8,777,247
Transfer out	(2,623,253)	(3,677,460)
Write-off	(2,949,112)	(1,040,889)
Recoveries	114,136	89,534
Exchange rate changes and others	(11,009)	2,605
Closing balance	24,825,848	23,600,871

2. Loans and advances to customers measured at fair value through other comprehensive income

(Unit: RMB'000)

	2020	2019
Opening balance	37,215	25,233
Charge	89,969	11,982
Transfer out	–	–
Write-off	–	–
Recoveries	–	–
Exchange rate changes and others	–	–
Closing balance	127,184	37,215

(XIV) Large Risk Exposure

The Bank has strictly implemented the regulatory requirements of the Measures for the Administration of the Large Risk Exposures of Commercial Banks (《商業銀行大額風險暴露管理辦法》) and effectively promoted the management of large risk exposures. During the Reporting Period, the Bank has gradually established a large risk exposure management system, conducted the compilation of large risk exposure management regime, continuously monitored changes in large risk exposures, and periodically submitted statistical reports to regulatory authorities. Meanwhile, the large risk exposure management system has been constructed to realize real-time monitoring and early warning of large risk exposures and effectively support large risk exposure management. During the Reporting Period, all large risk exposures of the Bank at the end of each quarter met regulatory requirements.

X. MAIN BUSINESS OPERATION AND MANAGEMENT

(I) Corporate Banking Business

During the Reporting Period, our corporate banking has insisted on the fundamental purpose of serving national development strategies by finance, and continued to improve the quality and efficiency of serving real economy, took the responsibilities and mission on our shoulder, to deeply engage in inclusive micro and small finance and actively promote the anti-epidemic and resumption of production, and orderly carried out the works in promoting customer expansion, maintaining and increasing deposits, optimization of and adjustment to the business structure etc., so as to constantly consolidate our ability in financial risk prevention and control. The operations of each corporate banking business maintained steady and sound development.

Customer building

During the Reporting Period, the corporate banking centered on customers, strengthened customer building, continuously expanded the Bank's basic customer base, and consolidated the customer base of corporate banking business. Through identifying customer classification and specifically conducting the professional marketing for targeted customers, significant progress was made in the relationship building of various types of customers, including corporate banking customers, institutional customers, and group customers. The Bank adhered to the responsibility of serving the development of the real economy by providing enterprises with high-quality and efficient financial services in order to achieve win-win outcomes for customers and the Bank.

Liability business

During the Reporting Period, the corporate banking adhered to the operation direction of "building a bank founded on the deposits", focused on the development of corporate deposits, strengthened deposit marketing organizations, explored on the growth potential of customer deposits, vigorously expanded institutional deposits and green deposits, thereby achieving a steady growth of corporate deposits. As of the end of the Reporting Period, the deposit balance of corporate banking amounted to RMB562.860 billion, representing an increase of RMB67.586 billion or 13.65% as compared to the end of the previous year.

Asset business

During the Reporting Period, based on the overall situation of epidemic prevention and control, the corporate banking fully supported the healthy and sustainable development of the real economy, took multiple financial measures in helping the resumption of corporate operation, and made its due effort for anti-epidemic. The corporate banking further optimized the credit structure by increasing support for various aspects such as manufacturing, private enterprises, green industries, small and micro enterprises, and the rural areas, agriculture and farmers, and by strictly controlling the investment in real estate and industries with heavy pollution, high energy consumption or overcapacity. As of the end of the Reporting Period, the loan balance of corporate banking was RMB562.055 billion, representing an increase of RMB92.9 billion or 19.80% as compared to the end of the previous year. The balance of loans to micro and small enterprises reached RMB136.333 billion (central bank' statistics, excluding foreign currencies) with 88,000 customers with the balance of loans. We had 16 micro and small sub-branches.

Asset custodian business

During the Reporting Period, we made steady progress in the custodian business. As of the end of the Reporting Period, the custodian and outsourcing business reached a scale of RMB1,749.305 billion, and yielded a revenue of RMB771 million for the year. According to the latest statistics for 2020 from the China Banking Association, the Bank ranks 19th among all 27 qualified custodian banks in terms of total assets in custody, and 17th in terms of custodian fee income. We have obtained the custodian qualification for securities investment funds and insurance funds, qualification for engaging in private equity fund business outsourcing services, and depository qualification for pre-collected funds of single-purpose commercial prepaid card. Our custody services cover 21 products of 9 categories.

Transaction banking business

During the Reporting Period, we made steady progress in the transaction banking business. As of the end of the Reporting Period, the Bank realized international settlement of USD52.159 billion, representing a year-on-year increase of 72.94%. The Bank's transaction banking intermediary business realized an income of RMB960 million, representing a year-on-year increase of 20.44%; the year-end balance of three off-balance sheet businesses (bank acceptances, letters of credit, letters of guarantees) was RMB278.758 billion, representing a year-on-year increase of 8.34%. Supply chain business and cash management business were gaining momentum, and transaction banking channel construction was gradually taking shape.

Inclusive finance

The Bank resolutely implemented the central government's overall requirements of "Stable Performance in Six Key Areas (namely, employment, the finance sector, foreign trade, foreign investment, domestic investment, and market expectations)(六穩)" and "Security in Six Key Aspects (namely, job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)(六保)". According to the "five specialized mechanism", the Bank further strengthened team building, accelerated product innovation and technological empowerment, focused on target customer groups, and intensified our efforts in precision marketing and inputs. During the epidemic, we took a number of measures to improve the quality and efficiency of services offered to the real economy, and helped enterprises to fight against the epidemic and resume work and production. As of the end of the Reporting Period, the Bank had an inclusive finance loan balance of RMB43.165 billion, representing an increase of RMB28.550 billion or 195.35% as compared to the end of the previous year. We secured 87,500 inclusive finance loan customers, representing an increase of 71,600 as compared to the previous year; and accumulatively issued inclusive small and micro enterprise loans at an interest rate of 5.74%.

(II) Retail Banking Business

During the Reporting Period, regarding retail banking business, the Bank upheld the development mission of becoming "a modern wealth and treasury manager offering the best experience", continued to promote the banking ecosystem operation and development strategies of "integration of self-development and jointly-developed ecosystems and two empowerments", dedicated to creating a bank valuing agility and empathy, caring intelligence and ecosystem. The Bank strengthened epidemic prevention measures at offline outlets to ensure the health and safety of staff and customers, and transformed the thinking pattern from offline customer expansion to online service and accurate customer acquisition. By seizing customers, maintaining product quality and controlling risks, the Bank remained rapid and stable growth of retail banking business as a whole. During the Reporting Period, the operating income from retail banking business of the Bank amounted to RMB8.617 billion, representing a year-on-year increase of 57.27%, of which the net interest income arising from loans amounted to RMB6.535 billion, representing a year-on-year increase of 53.65%; the net interest income arising from deposits amounted to RMB0.915 billion, representing a year-on-year increase of 50.72%; the retail intermediary business income amounted to RMB0.790 billion, representing a year-on-year increase of 26.57%.

Customer development

Since the planning of developing ecosystem, the Bank continued to explore a development pathway integrating self-development and jointly-developed ecosystems, and built up a chain cycling covering customer expansion, customer acquisition, customer activation, customer retainment and customer adherence. During the Reporting Period, in response to the impact of restriction on customer flow caused by the epidemic, the Bank proactively developed the marketing mode of online customer acquisition, ecological customer acquisition and scenario customer acquisition: firstly, we vigorously promoted agency payroll services and merchant acquiring business to add new customers; secondly, we explored such business forms as intelligent properties and travelling, attracting customer flows by integrating with online accounts system; thirdly, we built up proprietary online lightweight customer acquisition mode through "Bohai Cloud Store (渤海雲店)", and created a platform connecting physical networks, products, account managers and external cooperative channels; fourthly, we continued to promote the development of co-branded card business to acquire customers; fifthly, we established the entire process of Internet marketing to acquire customers, and released marketing materials by Toutiao, TikTok, WeChat and other channels to acquire customers, further enhancing the ability to acquire customers independently. As of the end of the Reporting Period, the number of bank-wide individual customers reached 7,828,500, representing an increase of 3,369,100 as compared to the beginning of the year.

Wealth management business

The Bank continuously enriched and improved wealth management products, vigorously developed wealth management and agency businesses, scaled up total wealth assets and improved the comprehensive competitiveness of wealth management brand. Firstly, the Bank vigorously promoted deposit business innovation, and facilitated a new breakthrough in deposit business scale by enhancing the attractiveness of the products, and two online intelligent deposit products were newly launched. During the Reporting Period, a total of 50 products (including personal certificates of deposits and “Bohai Time Deposits”) in 38 tranches were issued by the Bank with an accumulative balance of RMB38.74 billion, representing an increase of RMB25.72 billion as compared to the beginning of the year. Secondly, the Bank conducted precision marketing and cross sales through data analysis and customer base profile, and actively promoted the introduction of intelligent outbound calls and digital marketing services, thereby expanding production capacity and constantly improving customers’ comprehensive contribution. Thirdly, The Bank accelerated the enrichment of wealth product portfolio, conducted multi-dimensional research and development of wealth management products, and focused on agency business to meet the growing wealth management demands and asset allocation needs of its customers. Fourthly, the Bank accelerated the super-saturated supply of wealth management products and vigorously promoted the system development and channel construction of agency businesses including trust, insurance and fund. The Bank newly launched 27 bancassurance products from seven cooperative companies and added five new cooperative fund companies, accumulatively selling 2,343 funds on agency basis. The Bank’s agency sales of precious metals added more than 200 types of agency products, achieving sales of 21,800 pieces. As of the end of the Reporting Period, the bank-wide personal deposits balance amounted to RMB101.942 billion, representing an increase of RMB49.796 billion or 95.5% as compared to the end of the previous year.

Asset business

During the Reporting Period, the Bank’s retail asset business actively supported the resumption of operations and production of real economy, and improved intelligent risk control capability. With the effective role of the troika for growth, namely mortgage loans, consumer loans, and operation loans, we achieve the innovation and transformation in consumer finance with comprehensive product service system and full coverage of all scenarios and channels. At first, the 30 policies on providing financial services to micro, small and medium enterprises promulgated by four PRC state ministries were implemented, offering favorable credit support to micro and small enterprises related to epidemic prevention and control. The second was to vigorously promote housing mortgage loans while retaining high-quality assets and core customers, in order to consolidate the underlying quality of personal asset business. Thirdly, the Bank focused on the online consumption credit projects that cooperate with leading platforms, newly added Merchants Union Consumption Loan, Vipshop Consumption Loan, WeChat Installment Payment and Qunar Joint Loan to meet the demand for consumption loans of different groups; launched Lionbridge Rent Loan targeting commercial vehicle finance lease customers, providing powerful financial support for resumption of production and operations. The first loan product supporting the daily production of farmers, “Bohai Farmer Loans (渤農貸)”, was launched, innovatively using the rural land contractual management right as collateral, and utilizing financial technology to resolve the last obstacle for farmers to obtain loans. Fourthly, the Bank actively promoted the online featured loan product “Bohai Happy E Loans (渤樂e貸)”, innovatively providing online personal consumer loans for a certain customer group. In February 2020, the “Epidemic Fighter Loans (抗疫勇士貸)” was launched in time, with accumulatively 35,000 applications accepted, a credit of RMB1.55 billion and a lending of RMB1.35 billion granted, with a balance of RMB992 million, providing financial services to nearly 10,000 epidemic-fighting individuals. The fifth was to adhere to the policy of “Stable Performance in Six Key Areas (namely, employment, the finance sector, foreign trade, foreign investment, domestic investment, and market expectations) (六穩)” and “Security in Six Key Aspects (namely, job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments) (六保)” to help the development of small and micro enterprises. The Bank promoted the “bank-tax interaction” of retail small and micro loans, pushed forward the implementation of the “Bohai Tax-based Business Loans (渤稅經營貸)” across the country; launched the “Bohai Bank Merchant Loans (渤銀商戶貸)” and “Bohai Bank E Loans (渤銀電e貸)”, and upgraded “Bohai Bank Housing Flash Loans (渤銀房閃貸)” bank-wide. The Bank also optimized online review and approval process and enhanced business handling effectiveness, thereby alleviating the problems arising from the difficulty and high cost of financing and low speed of financing for micro and small enterprises. Sixthly, the

Bank further deepened the application of big data and artificial intelligence in personal credit management, optimized business strategy models and proactively prevented and resolved credit risks. As of the end of the Reporting Period, the Bank's personal loan balance amounted to RMB310.372 billion, representing an increase of RMB76.952 billion or 32.97% as compared to the end of the previous year, and the NPL ratio for personal loans was 0.96%, which proved that the Bank has withstood the severe test posed by the epidemic and maintained good asset quality.

Credit card business

Based on the professional orientation of "making the installment credit cards become the primary choice for customers", our credit card business continued to consolidate the installment-based product feature, expanded and optimized the installment business scenarios. During the Reporting Period, the Bank launched six new products, and added three special installment consumption scenarios, namely purchases of parking spaces, home innovation and education. Accumulatively 66 cooperative projects of branch scenario were approved. The proportion of revenue we received from installment business remained above 50%. As of the end of the Reporting Period, the Bank issued 269,800 credit cards, and the accumulated number of credit cards issued amounted to 510,900, and the accumulated transaction volume reached RMB11.798 billion, representing a year-on-year increase of 29.98%.

Customer experience

During the Reporting Period, confronted with the pressure of epidemic prevention and control, the Bank actively formulated an online, intelligent, contactless, caring service model. Firstly, the Bank improved online service and contactless service, improved the service capability on mobile channels, and innovatively launched new types of service channels such as video business hall (視頻營業廳), Bohai Cloud Studio (渤海雲工作室), Bohai Cloud Store (渤海雲店), Bohai Public Welfare Live Broadcast (渤海公益直播). Secondly, our Customer Service Center ensured a 7×24 all-weather, multi-channel integrated services, with the time of teller-operated services through online channel expanding to 7×9 service mode; the problem identification rate through intelligent customer service channel reached 96.01%, and the service streaming rate reached 49.36%. Thirdly, the Bank promoted consumer rights protection work, improved relevant management system, enhanced the quality and efficiency of complaint handling, optimized online and offline business processes, and continued to improve the customer experience. Fourthly, the Bank followed the development trend of the fund industry and met the investment needs of customers. A new version of the mobile fund module was developed, which integrated massive fund information with fund transaction functions, and simultaneously provided features such as real-time valuation, hot themes, fund PK etc., in order to assist customers in making investment decisions with effectively improving customer experience.

(III) Financial Market Business

During the Reporting Period, our financial market working lines overcame the adverse effects brought by the COVID-19 outbreak. In line with the macroeconomic situation and regulatory guidance, we continued to deepen the business transformation on the assets, liabilities, products and services, increasing investments in low-risk weighted and standardized asset, thus continuously optimizing asset structure. We increased the number of interbank debt customers and expanded the scale of interbank debt absorption. Financial market products were gradually enriched, and the service capacity in financial market business was improved significantly.

Financial management business

Since the implementation of "New Asset Management Regulations", the Bank actively adapted to the requirements of the "New Asset Management Regulations" and relevant supporting policies, and proactively promoted the transformation of asset management business. During the Reporting Period, the scale of asset management of the Bank remained stable, and the major asset allocation structures continued to be optimized. The Bank actively promoted product transformation, refined product structures and diversified product categories so as to provide more choices for customers. As of the end of the Reporting Period, the Bank's balance of wealth management products amounted to RMB213.174 billion. The balance of standardized bond assets of wealth management asset investment was RMB128.121 billion, accounting for 58.13% of the total assets.

Interbank business

During the Reporting Period, apart from prevention and control of financial risks, the Bank promoted the transformation of the interbank business, focusing on promoting standardized and low-risk weighted asset. The Bank increased the absorption of interbank debts and expanded the scale of interbank debt customers. The Bank regularized interbank cooperation, returned to the ultimate source of interbank business and supported the development of real economy.

Bills business

The Bank accurately followed the trend of the bill market in 2020, timely seized the favorable trading opportunities, actively conducted transactions on bill markets, improved the income level of bill transactions, and extensively contacted all kinds of transaction entities in the bill market, which expanded the market influence of the Bank.

Treasury business

The Bank paid close attention to the market trends, actively carried out various transaction businesses by strengthening market research and judgment, and promptly captured market opportunities to increase transaction returns, expanded the scale and scope of transactions, and consolidated and enhanced the Bank's market image. Meanwhile, the Bank flexibly utilized derivative financial instruments such as foreign exchange swap and physical gold swap, to manage liquidity and optimize financing structure. During the Reporting Period, the Bank ranked 61st in terms of bond delivery volume published by ChinaBond.com.cn, ranked among the top 20 in terms of foreign currency market transactions of the China Foreign Exchange Trade System (CFETS), and the comprehensive ranking of exchange rate derivatives of CFETS ascended 8 places compared with 2019.

Agency business

The Bank continued to vigorously promote the development of agency product business, actively carried out product innovation, enhanced analysis and research on customers, conducted accurate classification on customer base, provided comprehensive solutions for customers, and increased the comprehensive business income. The Bank persisted in carrying out product manager training for capital transaction business and built a product manager team to improve the service professionalism. During the Reporting Period, the transaction volume of the Bank's spot settlement and sales of foreign exchange on agency basis amounted to approximately USD3.854 billion, and the transaction volume of derivative product business on agency basis amounted to approximately USD472 million.

Investment banking business

During the Reporting Period, our investment banking business continued to develop rapidly. The major bonds underwriting business reached a record high with the annual business objectives achieved. The Bank continued to expand its market, product and customer coverage with direct financing fixed-income products, and enhanced product innovation. During the epidemic period, the Bank mainly underwrote a number of epidemic prevention and control bonds, strongly supporting issuers to carry out epidemic prevention and control.

Interbank credit and agent bank network

As of the end of the Reporting Period, a total of 235 Chinese and foreign banks and non-bank financial institutions had credit lines in the Bank. The credit lines of the Chinese and foreign banks and other financial peer clients made the Bank to maintain a stable development of all businesses. In terms of agent bank construction, we have established agent relationship with 512 head offices and branches of 252 institutions in 69 countries and regions.

(IV) Financial Technology Business

During the Reporting Period, the Bank seized the window of opportunity for layout of the ecosystem strategies to accelerate the construction of an open banking system and strengthen the financial empowerment of the platform ecosystem. The Bank paid attention to the end-to-end customer experience, promoted the close linkage of business lines, and vigorously developed a wider range of business scenarios, with steady progress in various businesses and financial service capacity improved significantly. During the Reporting Period, the Bank primarily conducted the following initiatives regarding the construction of the ecological banking system:

Firstly, the Bank accelerated financial empowerment of the platform and continued to improve the banking services of its open ecosystems. The Bank continuously promoted the construction of the standard mode of platform account system and its output. The Bank enriched the B2C business function module, established the online smart property platform, further developed ecosystems including travelling, properties, intelligent human resources, having significantly improved the ability of its open banking system to acquire clients. Secondly, the Bank accelerated the establishment of online portal to build an Internet financial operation system with serving the clients as the core. The Bank accelerated the development of new product functions of mobile banking and individual online banking to improve the operation ability of WeChat public platform. Thirdly, the Bank continuously improved its service capacity of payment and settlement, and vigorously expanded the agency payment and payroll business. We created new UnionPay collection and authentication channels, and removed the “last mile” obstacle for electronic accounts. We continuously promoted the construction of the agency payment business system, launched the fund payment system, and put FDEP into operation. Fourthly, the Bank accelerated the development progress of new products and projects, and continued to improve its innovation ability. The Bank completed the construction and development of the intrabank system connecting with the UnionPay SASS platform, and comprehensively realized the output of Type III accounts system, online top-up and online payment functions. We strengthened referral traffic on the platform, and realized the one-stop service for clients to open accounts, link cards and recharge at the platform end.

(V) The Construction of Branches

During the Reporting Period, Hong Kong Branch, the Bank’s first branch outside Chinese Mainland, was officially opened. The Bank took the establishment of an institution in Hong Kong as an important step towards its internationalization to continuously explore innovative business products, enhance the bank-wide business influential ability and its external influence, and further improve the strategic layout of its branches. At the same time, the Bank promoted the implementation of the “Light Boat Plan (輕舟計劃)” quickly. Through the construction of comprehensive light outlets, it optimized the layout of branches in key cities, sped up the improvement of intelligent and scenario-based service capabilities of outlets so as to build an offline service network which is closer to clients.

As of the end of the Reporting Period, the Bank’s outlets have covered 23 provinces, municipalities and autonomous regions, 5 sub-provincial cities (cities separately listed in the original plan) and 1 Special Administrative Region of the PRC. The Bank has established outlets in 61 key cities nationwide (including Tianjin, Beijing, Hangzhou, Taiyuan, Chengdu, Jinan, Shanghai, Shenzhen, Nanjing, Dalian, Guangzhou, Changsha, Shijiazhuang, Wuhan, Hohhot, Fuzhou, Hefei, Zhengzhou, Xi’an, Changchun, Chongqing, Shenyang, Xiamen, Haikou, Qingdao, Ningbo, Nanning, Nanchang) and the Hong Kong Special Administrative Region. The Bank has established 34 tier-one branches (including Suzhou, Qingdao and Ningbo Branches under direct management of the head office and 1 overseas branch), 31 tier-two branches, 134 sub-branches. The total number of outlets reached 239, including 199 branches and sub-branches, and 40 small and micro community sub-branches.

(VI) Assets and Liabilities and Financial Management

During the Reporting Period, the assets and liabilities management of the Bank were based on the strategic layout across the Bank, and we took into account the trend of macro-control, complied with regulatory guidance, adhered to risk bottom line, and seized policy bonus to contribute to the smooth realization of the annual business objectives with various measures. The Bank implemented the requirements of macro prudential management, built a full-dimension management model of assets and liabilities that integrates every aspect, properly adjusted the scale structure of assets and liabilities in multiple dimensions centering on value creation, and dynamically adjusted the annual business planning system. The Bank strengthened capital constraints, took operating efficiency as the yardstick and overall risk control as the goal, proactively grasped market opportunities, and adapted to international regulatory changes. The Bank enriched multi-level capital management tools, optimized asset structure, revitalized existing maturities, and expanded eligible collateral so as to stimulate its transformation and continuously improve its capital management level. We strengthened the management of capital position, set reasonable short-term mismatch limit, and steadily improved the scale of qualified high-quality liquid assets, which effectively improved liquidity risk resistance capacity and forward-looking management ability. Multiple measures were taken to ensure the stability and controllability of liquidity risk across the Bank. The Bank continued to promote the construction of internal and external pricing system, actively supported product innovation, and optimized client comprehensive

pricing and differentiation management strategy. We formulated liquidity and internal pricing support scheme, continued to promote the optimization of FTP function, promoted the implementation of new LPR regulations and the conversion of stock floating rate loan pricing benchmark, adhered to innovation-driven practice, and relied on financial technology to improve the refined management level of asset pricing. The Bank optimized the market risk exposures and the limit system of interest rate risk in the banking book, combined static analysis, dynamic prediction with active and steady plan, and strengthened model design. Relying on system construction, we strengthened interest margin analysis and economic value management, enhanced forward-looking and active risk management to provide strategic support for business development. The Bank firmly adhered to the bottom line of compliance operation, adapted to the development trend of banking industry under the influence of the epidemic, and strengthened the analysis and guidance to actively broaden revenue channels. We sought the growth point of intermediate business income, accelerated the construction of intermediate business system, and improved the refined management level of intermediate business.

During the Reporting Period, the Bank's financial management work followed the strategic planning of the Bank, complied with the internal and external economic situation and changes in regulatory policies, gave full play to the guidance and incentive roles of financial management, fully supported business innovation, and promoted high-quality transformation and development at full speed. We strengthened budgets assessment management, comprehensively evaluated the macroeconomic situation and the impacts related to the epidemic, gave full play to the leading and guiding roles of the budgets in business, and guided branches to adjust business structures to accelerate ecological construction and customer expansion. In response to the impacts of the epidemic at the beginning of the year, we actively responded to various policies and measures introduced by the state, studied and formulated supporting policies to help small and micro enterprises overcome difficulties, strived to turn crises into opportunities, and continued to expand new areas of business development. We continued to optimize the expenditures allocation policy, deepen the implementation of the strategic requirements of "developing bank by deposits, thriving bank by customers", fully supported the construction of integrated light sub-branches, focused on cultivating basic customers and improving the asset and liability structure, intensified our efforts in the allocation of special resources for strategic businesses, and supported branches to consolidate their customer base, attached attention on asset quality management and sustainable development to promote the realization of strategic goals. The Bank strengthened the construction of the management accounting systems, optimized the expenditures accounting and costs allocation plan, continued to advance the multi-dimensional profit analysis, and actively provided data support services with high quality. The Bank strengthened tax management and planning, consolidated the basic works of tax management, practiced strictly in accordance with various tax laws and regulations, and constantly improved the level of tax management compliance. We improved the standardization of financial accounting management, improved the centralized financial management model, and started the construction of the financial shared service center; continued to improve the post-listing accounting system construction, improved the quality of accounting information to ensure that accounting information can truly, completely and accurately reflect financial positions and operating results. The Bank utilized the functions of the mobile data system, gave play to the role of the statistical data sharing mechanism and developed statistical data display tools to support business expansion and management decision-making.

(VII) Information Technology Construction

During the Reporting Period, centering on the corporate mission to create "a modern wealth and treasury manager offering the best experience (最佳體驗的現代財資管家)", the Bank accelerated the construction of "an agile bank with empathy (有溫度的敏捷銀行)". The Bank increased technology empowerment to achieve the parallel operation of clients, marketing, product design, technology, R&D and risk control, and created an agile, open, sharing and co-governed open ecological bank organization mode with centralized middle office (大中台).

During the Reporting Period, the Bank practiced the transformation and development of financial technology, increased investment in science and technology, with RMB560 million being invested in science and technology in the whole year. The Bank built a unified application platform to realize the standardization of system development and access to comprehensive financial products and services by one click. We built an open platform for retail cooperation to build up an online customer operation system with multi-scenarios and multi-channels through diversified technological modes. We built a unified big data service platform for the whole bank to achieve “all-data service”. Leveraging artificial intelligence, biometrics, big data and other technologies, the Bank accelerated the transformation planning of financial technology, and comprehensively fostered its transformation to a digital bank.

During the Reporting Period, the Bank ensured efficient work under the new situation, strengthened operation management, and built an intelligent operation and maintenance system. The network security system has been built. The construction of intra-city dual active center has been improved gradually, which realized the smooth service takeover ability with clients not perceiving. The ability of ensuring the stable operation of the system was continuously improved, with the overall system availability rate being 99.9% for the whole year.

(VIII) Enterprise Culture and Brand Management

During the Reporting Period, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Bank took the cultivation and practice of core socialist values as its central task, earnestly carried out systematic corporate construction work, and focused on promoting the orientation to corporate culture revolution for the transformation requirements of “an agile bank with empathy” and a “living digital bank(有生命的數字銀行)”. The Bank gave full play to the potency of all media publicity, further enhanced the flexibility and readability of corporate culture promotion, and vigorously promoted the spirit of the time of diligent performance of duties, hardworking, entrepreneurship, and responsibility. The Bank carried out a large-scale discussion activity of “demonstrating the spirit, capable of outstanding achievements with passion” to mobilize and inspire the cadres and employees bank-wide to show their spirit, deal with the difficulties with full confidence, overcome difficulties, be agile and take the initiative, and strive for the first place. The Bank carried out a series of activities including the Tianjin Bohai Bank Women’s Volleyball Team’s New Season’s Launch Ceremony and Press Conference, to continuously enrich the corporate culture and to create a unique Bohai Culture. The Bank comprehensively summarized the corporate culture work, set the excellent culture of advanced peers as benchmark, insisted on the strategic requirements of the new stage of high-quality transformation and development, incorporated such culture work into the overall framework of the Fourth “Five Year Plan”, and conducted in-depth research on the direction of corporate core value reform and its implementation measures. During the Reporting Period, the Bank strengthened its brand communication efforts by focusing on the key work of listing on the H Shares Main Board. Through the shooting of a publicity video themed on listing, the production of an exhibition board themed on listing, the launch of the “Cloud Knocking Gong” ceremony for listing, the use of various media, especially the WeChat Official Account and other platforms, we carried out the extensive brand building around the public focus of listing. Meanwhile, we completed the graphic designs and releases of brand images of more than 600 products throughout the year, which further enhanced the awareness and reputation of innovative products, and enhanced customers and the public’s understanding and recognition on “an agile bank with empathy” transformation of the Bank.

(IX) Business Profiles of Hong Kong Branch

The Hong Kong branch of the Bank was established in 2020 and is the first overseas branch officially established by the Bank. The Hong Kong branch, as a fully licensed bank, can operate a full range of commercial banking services. At present, it mainly focuses on wholesale banking. The Hong Kong branch’s business is based on cross-border linkage business, focusing on opportunities such as the “Belt and Road”, RMB internationalization, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area to help enhance the Bank’s international business and provide one-stop services for domestic and foreign customers, including a wide range of wholesale banking services and products, such as comprehensive bank accounts, cross-border renminbi, deposits, settlement, trade financing, bilateral loans, syndicated loans, import and export agency payments, forfaiting, letter of credit discounts, onshore guarantees for offshore loans, offshore debt under onshore guarantee, mortgage financing etc. At the same time, it can participate in interbank funds, bonds and foreign exchange market transactions. As of the end of the Reporting Period, the total assets of the Hong Kong branch of the Bank amounted to HK\$1,013 million.

XI. COMPREHENSIVE RISK MANAGEMENT

(I) Overview of Comprehensive Risk Management

The backbones of the Bank's organizational structure to manage its risks are the Board of Directors, the Risk Management Committee of the Board of Directors (and the Related Party Transactions Control Committee subordinated to it), the Audit and Consumer Rights Protection Committee, the Board of Supervisors, senior management and its Risk Control Committee, Assets and Liabilities Management Committee and Information Technology Committee, and relevant functional departments at Head Office, including Risk Management Department, Credit Review and Approval Department and Regional Approval Center, Credit Monitoring Department, Retail Risk Management Department, Assets and Liabilities Management Department, Internal Control and Compliance Department, Legal Affairs Department, and other departments responsible for operational risks, Information Technology Department, the General Office (Public Relations Department), Strategic Development and Investment Management Office, Audit Department and Regional Audit Center, and risk management functional departments of the subsidiaries and branches.

The Board of Directors of the Bank is responsible for the ultimate responsibility for comprehensive risk management and is responsible for fulfilling the establishment of risk culture, formulating risk management strategies, setting risk preferences and ensuring the establishment of risk limits, reviewing and approving major risk management policies and procedures, and supervising senior management to conduct comprehensive risk management, reviewing comprehensive risk management reports, approval of the disclosure of comprehensive risks and various significant risk information, hiring the chief risk management officer, and taking the lead in comprehensive risk management and other responsibilities related to risk management.

The Board of Supervisors of the Bank is responsible for the supervision of comprehensive risk management and is responsible for supervising the performance of the Board of Directors and senior management in risk management and the rectification.

The senior management shall assume the responsibilities for implementing comprehensive risk management, implementing the resolutions of the Board of Directors and fulfilling the following duties: establishing an operational management structure applicable to the comprehensive risk management; clarifying the division of risk management responsibilities of the comprehensive risk management department, business department and other departments; building an operational mechanism featuring mutual coordination and effective checks and balances among departments; formulating a clear implementation and accountability mechanism to ensure that the risk management strategies, risk appetites and risk limits are fully conveyed and effectively implemented; setting risk limits according to the risk appetites set by the Board of Directors for various dimensions including, but not limited to, industries, regions, customers and products; formulating risk management policies and procedures, and conducting periodic assessments and making adjustments when necessary; evaluating the management for comprehensive risks and various key risks and reporting to the Board of Directors; establishing a sound management information system and data quality control mechanism; supervising the breach of risk appetites and risk limits and violations of risk management policies and procedures, and handling such cases according to the authorization of the Board of Directors; and other risk management responsibilities.

The Bank has established a risk prevention system consisting of three lines of defense against each main risk to which it is exposed. The first line of defense of risk management is formed by various business departments, divisions, branches and sub-branches, who are directly responsible for carrying out their risk management functions. The second line of defense is departments of risk management line, Assets and Liabilities Management Department, Internal Control and Compliance Department, the General Office (Public Relations Department) and Strategic Development and Investment Management Office, who assume responsibilities for formulating the requisite policies and procedures, supervising and managing risk. The third line of defense of risk management is the Audit Department, who assumes audit responsibilities for the performance of our business departments and risk management departments.

During the Reporting Period, the Bank further advanced the construction of credit risk measurement models, continued to optimize the corporate customer rating model and improved the LGD model of the wholesale business debt, and realized real-time online calculation of expected losses for wholesale business. At the same time, we continued to improve the management and control functions of the credit risk management system group, enhanced the intelligent level and the automated level of the system, and used various types of internal and external data to actively identify credit risks. We greatly enhanced the mobile office capability of the CRMS system and realized the functions of credit approval, information inquiry, public opinion detection and risk warning on the mobile client terminal to improve the convenience of system operation.

During the Reporting Period, the Bank further promoted the construction of the credit risk early warning system, adopted the idea of “modularization, modelization and systematization”, used modern information processing technology, developed standardized modular products, optimized financial early warning models, combed back historical data, expanded mobile phone information channels, to provide quantitative basis for signal identification, transmission and early warning hierarchy management of risky customers and open up channels for system users to obtain risk information.

The Bank continued to improve its comprehensive risk management system to enhance the forward-looking and effectiveness of risk management. We promoted the implementation of various requirements of the Board of Directors and regulatory authorities, deepened the management of various risks such as credit, liquidity, market, operation, information technology, compliance, strategy, reputation and country, strictly held the bottom line of compliant operations, and continuously improved the effectiveness of risk management, thereby creating a professional and refined comprehensive risk management system.

(II) Credit Risk

Credit risk refers to the risk of loss of bank business arising from the failure of a borrower or counterparty to perform its obligations as agreed.

The Bank insists on a comprehensive, vertical and independent management mode for credit risks, continuously improving and refining the posting mechanism of risk management personnel. At the head office level, Risk Management Department, Credit Review and Approval Department, Credit Monitoring Department, Retail Risk Management Department and three Regional Approval Centers of Beijing, Shanghai and Guangzhou are established. At the branch level, each tier-one branch appoints a Risk Director to report to the Chief Risk Officer.

The Bank balances the benefits and risks through active controls, so that each type of business could achieve benefits matching its risk level at least and the capital could achieve optimal allocation. The Bank has set up a kind of credit decision-making mechanism of “three in one”, with the independent responsibility examination, democratic risk review and strict accountability approval as the core, to improve the expertise and independence of credit approval.

In terms of credit risk management and control policies, the Bank actively complied with the guidelines of macro policies and regulatory policies, strengthened the guiding role of credit policy, and formulated the 2020 Credit Guidelines, which clarified the annual credit risk management strategies and management measures, and implemented the opinions and requirements of the Party Central Committee, the State Council and regulatory authorities on strengthening financial services for private enterprises and small and micro enterprises to continuously provide effective credit to private enterprises and small and micro enterprises, thereby ensuring that all indicators meet regulatory requirements. The Bank seized the opportunity period of promoting the strategy of manufacturing power and scientific and technological innovation strategy to focus on supporting the accelerated development of advanced manufacturing industries, emerging industries, and scientific and technological industries, and the transformation and upgrading of traditional industries. It supported the new infrastructure construction, medical, education, modern logistics and other industrial projects, and served high-quality development requirements. It focused on the coordinated development

of Beijing-Tianjin-Hebei Region, Xiong'an New Area, Guangdong-Hong Kong-Macao Greater Bay Area, Yangtze River Economic Zone and other key areas, and connected the investment and financing demands of major projects in transportation, infrastructure construction, public services and other fields, livelihood projects and work in progress. It made full use of the systematic function of industrial credit policy and big data model to strengthen the credit management requirements on key risk fields such as real estates, financing platform business, overcapacity, non-credit investment and financing business. The Bank has steadily promoted the transformation and development of its retail credit business focusing on housing mortgage loans, production and operation loans and consumer loans as its main credit products. It insisted on the combination of online and offline businesses, rational utilization of financial technologies and service of the real economy. Combining the regional economic characteristics, it upholds the thoughts of "customer expansion, acquisition, activation, attraction and maintenance" and "sphere and chain, platform, system, ecology and scenario" to continue to improve the inclusive financial service capabilities for retail customers and small and micro enterprises.

With respect to credit approval, we strictly abode by the risk bottom line, attached importance to the basic logic of credit, and adhered to diversification as the first principle of risk prevention and control. We continuously improved the quality and efficiency of approval, supported the development of epidemic prevention, real economy and small and micro enterprises. We strengthened review and approval management to prevent credit risk, and formulated the Guidelines on Credit Review and Approval Work in 2020 to effectively distribute relevant regulatory policies and the business orientations and risk appetite of the Head Office. We gave full play to professional advantages and formulated the Guidelines on Strengthening Credit Management of Supply Chain Business, guiding business institutions to promote the rapid development of business and prevent credit risks at the same time. We accelerated digital transformation, improved the application ability of information technology in approval regarding management and data support, and conducted R&D of the intelligent model on the approval of corporate credit and retail credit.

With respect to the post-disbursement management, we strengthened the supervision and inspection of post-disbursement management in branches, achieved systematic management on post-disbursement supervision, and tracked and analyzed the completion status of inputting key customers' monitoring reports, post-disbursement inspection reports and financial statements of branches, which promoted the further improvement of post-disbursement management level. Through the development of knowledge mapping system and updating of financial early warning module, we improved the ability to obtain and analyze risk information, expanded the risk analysis dimension, and refined the monitoring and evaluation system on customers' credit risk, which comprehensively improved the early warning management ability. We effectively controlled substantive risks by implementing key monitoring and alert of risk mitigation proposals for customers. We heightened the risk management and control of key industries such as real estate and overcapacity industries, as well as key group customers, and actively adjusted our credit structure for these industries. We implemented dynamic management in list-style, strengthened the continuous tracking and special monitoring for key customers. We intensified off-site monitoring and on-site inspections in key areas, standardized the operational behaviors, and effectively controlled the operational risks. In accordance with the principle of prudence, the ten-level asset quality classification management was implemented to further consolidate asset quality. As of the end of the Reporting Period, the Bank had an NPL ratio of 1.77% with stable asset quality and controllable credit risks in general. We continued to fully implement new financial instrument standards, followed the principles of prudence, timeliness, effectiveness and objectivity to make allowances for impairment financial assets incorporated into the impairment provision scope, and further increased the impairment provision to strengthen our ability to offset risks in an unfavorable environment where economic growth slows down. As of the end of the Reporting Period, the total balance of the Bank's impairment provision on financial assets was RMB36.224 billion, representing an increase of RMB7.6 billion as compared to the end of the previous year.

(III) Liquidity Risk

The Bank has established a sound liquidity risk management governance structure, with clear duties for the Board of Directors, senior management, special committees and other relevant management departments. The Board of Directors assumes the ultimate responsibility for liquidity risk management, reviews the Bank's acceptable liquidity risk appetites, management strategies, policies, and procedures, and supervises the effective management and control of liquidity risk, and approves information disclosure contents. As a special committee authorized by the Board of Directors, the Risk Management Committee can perform all responsibilities of liquidity risk management on behalf of the Board of Directors and submit relevant reports to the Board of Directors on a regular basis. The senior management implements specific management work under the liquidity management system and methods approved by the Board of Directors, timely understands and evaluates the liquidity risk level and management status of the Bank, as well as reports to the Board of Directors. The Assets and Liabilities Management Committee at the head office, as a special committee authorized by the senior management, can perform all responsibilities of liquidity risk management on behalf of the senior management. The Assets and Liabilities Management Department at the head office is responsible for leading the organization of liquidity risk management for the Bank, formulating liquidity risk management strategies, policies and procedures, and conducting qualitative and quantitative analysis of liquidity risk and other specific management tasks. The corporate banking business, retail banking business and financial markets business management departments of the head office and branches and sub-branches follow the liquidity risk management policies, appetites, procedures, limits and other management requirements determined by the Board of Directors and senior management to conduct business.

The Bank adheres to prudent liquidity risk management strategies, and clarifies the overall objective, management mode, and main policies and procedures of liquidity risk management. The overall objective of the Bank's liquidity risk management is to reasonably arrange the Bank's asset and liability structure and future cash flows, to fulfill the fund payment needs of each business and to ensure compliance with liquidity regulatory indicators, and to reduce extra costs arising from liquidity as much as possible, including the opportunity cost of reserve funds, market financing premium, and loss on realization of assets. The Bank adopts a centralized approach with respect to its liquidity risk management, in which the head office centrally manages overall liquidity risk across the Bank under the guidance of the liquidity risk management policies determined by the Board of Directors, and has established a three-tier liquidity reserve including cash, reserve and high-grade bonds. The Bank, in accordance with internal and external requirements and actual business development, formulates liquidity risk management policies and procedures, such as cash flow estimate and calculation and analysis, liquidity risk limit management, financing management, daytime liquidity risk management, qualified high-quality liquid asset management, liquidity early warning management, stress tests, and emergency plans. Under the premise of ensuring liquidity safety, the Bank effectively balances the relationship among liquidity, safety and efficiency, so as to promote sustainable and healthy development of business.

Under the guidance of the liquidity risk management policies determined by the Board of Directors, the Bank implements effective identification, measurement, monitoring and control of liquidity risk of the whole bank. Based on cash flow gap analysis, the Bank realizes the liquidity risk management and control under normal circumstances with the help of intraday position management, maturity mismatch management, liquid asset portfolio management and financing strategy management. In addition, the Bank strengthens market trend research and judgment, and maintains sufficient high-quality liquid assets with the help of management tools such as stress tests and emergency plans, in order to improve the ability of the Bank to withstand liquidity risk under stress scenarios. As for managing intraday positions, the Bank reasonably managed cash flows to balance liquidity and profitability, which is based on the principle of ensuring safety payment of the whole bank and on the integration management of local and foreign currency. As for liquidity mismatch management, the Bank adopts active management methods, such as continuous optimization of internal limit management, early warning indicators monitoring, and dynamic simulation of regulatory indicators, which not only achieves accurate measurement of static liquidity mismatch, but effectively manages and controls the future liquidity mismatch. With regard to liquid asset portfolio management and financing strategy management, the Bank timely monitors and optimizes its asset-liability structure, strengthens active liability

management, enhances inter-bank customer relationship management, expands active liability channels, and promotes the steady growth of core liabilities. As for emergency liquidity risk management, the Bank regularly conducts liquidity risk stress tests, carefully evaluates future liquidity needs, maintains sufficient high-quality liquid assets and improves liquidity risk resistance capacity. At the same time, it organizes liquidity crisis response exercises on a regular basis, continuously optimizes the liquidity emergency management system, evaluates the effectiveness of various emergency measures, and ensures the liquidity safety of the whole bank in an emergency environment.

The Bank's liquidity risk is affected by both internal and external latent factors. External factors mainly include macroeconomic trends, changes in monetary policy, fluctuation in capital market, downgrade of external rating and negative public opinion, etc. Internal factors mainly include increase in asset-liability mismatch, deterioration of asset quality, concentrated withdrawal of customers, and decline in profitability. The Bank identifies and analyzes the main factors affecting liquidity risk, and establishes daily risk monitoring and early-warning reporting mechanisms. Besides, it implements forward-looking management and active control of potential liquidity risk that may be caused by the aforementioned risk factors through stress tests and emergency plans.

In order to cope with the influence of changes of macro-economic environment, and fluctuations of capital market and other types of risks, the Bank sets mild, moderate, and severe liquidity risk stress scenarios for main on-balance and off-balance sheet businesses after fully considering various factors that may affect liquidity risk, such as decline in the price of marketable securities, outflow of deposits, and increase in unscheduled repayment of assets. Moreover, the Bank conducts stress tests on a quarterly basis to test the Bank's resistance to potential liquidity risks and achieve forward-looking management of liquidity risks. The Bank's liquidity stress tests take the mature cash flow gap as the key pressure-bearing object and the liquidity ratio as the auxiliary pressure-bearing object. The stress test of mature cash flow gap covers the window periods of 7 days, 30 days and 90 days. During the Reporting Period, the Bank was able to meet the minimum lifetime requirement of not less than 30 days under various stress scenarios, and with the availability of sufficient quality liquid assets which are readily realizable at any time, the Bank could meet the potential liquidity needs under stress conditions.

During the Reporting Period, the Bank's liquidity remained reasonably adequate with stable and controllable liquidity risk level, major liquidity regulatory indicators were met or beyond regulatory requirements, and monitoring indicators operated smoothly. As of the end of the Reporting Period, the Bank's liquidity coverage ratio reached 109.68%, representing a decrease of 30.18 percentage points as compared to the end of the previous year; the liquidity ratio was 53.40%, representing a decrease of 10.45 percentage points as compared to the end of the previous year; the net stable funding ratio was 103.33%, representing a decrease of 9.66 percentage points as compared to the end of the previous year; the liquidity matching ratio was 108.84%, representing a decrease of 5.36 percentage points as compared to the end of the previous year.

According to the requirements of the Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks (《商業銀行淨穩定資金比例信息披露辦法》), the following table sets out the Bank's net stable funding ratio indicator, available stable funds for the numerator item, and stable funds required for the denominator item at the end of December and September 2020:

(Unit: RMB'000)

	December 31, 2020	September 30, 2020
Net stable funding ratio (%)	103.33	110.12
Available stable funding (in RMB)	829,018,653	827,460,560
Required stable funding (in RMB)	802,268,848	751,406,169

The following table shows the Bank's liquidity coverage ratio indicator:

(Unit: RMB'000)

	December 31, 2020	June 30, 2020
Liquidity coverage ratio (%)	109.68	168.69
Qualified high-quality liquid assets (in RMB)	105,927,448	115,795,424
Net cash outflow in the next 30 days (in RMB)	96,574,432	68,643,755

The following table shows the Bank's undiscounted cash flows receivable and payable for the non-derivative financial assets and financial liabilities with contractual remaining maturity after the balance sheet date:

(Unit: RMB'000)

	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Indefinite	Total
Financial assets	98,241,526	77,846,235	94,737,599	349,448,276	472,193,183	188,176,789	112,647,019	1,393,290,627
Financial liabilities	251,936,841	126,810,547	191,687,691	426,769,789	272,235,207	4,159,556	16,144,500	1,289,744,131
Net liquidity	(153,695,315)	(48,964,312)	(96,950,092)	(77,321,513)	199,957,976	184,017,233	96,502,519	103,546,496

(IV) Market Risk (Including the Interest Rate Risk in the Banking Book)

The Bank, in strict compliance with relevant requirements such as the Guidance on Market Risk Management of Commercial Bank (《商業銀行市場風險管理指引》) and the Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks (Revised) (《商業銀行銀行賬簿利率風險管理指引(修訂)》), implements an independent and comprehensive market risk (including interest rate risk in the banking book, similarly hereinafter) management mode. The Board of Directors is responsible for reviewing and approving the market risk management strategies, policies and procedures, so as to define the acceptable market risk level. The Assets and Liabilities Management Committee under the senior management is in charge of formulating, regularly reviewing and supervising market risk policy and procedure, and process execution, and sets market risk limit according to the Board's risk appetite. The Assets and Liabilities Management Department at our head office is responsible for establishing the necessary market risk identification, measurement, monitoring, reporting and control mechanisms to ensure that the market risk borne by the Bank is controlled within the risk appetite set by the Board of Directors.

The Bank's market risk management is governed by a comprehensive, sound and prudent principle, and its overall goal is to control the market risk level within its tolerance, by organically combining the identification, measurement, monitoring and control of market risks with the Bank's major operational and management activities including strategic planning, business decision-making and financial budgeting.

The Bank has formulated the Market Risk Management Policy and Administrative Measures for the Classification of Bank Accounts and Transaction Accounts on this basis, actively implemented relevant market risk (including interest rate risk in the banking book) regulatory requirements, and established a market risk management system covering all aspects of market risk identification, measurement, monitoring and control. The Bank uses gap analysis, duration analysis, foreign exchange exposure analysis, and scenario analysis to identify and measure market risk, conducts regular stress tests, and monitors and controls risk through limit management.

In respect of the interest rate risk in the banking book, the Bank primarily applies measurement tools such as gap management, sensitivity analysis and duration analysis to manage it. It has also established a net interest margin analysis system covering static net interest margin monitoring report and dynamic net interest margin prediction model to reinforce the analysis and research and judgment of interest rate trends, and provide decision-making basis for tasks such as allocation of asset-liability structure. As for trading books, the Bank mainly measures, manages and controls through basis point value, value at risk (VAR), position limit, duration and stop-loss limits to ensure that the anticipated income of the trading books matches the trading exposure. In response to exchange rate risk, the Bank sets market risk limits, and effectively manages on-balance sheet and off-balance sheet foreign exchange risk exposure through derivative financial instruments, such as exchange rate swaps and exchange rate forwards, so as to keep the Bank's total foreign currency exposures to a low level. During the Reporting Period, in accordance with regulatory standards, the Bank's interest rate risk measurement indicator, namely the maximum economic value change under the framework of standardized measurement, accounted for 5.75% of tier 1 capital, and the cumulative foreign exchange exposure ratio was 0.64%. Both the interest rate risk and the exchange rate risk were kept within the internal limits and controllable on the whole.

The Bank's market risk-weighted assets measurement uses the standardized approach, and the market risk capital provision covers interest rate risk and specific risks in the trading books, as well as all exchange rate risks and commodity risks. As the Bank's trading position is relatively small, the market risk capital occupation is low.

The Bank's interest rate sensitivity gap

The Bank's on-balance sheet interest rate sensitivity gap is classified according to assets and liabilities on the statement of financial position at carrying amounts, by the earlier of the contractual re-pricing date or the maturity date as follows:

(Unit: RMB'000)

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Non-interest bearing	Total
Total assets	629,665,393	370,133,501	299,817,324	47,339,123	46,567,784	1,393,523,125
Total liabilities	566,591,379	423,191,289	265,369,404	4,126,267	30,998,956	1,290,277,295
Total interest rate sensitivity gap	63,074,014	(53,057,788)	34,447,920	43,212,856	15,568,828	103,245,830

The Bank's interest rate sensitivity

The following table sets forth the results of the Bank's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant:

(Unit: RMB'000)

	Increase/(Decrease) on December 31, 2020
Change in net profit	
Up 100 bps parallel shift in yield curves	(139,458)
Down 100 bps parallel shift in yield curves	139,458
Change in equity	
Up 100 bps parallel shift in yield curves	232,807
Down 100 bps parallel shift in yield curves	(232,807)

The Bank's exchange rate risk exposure

The following table sets forth the distribution of the Bank's foreign exchange rate risk exposure as at December 31, 2020:

(Unit: RMB'000)

	RMB	USD equivalent to RMB	Other currency equivalent to RMB	Aggregate RMB
Total assets	1,306,536,732	81,889,382	5,097,011	1,393,523,125
Total liabilities	1,175,049,026	107,329,506	7,898,763	1,290,277,295
Net exposure amount of balance sheet	131,487,706	(25,440,124)	(2,801,752)	103,245,830

(V) Operational Risk

Operational risk is the risk of losses due to inadequate or flawed internal processes, staff and IT systems, and external events. It includes legal risk but excludes strategic risk and reputational risk.

During the Reporting Period, the Bank continued to improve and strengthen the operational risk management system consisting of three lines of defense, comply with regulatory requirements, and take the prevention and control of major operational risk events as the management objective, as well as further standardize the methods and processes of operational risk management and strengthen the initiative of operational risk management. In accordance with the risk-oriented principle, the Bank strengthened the inspection and supervision on key institutions, key positions, key businesses and key links. We carried out both inspection and prevention and achieved prevention through inspection. Through combining risk investigation and abnormal behavior investigation with various routine and special inspections, the risk appetite transmission was normalized and materialized. The Bank optimized the operational risk management system, so as to improve the efficiency of operational risk management. The Bank will continue to promote the rectification of market chaos by “looking back”, actively promote the supervision, inspection and rectification, and constantly improve the long-term management mechanism. During the prevention and control of COVID-19 pandemic, the Bank organized call drills, improved emergency plans, and strengthened business continuity management. In addition, the Bank built an operational risk case database, constantly carried out a series of trainings, and actively created a sound operational risk management culture.

(VI) Capital Management

The Bank has established a sound capital management system. The Board of Directors assumes the ultimate responsibility for capital management, determines the capital risk appetite, reviews and approves the capital management policy, and authorizes the Senior Management to exercise capital management functions. Senior Management authorizes the Assets and Liabilities Management Committee to specifically exercise the capital management functions and implement the capital planning and capital adequacy ratio objective management. The Assets and Liabilities Management Department at the head office is responsible for daily capital management, building the capital management system and process system, and taking the lead in implementing the requirements and objectives of the Board of Directors and the Senior Management on capital management, in order to ensure that the Bank's capital management meets the risk appetite requirements.

The Bank implemented a comprehensive capital management, including capital planning, capital allocation and evaluation, capital monitoring and early warning, internal capital adequacy assessment, capital replenishment and emergency measures, capital measurement and reporting, information disclosure, etc. The capital management objectives of the Bank are to stabilize the capital base, enhance capital strength, promote bank value creation with economic capital as the core, achieve a beneficial balance among capital constraints, risk management, and shareholders' returns, and maintain a satisfactory level of capital adequacy, so as to effectively deal with the major risks and unexpected losses faced by the Bank and ensure the steady operation and sustainable and healthy development of the Bank. The Bank calculated, managed and disclosed capital adequacy ratio based on the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory rules. During the Reporting Period, the Bank's capital adequacy ratio at all levels meets regulatory requirements.

In order to achieve the above capital management objectives, the Bank adopted the following management measures during the Reporting Period: reasonably assessing the capital supply and demand and the capital gap and formulating medium-term and long-term capital planning and annual capital planning based on the principle of giving priority to capital constraint in accordance with the strategic orientation and risk appetite after taking into full consideration the changes in the external operating environment; strengthening the core concept of capital value creation, improving the capital allocation and assessment system with capital efficiency indicator as the core, strengthening the guidance and support to key businesses by resource allocation, promoting the in-depth application of economic capital in resource allocation, differentiated pricing and performance assessment, and conveying the concept of paid use of capital to the whole bank from multiple perspectives; further optimizing the internal capital adequacy assessment system, improving the comprehensive risk management framework, carrying out internal capital adequacy assessment process, covering major risk types in an all-round manner, and formulating emergency plans in response to stressful situations; continuously improving the capital replenishment mechanism of “endogenous capital replenishment as the main body and exogenous capital supplementation as the support”, promoting the formation of a scientific and reasonable capital structure, and achieving a prudent balance between different components of capital portfolios. In the past three years, the Bank realized effective replenishment of multilevel capital through public offering and issuance of undated capital bonds, and the capital structure tended to be balanced.

(VII) Information Technology Risk

The Bank has always attached great importance to information technology risk management, and continued to maintain a “low” information technology risk appetite this year. Information technology risk managers at all levels and the three lines of defense actively perform their duties, so as to effectively manage the information technology risk.

During the Reporting Period, the Board of Directors and senior management of the Bank actively performed their duties and carefully reviewed reports on information technology risk; each of the three lines of defense against information technology risk performed its own duties, organized information security self assessment, technology risk verification and information technology auditing, to promote the improvement of technology risk management. The Bank implemented the regulatory requirements, discussed and implemented the regulatory rating opinions on information technology, and achieved phased results in various tasks.

During this year, the Bank’s information technology risk was properly managed, maintained at a low risk level throughout the year, and the information technology risk management level has been further improved.

(VIII) Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial loss and reputational loss as a result of failure to comply with laws, rules and norms.

Compliance risk status

The Bank’s compliance risk management is composed of the Board of Directors, Board of Supervisors, senior management, Risk Control Committee, Internal Control and Compliance Department, Audit Department, and various business lines and branches and sub-branches. Our Board of Directors is responsible for reviewing and approving our compliance risk management policies and assumes ultimate responsibility for our operational and management activities in compliance with relevant applicable laws and regulations. Our senior management is responsible for formulating and implementing compliance risk management policies and organizing the implementation of compliance risk management, whereas the Internal Control and Compliance Department assists our senior management in leading the daily management of our compliance risk across the Bank. Each of the business lines is principally responsible for its compliance with the applicable laws and regulations and compliance risk management.

During the Reporting Period, the Bank adhered to the long-term compliance management concept of “system first, process first, people-oriented, and implementation-focused”, identified compliance risks prudently and kept the bottom line of compliance. Through horizontal classification, vertical classification and whole process sorting, the Bank systematically sorted out and evaluated the institutional norms in implementation, clarified the boundaries of effective regulations and logical levels, and promoted the continuous improvement of internal regulations. In addition, the Bank deepened the compliance review with system review as the main body, strictly controlled the advance pass of compliance risks, and organically combined compliance risk management with case prevention and control, anti-money laundering management and operational risk management. In response to adjustments and changes in the regulatory environment and laws and regulations, the Bank strengthened policy analysis, research and judgment, enhanced risk warning, implemented various regulatory policies, and prevented compliance risk by issuing express and summary of new regulations, legal compliance environmental reports, regulations compilation, internalization of external regulations and other measures; ensured that innovative businesses operate in compliance with laws and regulations by proactively identifying, evaluating and mitigating the compliance risk of new products, new businesses and major projects; increased supervision and inspection of key areas, strengthened problem rectification and accountability, and improved the effectiveness of compliance management.

Anti-money laundering management status

During the Reporting Period, the Bank earnestly fulfilled the anti-money laundering obligations and defended the stability of financial order. The Bank adjusted members of the Head Office’s anti-money laundering leading group and working group, issued the Management Measures on Large Transactions and Suspicious Transactions Reporting (《大額交易和可疑交易報告管理辦法》), Guidelines for the Identification of Suspicious Anti-money Laundering Transactions (《反洗錢可疑交易識別指引》) and other systems, to further strengthen the basis of anti-money laundering work and consolidate the main responsibility. The Bank fulfilled suspicious transaction reporting obligations, some of which provided valuable clues for the public security organs to uncover major cases, and were commended by local regulatory authorities. The Bank carried out the investigation and management of customer identification, conducted a comprehensive inspection of bank-wide existing customers, and prevented and controlled money laundering risk from the source. Besides, the Bank completed self-evaluation of money laundering risk, evaluated the inherent risks of the Bank and the effectiveness of control measures in a scientific, comprehensive and accurate manner and proposed systematic solutions. What’s more, the Bank carried out money laundering risk evaluation on businesses and formulated corresponding risk prevention and control measures. Furthermore, the Bank carried out the second phase construction of the anti-money laundering system and the monitoring list system, optimized system functions and monitoring models, and improved system support capability and work efficiency. The Bank also promoted anti-money laundering data governance, established anti-money laundering data standards, and improved the quality of data sources of anti-money laundering system. Moreover, the Bank carried out multiple anti-money laundering trainings for its employees, and launched a publicity month activity for preventing illegal fund-raising activities for the public to actively fulfill social responsibilities.

(IX) Strategic Risk

Strategic risk refers to the risk of affecting the Bank’s current or future profitability, reputation and market position due to inappropriate strategic positioning, improper implementation of strategies, or failure to make timely and necessary adjustments to strategies in line with changes in internal and external competitive environment in the process of formulating and implementing development strategies or making major business decisions closely related to strategies.

During the Reporting Period, the Bank deeply studied the important spirit and instructions of the party, the state and Tianjin Municipal Party Committee and Government, and effectively unified thoughts and actions with the central and municipal party committee’s main goals and tasks for economic and financial work in a period in the future, accurately studied and judged the macroeconomic situation at home and abroad, linked up and down, implemented policies accurately, actively responded to the challenges of the epidemic, seized opportunities of on-line and digital development, and orderly promoted the established strategic measures of the Third “Five Year Plan”, so as to effectively carry out strategic risk management and promote high-quality development of Bohai Bank.

During the Reporting Period, the Bank tracked the latest major national strategic deployments and specific requirements in a timely manner, and dynamically reviewed the suitability of the Bank's Third "Five Year Plan" to ensure that the Third "Five Year Plan" positioning and development direction were consistent with relevant national requirements and do a good job in the end of the Third "Five Year Plan". At the same time, the Bank earnestly implemented the spirit of the Fifth Plenary Session of the 19th CPC Central Committee, adhered to the new development concept, grasped the new development stage, and integrated into the new development pattern. In addition, on the basis of earnestly evaluating the implementation of the Third "Five Year Plan" and in combination with the actual situation of the Bank, the Bank completed the preparation of the Fourth "Five Year Plan" with a new starting point and new standards, and further clarified the long-term development direction and phased goals during the Fourth "Five Year Plan" period to continuously strengthen the ability to serve the national strategy, the real economy and people's better life.

(X) Reputational Risk

Reputational risk refers to the risk of negative evaluation by stakeholders due to the Bank's operation, management and other behaviors or external events. The reputational impact on the Bank is generally caused by poor management of various risks such as credit risk, market risk, liquidity risk, operational risk, technology risk, strategic risk, or caused by uncontrollable external emergencies, such as social, ethnic and environmental risks.

The Bank adhered to incorporating reputational risk into its corporate governance and comprehensive risk management system, and closely followed the working concept of "enhancing awareness, focusing on prevention, closely monitoring, properly handling, positively guiding and expanding publicity". The Bank will continuously refine the reputational risk management mechanism and system construction, continuously reinforce the awareness of reputational risk prevention among all employees. Besides, the Bank will continue to properly manage the whole process of public sentiment monitoring, investigation, judgment, early warning, disposal, post-assessment and reputational repair. During the Reporting Period, the Bank took the initiative in reputational risk management, planned in advance, and actively carried out the news publicity during the epidemic period, reflecting its responsibility assumption; actively conducted positive publicity, strove to create a warm atmosphere, and successfully completed the publicity work during the listing period; actively planned the release of interim results, actively tried to integrate the publicity modes through multiple channels and in an all-round way, and effectively improved the publicity quality and effect. Through the publicity of a series of events with high news value, including the inclusion into the MSCI China All Share Indexes, the Hang Seng Composite LargeCap & MidCap Index (HSLMI) and Hong Kong Stock Connect, and the celebration of the 15th anniversary of the Bank, the operating characteristics and highlights of the Bank were further highlighted to enhance its reputation. By continuously building the teams and channels of the head office and branches, the Bank has increasingly strengthened the synergy of reputational risk management, and effectively managed the reputational risk across the Bank.

(XI) Country Risk

Country risk refers to the risk that the borrowers or debtors of a country or region are unable or refuse to repay the debts of the Bank, or causes the Bank's business in the country or region to suffer losses, or causes the Bank to suffer other losses due to economic, political and social changes and events of a country or region. It may be triggered by economic deterioration, political and social turmoil, nationalization or expropriation of property, government repudiation of foreign debts, foreign exchange control or currency depreciation in the country or region.

The Bank incorporated country risk management into its comprehensive risk management system, formulated the Country Risk Management Measures which specified the objects, responsibilities and procedures, rating methods and risk limit management methods of country risk management, and established a country risk reporting, supervision and inspection mechanism. During the Reporting Period, the Bank mainly focused on RMB business, the proportion of cross-border foreign-related business increased year by year, and the Bank's cross-border counterparties were mainly concentrated in developed countries. The Bank's assets involving country risk exposure are small in size, so the country risk is controllable and the overall level is low.

XII. ANALYSIS OF CORE COMPETITIVENESS

The Bank is committed to becoming a “modern wealth and treasury manager offering the best experience” and providing customers with all-around stewardship-style financial wealth and treasury management solutions. During the Reporting Period, the Bank pushed forward the implementation of the Third “Five Year Plan” in an all-round manner, actively prepared the Fourth “Five Year Plan”, continuously optimized the customer structure, implemented the national industrial policy, actively advanced business development and transformation; closely followed the general trend of residents’ consumption upgrade, started with mobile, Internet and technology, and promoted financial innovation with customers as the center, providing customers with more intelligent, convenient and personalized comprehensive financial services. In addition, the Bank actively supported major national strategic projects, actively served the “Belt and Road” initiative, Beijing-Tianjin-Hebei coordinated development, the development of Yangtze River Economic Zone, Guangdong-Hong Kong-Macao Greater Bay Area and the construction of free trade zones. The Bank successfully listed its H Shares in the MSCI Index, Hang Seng Index and Shanghai-Hong Kong Stock Connect, and obtained the dual “investment grade” ratings of Standard & Poor’s and Moody’s, achieving fruitful results in the capital market. The Bank’s core advantages are mainly reflected in the following five aspects:

Firstly, the Bank is the youngest Nationwide Joint-stock Commercial Bank in the PRC exhibiting strong competitiveness since establishment. First, a newly established bank benefited from holding a national banking licence, the Bank is the only Nationwide Joint-stock Commercial Bank newly established in China after the amendment to the Commercial Banking Law (《商業銀行法》) in 2003, and also the only Nationwide Joint-stock Commercial Bank that has a foreign bank as its promoter and founder. The Bank is the youngest one among all twelve Nationwide Joint-stock Commercial Banks and enjoy significant late-mover advantages. By virtue of the competitive advantage afforded by a national licence, within 14 years, we have established a business network with strategic layout covering the capital cities of major provinces and metropolises that are of key economic value in China, which enabled us to penetrate into regional markets throughout China and laid a solid foundation for our development. We set up new outlets based on cautious implementation of our strategic plan, with the average operating efficiency of outlets ranking among the best in the industry. Secondly, our high-quality and diversified shareholders provided consistent and stable support. The Bank has strong Chinese and foreign shareholders, who provide long-term stable support to the Bank’s business development and strategy implementation. Our shareholding structure, which features a well-designed, diversified and balanced shareholder base and a checks-and-balances mechanism, lays a solid foundation for us to effectively leverage our shareholders’ strengths in corporate governance. Finally, we established a high-standard system to recruit talents. With assistance from our promoter, Standard Chartered Bank (Hong Kong) Limited, the Bank refers to the experience of leading overseas banks, developing a modern system with world-class standards. Under the framework of well-established and standardized system, the Bank has a team with strong fighting ability and sense of belonging, which provides key talent support to the sustainable and steady development.

Secondly, with precise customer targeting and outstanding financial services, we have a strong growth potential. In terms of customer targeting, we continued to focus on strategic corporate banking customers and precise identification of target retail banking customer groups. We researched and analyzed customer groups in an all-round manner and from all aspects by closely following the trends of national strategies and industry development. We primarily focus on customers who have strong track records and can bring good revenue. Our core customers comprise enterprises with robust operations, steady returns and leading industry positions who conform to trends of economic transformation and industry upgrade. We have identified two demographic groups as our core retail banking customers, namely the “pressurized generation (壓力一代)”, the group with the strongest demand for financial products and services, and “grey-haired group (養老一族)”, the group with a pressing need for wealth management services for their accumulated wealth. We also further focus on developing wealth management services for individuals with strong growth potential and successful families. In terms of service model, in line with our development concept of “agility, openness and sharing (敏捷、開放、共享)”, we provide customers with tailor-made, modern wealth and treasury manager service covering the entire value chain in a unique stewardship-style model. In terms of development potential, the abundant capital replenishment channels and the expansion of capital replenishment scale will further release the development potential and space of the Bank.

Thirdly, advanced risk management concept and sophisticated risk management system led to a continuous improvement on asset quality. The Bank has a good gene that SCB has passed along to us. After over one decade of evolution and upgrade, we gradually developed a risk management concept of “comprehensiveness, proactivity, agility and effectiveness (全面、主動、敏捷、到位)”, in accordance with international standards and fitting China’s national conditions. We established a risk management system featuring the principles of “consolidation, independence, verticality, balance and integration (集中、獨立、垂直、制衡、融入)”. We continuously improve our risk management capability by utilizing five key advanced technologies, namely big data, artificial intelligence, block-chain, cloud computing and 5G technology, through which we have enhanced the quantification, precision, agility, intelligence and real-time of our risk monitoring system, and implemented a comprehensive online alert mechanism for our risk assets. During this process, we adopted a process with reference to studies on specific industries and scenarios, so that we were able to organically integrate mature offline risk management logic and measures into our risk management system, thereby enhancing our overall risk control capacity. We uphold a sound risk appetite and prudent compliance awareness. Credit risks have been fully identified, asset quality has been steadily improving, and the non-performing loan ratio has been stable with a decline with the trend of slowing domestic economic growth in recent years.

Fourthly, we are a progressive technological and ecological bank, which is full of the characteristics of the new generation. By building the ecology and reshaping our banking business and service model, we have imbedded our core business and services into the work flows of cooperation platform, building an open ecological banking system under the brand name of “Online Bohai Bank (線上渤海銀行)”, which upholds the value of “collaboration, sharing and win-win (共建、共享、共贏)”. We realize mutual empowerment, joint operation, and joint ecological construction with the cooperation platform, innovative use of federated learning technology and distributed business models to empower the segmented ecological market. We optimize and upgrade the three ecosystems of travel and tourism, real estate and lifestyle and modern logistics. By strengthening technology, we stick to the concept of “driving our services, businesses, risk control, operation management and innovation by technology (科技驅動服務、科技驅動業務、科技驅動風控、科技驅動管理、科技驅動創新)”. We regard data and technology as the core driving forces to provide universal solutions for customers’ demands. In particular, we continuously improve the intelligence, convenience and efficiency of our services through agile responses and upgrades for our customers. By improving organization, we implanted the digital concept into the DNA of Bohai Bank, broke the vertical division model of traditional banking technology according to lines, and conducted horizontal division by online and offline. Through coordinating the construction of a infrastructure platform, constructing an integrated application platform managing payment, image processing, online accounts, asset integration management by intermediary business, we have standardized our system development process and enabled a convenient one-click access to our comprehensive financial products. We relied upon our in-house research and development to construct and launch the “intra-city dual active (同城雙活)” technology structure, where the systems can smoothly support our services without noticeable delay or interruption experienced by customers. We established a strategic cooperation relationship with Alibaba Cloud, improved the bank-wide core technologies’ R&D and deployment which has laid a solid foundation for our increasing efforts in technological innovation and technology application.

Fifth, we have a distinguished management team supported by outstanding employees and a lean and agile management culture. The senior management team of the Bank has over 27 years of banking industry management experience on average. They have a deep understanding and strong capacity in financial policy, business operation, wealth and treasury management and FinTech. Many members used to serve key positions in financial regulatory institutions and large state-owned commercial banks and hold professional qualifications, such as senior economist and professor, which constitutes a strong support to the operation and development of the Bank. We offer competitive compensation packages and continue to improve our market-oriented talent recruitment and evaluation system. We care the career development of our employees and offer them a flexible promotion mechanism. By virtue of this system, we managed to attract talents from different large financial institutions and forged a team of employees with rich experience, youth, strong academic background and cohesion. The Bank strives to build an agile and warm banking culture of “external differentiation, internal simplicity and expertise in collaboration (外部差異

化、內部簡約化和精於協同)”, provides full-process and full-cycle online services, actively introduces lean six sigma (精益六西格瑪), and strives to build a bank with processes placing priority on the customers. We persistently carried out our obligations and responsibilities as a financial institution and strived to develop green credit. We actively participate in social welfare events and have provided funds and material support to targeted poverty stricken areas and institutions for many consecutive years. We strongly promote inclusive finance, providing financial services to micro and small enterprises, “San Nong (三農)”, start-ups and innovators, through which we have contributed to sustainable development of the economy, the society and the environment.

In the future, the Bank will continue to promote the implementation of the strategy, adhere to the transformation direction of retail banking and transaction banking, and strive to promote high-quality development, create greater value and returns for shareholders, assume more responsibilities for the society, and fulfill our due responsibilities and obligations for the development of the economy and society in the new era.

XIII. FUTURE DEVELOPMENT OUTLOOK

(I) Economic, Financial and Banking Outlook

2021 is the opening year of the “14th Five-Year Plan”. Standing at the historical intersection of “Two Centenary Goals”, China will embark on a new journey to build a modern socialist country in an all-round way. However, due to the changes in the epidemic situation and many uncertainties in the external environment, the foundation for economic recovery is not yet solid, and there are still blocking points and shortcomings in some areas and key links. To this end, the Central Economic Work Conference has decided to focus on eight key tasks in 2021: strengthening the national strategic scientific and technological strength, enhancing the independent and controllable capacity of industrial chain and supply chain, adhering to the strategic basis point of expanding domestic demand, pushing forward reform and opening up in an all-round way, addressing the issue of seeds and arable land, strengthening anti-monopoly and preventing the disorderly expansion of capital, solving the prominent housing problems in large cities, and making great efforts to peak carbon emissions and achieve carbon neutrality.

Internationally, the epidemic could have sustained damage to the overall global potential growth rate, especially shocks to investment and human capital, eroding the growth prospects of emerging market and developing economies, which may result in a setback in the process of achieving key development goals. Despite the recent epidemic spread globally, market confidence, consumption and trade have improved as vaccine research and development have been progressed and vaccination efforts have been accelerated. Since the summer of 2020, the eastern economies represented by China have shown a strong recovery momentum, while most other advanced economies in emerging markets and the West have experienced a longer period of economic recovery due to weak prevention and control of the epidemic as well as repeated recurring relapses into the epidemic. Fiscal and financial support has played an important role in mitigating the impact of the epidemic on economy. As the crisis eases, countries need to balance large and rising debt risks, financial leverage, and the risk of economic slowdown due to premature fiscal tightening. On whole, we expect a steady global recovery.

In 2021, China’s economy is expected to basically maintain the momentum of continuous recovery, with export, infrastructure and internal circulation as the main driving forces. However, as the counter-cyclical adjustment policy becomes weaker and the real estate control policy tends to be stricter that makes clear the central government further upholds that “housing is for living, not for speculation”, problem debt resolution enters into the deep-water area, and infrastructure and real estate investment face the pressure of slowdown. Consumption is the key link and important engine for the smooth domestic circulation. The strategic basis point of expanding domestic demand is to combine the expansion of consumption with the improvement of people’s life quality, take various measures to promote consumption, and get through the internal circulation blockage. While making up for shortcomings, we should continue to open to the outside world in a wider and deeper range, promote the integration of domestic and foreign trade, and smooth the domestic and international dual circulation. At the same time, economic fundamentals and monetary conditions are insufficient to support a sharp rise in inflation.

The monetary policy will continue to be prudent and neutral, and liquidity management tools and financial regulatory policies will cooperate to stabilize leverage and prevent risks. At the aggregate level, structural easing and structural tightening coexist, with long-term normalization and gradual decline of social financing and M2 growth rate. In terms of narrow-sense liquidity, the Central Bank has repeated to control the general supply of money, and liquidity will not be tight or loose, and it is expected that the capital will remain in tight balance.

Strengthening and improving financial regulation will become one of the main themes of the financial policy in 2021, and “stabilizing leverage and preventing risks” will be comprehensively strengthened. Under the dual-pillar system of monetary policy and macro-prudential management, liquidity management tools and financial regulatory policies will cooperate to basically stabilize macro leverage ratio and prevent and mitigate major financial risks. At the same time, the Bank will strengthen anti-monopoly, prevent disorderly capital expansion, incorporate financial innovation into prudential supervision, reasonably control leverage, combat unfair competition, strengthen privacy protection for users, and face a major adjustment to the business mode of the platform economy.

In 2021, the macro situation faced by commercial banks will be stable, regulation and supervision will continue to be strengthened, and empowerment of technology will enter a new stage. The opportunities in consumer finance, regional strategy, wealth management, industrial investment and financial technology should be seized to realize innovative development. With the advent of the era of technology-empowered finance, based on optimizing capital structure, expanding financing channels, and self-building commercial banks will actively seize new opportunities, deepen digital transformation, launch the “online, digital and intelligent” model, and use federated learning technology and distributed business model to empower the segmented ecological market, continue to promote wholesale banking to transform to investment banking and digital development by the four major starting points of specialization, integration, digitalization and internationalization.

(II) Guiding Ideology and Major Measures for the Bank’s Business Development in 2021

In 2021, the Bank’s business development guiding ideology: sticking to the guide of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and fully implementing the spirits of the 19th National Congress of the Communist Party of China, the 2nd, 3rd, 4th and 5th Plenary Sessions of the 19th Central Committee of the Communist Party of China, earnestly implementing the deployments of the Central Economic Work Conference, and insisting on the overall work keynote of seeking progress while maintaining stability; under the new development stage, the Bank will act upon the new development philosophy, and build the new development layout; themed by the promotion of high quality development and motivated by innovation and transformation, the Bank will proactively integrate national strategies and implement every work of thriving bank by customers, developing bank by deposit, enriching bank by assets, strengthening bank by technology, leading bank by innovation and protecting bank by risk control, to ensure a great beginning of the Fourth “Five Year Plan”, and to celebrate the 100th Anniversary of the Founding of the Communist Party of China with great achievements.

Major work measures: Firstly, further improving the ability of party building to lead development. With every goals and tasks in the Fourteenth “Five Year Plan” as the benchmark, under the leadership of party building, the Bank will plan the Bank’s Fourth “Five Year Plan” in a scientific manner and to strengthen the construction of enforcement to ensure the implementation of the Plan. Secondly, further strengthening the ability of serving the real economy. Under the new development stage, the Bank will act upon the new development philosophy, and promote to build the new development layout in order to play an active role in the national strategies, such as coordinated development of Beijing, Tianjin, and Hebei, and the support of the development of key industries and major projects. Thirdly, further focusing on products and services and promoting transformation. By putting customers first, the Bank will build a multi-level, three-dimensions service system “Channels + Scenarios + Ecosystems”, improve integrated customer experience, and build a modern wealth and treasury manager offering the best experience. Fourthly, further improving the risk prevention mechanism. The Bank will continuously enrich the intelligent risk control method, orderly promote the intelligence of approval, and further strengthen the supervision and analysis of troubled assets as well as the management and control and continuous optimization of the quality of assets. The Bank will strengthen the compliance management, and continuously improve the delicacy management. Fifthly, further strengthening the empowerment capabilities of science and technology. Focusing on the work ideas of financial technology transformation of dual-core architecture, data-driven, intelligent operation and maintenance, agile and proactive, we will promote the construction of key projects with strategic thinking and establish an enterprise-level system architecture to create a new generation of core technical capabilities. Sixthly, further stimulating innovation vitality. With the innovation goal of “the best experience reaching the best (最佳體驗·止於至善)”, we will never stop pursuing the best experience. We will establish and improve the innovation incentive mechanism, mobilize the innovation initiative of all employees, and build a “power source” and an “accelerator” for agile innovation.

Changes in Share Capital and Information on Shareholders

I. CHANGES IN ORDINARY SHARES

The H Shares of the Bank were listed on the Main Board of the Hong Kong Stock Exchange on July 16, 2020, and the over-allotment option set out in the Prospectus was fully exercised on August 7, 2020. The changes in the Bank's ordinary shares during the Reporting Period are as follows:

	December 31, 2019		Changes during the Reporting Period (shares)	December 31, 2020	
	Number (shares)	Percentage (%)		Number (shares)	Percentage (%)
Domestic Shares	11,561,445,000	80.01	–	11,561,445,000	65.09
Unlisted Foreign Shares	2,888,555,000	19.99	(2,888,555,000)	–	–
H Shares	–	–	6,200,555,000	6,200,555,000	34.91
Total ordinary shares	14,450,000,000	100.00	3,312,000,000	17,762,000,000	100.00

- Notes: (1) As of the end of the Reporting Period, the Bank had 87 shareholders, including 11 holders of Domestic Shares and 76 holders of H Shares;
- (2) Please refer to "VI. Issuance and Listing of Equity Securities" in this Chapter for the issuance and listing of H Shares of the Bank;
- (3) After the approval of the CSRC, the 2,888,555,000 unlisted Foreign Shares of the Bank held by Standard Chartered Bank (Hong Kong) Limited have been converted into H Shares on a one-for-one basis upon the completion of the Global Offering of the Bank, which cannot be transferred within one year from the date on which the Bank was listed.

II. SHAREHOLDING OF TOP 10 SHAREHOLDERS OF ORDINARY SHARES

As of the end of the Reporting Period, shareholding of top 10 Shareholders of ordinary shares of the Bank was as follows:

Name of Shareholder	Nature of Shareholders	Changes during the Reporting Period (shares)	Number of shares held at the end of the Reporting Period (shares)	Shareholding percentage (%)	Class of Shares
TEDA Investment Holding Co., Ltd.	State-owned legal person	–	3,612,500,000	20.34	Domestic Shares
HKSCC Nominees Limited ^{Note}	Overseas legal person	3,311,761,490	3,311,761,490	18.65	H Shares
Standard Chartered Bank (Hong Kong) Limited	Overseas legal person	–	2,888,555,000	16.26	H Shares
China Shipping Investment Co., Ltd.	State-owned legal person	–	1,975,315,000	11.12	Domestic Shares
State Development & Investment Corp., Ltd.	State-owned legal person	–	1,686,315,000	9.49	Domestic Shares
China Baowu Steel Group Corporation Limited	State-owned legal person	–	1,686,315,000	9.49	Domestic Shares
Oceanwide Industry Co., Ltd.	Domestic non-state-owned legal person	–	1,370,706,739	7.72	Domestic Shares
Tianjin Shanghui Investment Holding Company Limited	Domestic non-state-owned legal person	–	1,156,000,000	6.51	Domestic Shares
Shine Enterprise (Tianjin) Co., Ltd.	Domestic non-state-owned legal person	–	29,424,331	0.17	Domestic Shares
Tianjin Xianghe Enterprise Management Consulting Co., Ltd.	Domestic non-state-owned legal person	–	14,712,166	0.08	Domestic Shares
Tianjin Firstwood Co., Ltd.	Domestic non-state-owned legal person	–	14,712,166	0.08	Domestic Shares

Note: The shares held by HKSCC Nominees Limited as agent are the total amount of shares in the Bank's H-share investors' accounts traded on the trading platform of HKSCC Nominees Limited.

III. INFORMATION OF SUBSTANTIAL SHAREHOLDERS UNDER THE INTERIM MEASURES FOR THE EQUITY MANAGEMENT OF COMMERCIAL BANKS PROMULGATED BY THE CBRC

According to the relevant requirements of the Interim Measures for the Equity Management of Commercial Banks promulgated by the CBRC, as of the end of the Reporting Period, the relevant information of substantial shareholders of the Bank was as follows:

(I) TEDA Investment Holding Co., Ltd.

Founded in December 1984, TEDA Investment Holding Co., Ltd., formerly known as Tianjin Economic and Technological Development Zone Corporation (天津經濟技術開發區總公司), is an important state-owned enterprise in Tianjin. It mainly engages in urban comprehensive development, financial industry, manufacturing and emerging industries. Registered capital: RMB11.07695 billion; legal representative: WANG Zhiyong; Add.: 1201, No. 9 Shengda Street, Tianjin Economic-Technological Development Area, China; controlling shareholder: Tianjin SASAC; actual controller: Tianjin SASAC. As of the end of the Reporting Period, TEDA Investment Holding Co., Ltd. pledged one billion shares of the Bank.

(II) Standard Chartered Bank (Hong Kong) Limited

Standard Chartered Bank (Hong Kong) Limited is a wholly-owned subsidiary of Standard Chartered PLC, incorporated under the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on December 12, 2003. It is one of the three note-issuing banks in Hong Kong, and mainly engages in banking and related financial services. CEO: HUEN Wai Yi Mary; registered address: 32/F, 4-4A Des Voeux Road Central, Hong Kong, China; controlling shareholder: Standard Chartered PLC; actual controller: Standard Chartered PLC.

Standard Chartered PLC was established on November 18, 1969 in London, UK, mainly providing a full range of banking and financial services, and has been listed on London Stock Exchange, Hong Kong Stock Exchange, Bombay Stock Exchange and the National Stock Exchange of India. Chairman: José Viñals; CEO: Bill Winters; registered address: 1 Basinghall Avenue, London EC2V 5DD, United Kingdom.

(III) China Shipping Investment Co., Ltd.

China Shipping Investment Co., Ltd., established on June 26, 1998, is a wholly-owned subsidiary of COSCO SHIPPING Development Co., Ltd., and its business scope includes industrial investment and equity investment. Registered capital: RMB18.213 billion; legal representative: MING Dong; Add.: Rooms 301-302, No. 628 Minsheng Road, China (Shanghai) Pilot Free-Trade Zone; controlling shareholder: COSCO SHIPPING Development Co., Ltd.; actual controller: SASAC.

COSCO SHIPPING Development Co., Ltd. was founded on March 3, 2004, and its business scope covers shipment of domestic general cargo ships along the coast and in the middle and lower reaches of the Yangtze River and domestic coastal feeder liners for foreign trade containers, international shipping (including liner shipment of container), manufacturing, repair, leasing of containers, ship leasing, and trading of self-owned container and self-used ship. Marine management, technical management and ship repair, maintenance, trading, leasing, operation, asset management and other ship management services of domestic coastal general cargo ships (except bulk ships). For the projects that must be approved according to law, the business activities can be carried out only after the approval of relevant departments. Registered capital: RMB11.608125 billion; legal representative: WANG Daxiong; Add.: Room A-538, International Trade Building, China (Shanghai) Pilot Free-Trade Zone.

(IV) State Development & Investment Corp., Ltd.

Founded on April 14, 1995, State Development & Investment Corp., Ltd. is an important state-owned backbone enterprise directly managed by the central government and one of the first group of pilot reform units of state-owned capital investment companies. Since its establishment, the Company has continuously improved its development strategy, optimized its asset structure, and gradually established four strategic business units covering basic industries, forward-looking strategic industries, financial and service industries and international business. Registered capital: RMB33.8 billion; legal representative: BAI Tao; Add.: International Investment Building, No.6-6 Fuchengmen North Street, Xicheng District, Beijing, China; controlling shareholder: SASAC; actual controller: SASAC.

(V) China Baowu Steel Group Corporation Limited

China Baowu Steel Group Corporation Limited, formerly known as Shanghai Baosteel Group Corporation (上海寶鋼集團公司) or Baosteel Group Corporation (寶鋼集團有限公司), with its predecessor being Baoshan Iron and Steel (Group) Corporation (寶山鋼鐵(集團)公司) was founded on January 1, 1992, and is a legally established wholly state-owned corporation for which the SASAC performs the duties of investor on behalf of the State Council. The main business scope of the Company includes the operation of state-owned assets within the scope authorized by the State Council, and the investment and operation of relevant state-owned capital. Registered capital: RMB52.791101 billion; legal representative: CHEN Derong; Add.: No.1859 Shibo Avenue, China (Shanghai) Pilot Free Trade Zone; controlling shareholder: SASAC; actual controller: SASAC.

(VI) Oceanwide Industry Co., Ltd.

Established in November 1992, Oceanwide Industry Co., Ltd. mainly engages in investment of its own assets, equity participation and holding. Registered capital: RMB24 billion; legal representative: LU Zhizhuang; Add.: No. 6602 Dongfeng East Street (inside the Oceanwide City Garden (泛海城市花園)), Weifang Hi-Tech Industrial Development Zone, Shandong Province, China; controlling shareholder: China Oceanwide Holdings Group Co., Ltd.; actual controller: LU Zhiqiang.

China Oceanwide Holdings Group Co., Ltd., established in April 1988, mainly engages in investment in infrastructure projects and industries, capital operation & asset management, hotel & property management, among others. Registered capital: RMB20 billion; legal representative: LU Zhiqiang; Add.: 23/F, Building C, Minsheng Financial Center, No. 28 Jianguomennei Avenue, Dongcheng District, Beijing, China.

(VII) Tianjin Shanghui Investment Holding Company Limited

Tianjin Shanghui Investment Holding Company Limited was established on April 5, 2004, providing investment and consulting management and corporate financial consulting services for industry, agriculture, commerce, financial industry and service industry with its own funds. It is an investment company with private capital. Registered capital: RMB1.16 billion; legal representative: ZHANG Yunji; Add.: Room B318, Building 8, East Area, Airport Business Park, No. 80 Huanhe North Road, China Tianjin Pilot Free Trade Zone (Airport Economic Zone); The Company has no controlling shareholder or actual controller.

Each substantial shareholder of the Bank did not authorize any other person to or accept any other person's authorization to hold shares of the Bank, and there were no other ultimate beneficiaries or persons acting in concert. All the seven substantial shareholders nominated directors to the Bank. As of the end of the Reporting Period, except TEDA Investment Holding Co., Ltd. pledged one billion shares of the Bank, the shares held by other substantial shareholders were not pledged or frozen.

The Bank has treated its substantial shareholders and their controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries, totaling 1,148 enterprises as related parties of the Bank. For details on related party transactions, please refer to "Audit Report and Financial Report – Notes to the Financial Statements: Related parties" in this annual report.

IV. CONTROLLING SHAREHOLDER AND ACTUAL CONTROLLER

During the Reporting Period, the Bank had no controlling shareholders and actual controllers.

V. INTERESTS AND SHORT POSITIONS OWNED BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE BANK'S SHARES UNDER HONG KONG LAWS AND REGULATIONS

To the best knowledge of the Directors or chief executives of the Bank, as of the end of the Reporting Period, the following persons (other than the Directors, Supervisors and chief executives of the Bank) had or were deemed to have interests and short positions in the Shares or underlying Shares of the Bank which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or would be required to be kept in the register under Section 336 of the SFO, such as follows:

Name of Shareholder	Nature of interest	Class of Shares	Long positions/ short positions	Number of Shares directly or indirectly held (shares)	Interest in the Bank (%)	The relevant class of Shares (%)
TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司)	Beneficial owner	Domestic Shares	Long positions	3,612,500,000	20.34	31.25
Standard Chartered PLC (渣打集團有限公司) ¹⁾	Interest in controlled corporation	H Shares	Long positions	2,888,555,000	16.26	46.59
Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司)	Beneficial owner	H Shares	Long positions	2,888,555,000	16.26	46.59
China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) ²⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,975,315,000	11.12	17.09
China Shipping Group Company Limited (中國海運集團有限公司) ²⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,975,315,000	11.12	17.09
COSCO SHIPPING Development Co., Ltd. (中遠海運發展股份有限公司) ²⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,975,315,000	11.12	17.09
China Shipping Investment Co., Ltd. (中海集團投資有限公司)	Beneficial owner	Domestic Shares	Long positions	1,975,315,000	11.12	17.09
State Development & Investment Corp., Ltd. (國家開發投資集團有限公司)	Beneficial owner	Domestic Shares	Long positions	1,686,315,000	9.49	14.59
China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)	Beneficial owner	Domestic Shares	Long positions	1,686,315,000	9.49	14.59
LU Zhiqiang (盧志強) ³⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,370,706,739	7.72	11.86
HUANG Qiongzhi (黃瓊姿) ³⁾	Interest of spouse	Domestic Shares	Long positions	1,370,706,739	7.72	11.86
Tohigh Holdings Co., Ltd. (通海控股有限公司) ³⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,370,706,739	7.72	11.86
Oceanwide Group Co., Ltd. (泛海集團有限公司) ³⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,370,706,739	7.72	11.86
China Oceanwide Holdings Group Co., Ltd. (中國泛海控股集團有限公司) ³⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,370,706,739	7.72	11.86
Oceanwide Industry Co., Ltd. (泛海實業股份有限公司)	Beneficial owner	Domestic Shares	Long positions	1,370,706,739	7.72	11.86
China Huadian Group Co., Ltd. (中國華電集團有限公司) ⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
China Huadian Group Capital Holdings Co., Ltd. (中國華電集團資本控股有限公司) ⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
China Huadian Group Finance Co., Ltd. (中國華電集團財務有限公司) ⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
Huaxin International Trust Co., Ltd. (華鑫國際信託有限公司) ⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00

Name of Shareholder	Nature of interest	Class of Shares	Long positions/ short positions	Number of Shares directly or indirectly held (shares)	Interest in the Bank (%)	The relevant class of Shares (%)
Ningbo Meishan Bonded Port Zone Yuanche Enterprise Management and Consulting Co., Ltd. (寧波梅山保稅港區遠澈企業管理諮詢有限公司) ⁽⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership) (蕪湖遠福昌樂股權投資合夥企業(有限合夥)) ⁽⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
Guangzhou Qiushi Asset Management Co., Ltd. (廣州秋石資產管理有限公司) ⁽⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
Huatian Investment Co., Ltd. (華田投資有限公司) ⁽⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
Tianjin Rongsheng Xinye Investment and Development Co., Ltd. (天津融昇鑫業投資發展有限公司) ⁽⁴⁾	Interest in controlled corporation	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司)	Beneficial owner	Domestic Shares	Long positions	1,156,000,000	6.51	10.00
Yichang HEC Health Pharmaceutical Co., Ltd. (宜昌東陽光健康藥業有限公司)	Beneficial owner	H Shares	Long positions	322,920,500	1.82	5.21

Notes: (1) Standard Chartered Bank (Hong Kong) Limited is wholly-owned by Standard Chartered PLC, and therefore Standard Chartered PLC is deemed to be interested in all the Shares held by Standard Chartered Bank (Hong Kong) Limited for the purpose of the SFO.

(2) China Shipping Investment Co., Ltd. is wholly-owned by COSCO SHIPPING Development Co., Ltd., and in turn owned by China Shipping Group Company Limited as to approximately 39.28%. China Shipping Group Company Limited is wholly-owned by China COSCO Shipping Corporation Limited. As such, each of China COSCO Shipping Corporation Limited, China Shipping Group Company Limited and COSCO SHIPPING Development Co., Ltd. is deemed to be interested in all the Shares held by China Shipping Investment Co., Ltd. for the purpose of the SFO.

(3) Oceanwide Industry Co., Ltd. is owned by China Oceanwide Holdings Group Co., Ltd. and Oceanwide Group Co., Ltd. as to 60% and 40%, respectively. China Oceanwide Holdings Group Co., Ltd. is owned by Oceanwide Group Co., Ltd. and Tohigh Holdings Co., Ltd. as to 98% and 2%, respectively. Oceanwide Group Co., Ltd. is wholly-owned by Tohigh Holdings Co., Ltd. Tohigh Holdings Co., Ltd. is owned as to by Mr. LU Zhiqiang, Ms. HUANG Qiongzhi (spouse of Mr. LU Zhiqiang), and Ms. LU Xiaoyun (daughter of Mr. LU Zhiqiang and Ms. HUANG Qiongzhi, over 18 years old) as to 77.14%, 11.43% and 11.43%, respectively.

As such, each of Mr. LU Zhiqiang, Ms. HUANG Qiongzhi, Tohigh Holdings Co., Ltd., Oceanwide Group Co., Ltd. and China Oceanwide Holdings Group Co., Ltd. is deemed to be interested in all the Shares held by Oceanwide Industry Co., Ltd. for the purpose of the SFO.

- (4) Tianjin Shanghui Investment Holding Company Limited is owned by Tianjin Rongsheng Xinye Investment and Development Co., Ltd. as to 43.90%, and in turn owned by Huatian Investment Co., Ltd. as to 71.32%. Huatian Investment Co., Ltd. is owned as to 95% by Guangzhou Qiushi Asset Management Co., Ltd., and in turn owned by Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership) as to 90%. Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership) is owned by Huaxin International Trust Co., Ltd. as its limited partner as to 80%, and controlled by Ningbo Meishan Bonded Port Zone Yuanche Enterprise Management and Consulting Co., Ltd. as its general partner. Huaxin International Trust Co., Ltd. is in turn owned by China Huadian Group Capital Holdings Co., Ltd. and China Huadian Group Finance Co., Ltd. as to 69.84% and 30.16%, respectively. China Huadian Group Capital Holdings Co., Ltd. is wholly-owned by China Huadian Group Co., Ltd., and more than one-third of voting power at general meeting of China Huadian Group Finance Co., Ltd. is held by China Huadian Group Co., Ltd.

As such, each of China Huadian Group Co., Ltd., China Huadian Group Capital Holdings Co., Ltd., China Huadian Group Finance Co., Ltd., Huaxin International Trust Co., Ltd., Ningbo Meishan Bonded Port Zone Yuanche Enterprise Management and Consulting Co., Ltd., Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership), Guangzhou Qiushi Asset Management Co., Ltd., Huatian Investment Co., Ltd. and Tianjin Rongsheng Xinye Investment and Development Co., Ltd. is deemed to be interested in all the Shares held by Tianjin Shanghui Investment Holding Company Limited for the purpose of the SFO.

Save as disclosed above, the Bank is not aware of any other person (other than Directors, Supervisors and chief executives of the Bank) who has any interest or short position in its shares at the end of the Reporting Period which will be required to be entered in the register under section 336 of the SFO.

VI. ISSUANCE AND LISTING OF EQUITY SECURITIES

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on July 16, 2020. The offer price was determined to be HK\$4.80 per Offer Share (excluding brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The Bank issued 2,880,000,000 H Shares in the Global Offering. Nine cornerstone investors (each an independent third party and not a connected person) in aggregate subscribed for 839,592,500 H Shares issued by the Bank. On August 7, 2020, the over-allotment option described in the Prospectus was fully exercised by the Joint Representatives (as defined in the Prospectus), on behalf of the International Underwriters, in respect of an aggregate of 432,000,000 H Shares, representing 15% of the Offer Shares initially available under the Global Offering before any exercise of the over-allotment option to, among other things, cover the over-allocation in the International Offering. The over-allotment shares were issued and allotted at HK\$4.80 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The listing of and dealings in the over-allotment shares commenced on the Main Board of the Hong Kong Stock Exchange on August 12, 2020.

The net proceeds received by the Bank from the Global Offering (including the exercise of the over-allotment option) were approximately HK\$15,896.1 million, representing the net price of approximately HK\$4.80 per H Share.

All net proceeds from the Global Offering of the Bank have been utilized in accordance with the intended use as disclosed in the Prospectus of the Bank. The net proceeds from the Global Offering (after deduction of underwriting fees and commissions and expenses payable by us in relation to the Global Offering) have been used to strengthen our capital base to support the ongoing growth of our business.

VII. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE BANK

From the Listing Date to the end of the Reporting Period, except for 2,880,000,000 H Shares issued by the Bank on the Listing Date and 432,000,000 H Shares issued by the Bank on August 12, 2020, the Bank has not purchased, sold or redeemed any listed securities of the Bank.

Directors, Supervisors, Members of Senior Management, Employees and Branches

I. DIRECTORS, SUPERVISORS AND MEMBERS OF SENIOR MANAGEMENT

(I) Basic Information and Remuneration of Directors, Supervisors and Members of Senior Management

Name	Position	Gender	Date of birth	Time of joining our Bank	Tenure	Total pre-tax remuneration from the Bank during the Reporting Period (RMB ten thousand)	Remunerated by the Bank's shareholders or their related parties during the Reporting Period
LI Fuan	Chairman	Male	December 1962	June 2015	June 2015 – the date of re-election	136.48	No
FUNG Joi Lun Alan	Vice chairman	Male	April 1948	May 2010	August 2010 – the date of re-election	24.25	Yes
CUI Xuesong	Non-executive director	Male	November 1978	December 2019	January 2020 – the date of re-election	–	Yes
YUAN Wei	Non-executive director	Female	February 1974	March 2019	December 2019 – the date of re-election	–	Yes
YE Baishou ⁽⁴⁾	Non-executive director	Male	June 1962	April 2014	June 2014 – the date of re-election	–	Yes
HU Aimin	Non-executive director	Male	December 1973	February 2018	September 2018 – the date of re-election	24.25	Yes
ZHANG Xifang	Non-executive director	Male	December 1972	November 2019	January 2020 – the date of re-election	–	Yes
ZHANG Yunji	Non-executive director	Male	August 1954	February 2009	February 2009 – the date of re-election	24.25	Yes
QU Hongzhi	Executive director, president	Male	August 1969	December 2019	January 2020 – the date of re-election	116.29	No
LI Yi	Executive director	Male	December 1967	June 2009	June 2016 – the date of re-election	110.56	No
	Vice president				March 2010 – the date of re-election		
DU Gang	Executive director	Male	November 1970	March 2019	January 2020 – the date of re-election	86.54	No
	Vice president				April 2019 – the date of re-election		
	Secretary to the Board				October 2020 – the date of re-election		
MAO Zhenhua	Independent non-executive director	Male	January 1964	April 2016	June 2016 – the date of re-election	25.93	No
CHI Guotai	Independent non-executive director	Male	July 1955	April 2016	June 2016 – the date of re-election	24.25	No
MU Binrui	Independent non-executive director	Male	September 1956	May 2018	September 2018 – the date of re-election	25.93	No
TSE Yat Hong	Independent non-executive director	Male	October 1969	December 2019	June 2020 – the date of re-election	–	No
WANG Ren	Independent non-executive director	Male	September 1972	December 2019	June 2020 – the date of re-election	–	No
ZHU Ning	Independent non-executive director	Male	September 1973	December 2019	June 2020 – the date of re-election	–	No

Name	Position	Gender	Date of birth	Time of joining our Bank	Tenure	Total pre-tax remuneration from the Bank during the Reporting Period (RMB ten thousand)	Remunerated by the Bank's shareholders or their related parties during the Reporting Period
WANG Chunfeng	Chairman of the Board of Supervisors Employees' representative supervisor	Male	February 1966	July 2019	November 2019 – the date of re-election July 2019 – the date of re-election	102.59	No
FENG Jiankuan	Vice chairman of the Board of Supervisors Employees' representative supervisor	Male	October 1960	May 2015	December 2019 – the date of re-election November 2019 – the date of re-election	114.25	No
QI Ershi	External supervisor	Male	February 1953	April 2016	April 2016 – the date of re-election	25.93	No
DIAO Qinyi	External supervisor	Male	March 1955	April 2016	April 2016 – the date of re-election	25.93	No
HUI Yung Chris	External supervisor	Male	November 1968	December 2019	December 2019 – the date of re-election	–	No
FAN Zhigui	Employees' representative supervisor	Male	March 1961	July 2011	December 2019 – the date of re-election	471.97	No
WU Siqi	Vice president	Male	February 1965	June 2006	March 2016 – the date of re-election	111.09	No
ZHAO Zhihong	Vice president Chief risk officer Secretary to the Board	Male	January 1966	September 2015	November 2020 – the date of re-election February 2020 – the date of re-election June 2016 – October 2020	551.81	No
ZHANG Bingjun	Non-executive director	Male	August 1963	February 2013	April 2013 – March 2021	24.25	Yes

Notes: (1) For the changes in the Directors, Supervisors and members of senior management of the Bank as of the date of this annual report, please refer to "(V) Changes in Directors, Supervisors and Members of Senior Management" in this section;

(2) Among the current Directors, Mr. LI Fuan and Mr. CUI Xuesong were nominated by TEDA Investment Holding Co., Ltd.; Mr. FUNG Joi Lun Alan was nominated by Standard Chartered Bank (Hong Kong) Limited; Ms. YUAN Wei was nominated by China Shipping Investment Co., Ltd.; Mr. YE Baishou was nominated by State Development & Investment Corp., Ltd.; Mr. HU Aimin was nominated by China Baowu Steel Group Corporation Limited.; Mr. ZHANG Xifang was nominated by Oceanwide Industry Co., Ltd.; and Mr. ZHANG Yunji was nominated by Tianjin Shanghui Investment Holding Company Limited;

(3) During the Reporting Period, the Directors, Supervisors, and members of senior management of the Bank did not hold Shares or stock options of the Bank;

(4) During the Reporting Period, Mr. Ye Baishou (the non-executive director of the Bank) waived receiving allowances from the Bank.

(II) Remuneration Management

1. *Remuneration management system*

The compensation and remuneration of our Directors, Shareholders' representative Supervisors and external Supervisors are determined by our Shareholders' general meetings and the compensation and remuneration of members of senior management are determined by the Board of Directors. Our remuneration policies are submitted to the Nomination and Remuneration Committee of the Board of Directors and the Board of Directors for review. The remuneration package for the chairman of the Board of Directors, the chairman of the Board of Supervisors, the vice chairman of the Board of Supervisors and the members of senior management comprises annual basic salary, annual performance-based salary and incentive payments during the tenure. The remuneration package for other employees comprises basic salary, performance-based bonuses, annual progress bonuses, business performance bonuses, project bonus and benefits. Our non-executive Directors, independent non-executive Directors, Shareholders' representative Supervisors (none) and external Supervisors receive allowances from us. When reviewing and determining the Bank's remuneration packages, our Shareholders' general meetings and the Board of Directors take into consideration factors such as relevant work experience, level of education, competency and salaries paid by other comparable companies. We also participate in various defined contribution plans organized by relevant government authorities and welfare schemes for our employees, including basic pension insurance, medical insurance, unemployment insurance, worked-related accident insurance, maternity insurance and housing provident and enterprise annuity plan. For defined contribution plans, the Bank will not reduce the balance by confiscating the contributions made by those employees who withdrew the scheme prior to full vesting.

During the Reporting Period, the Bank's total remuneration was RMB5,447,380,000.

2. *Standards for remuneration and performance measurement and risk adjustment*

The fixed income, the basic guarantee for employees' life, is paid on a monthly basis. Performance-based bonus is linked to performance assessment results. According to the annual operation management objectives, the Bank conducted performance assessment from four dimensions, namely, finance, core liabilities, customers and risks. The Bank's assessment indicators include rate of return on equity, rate of return on total assets, cost-to-income ratio, operating income, profit before taxation, net profit, NPL ratio, capital adequacy ratio, provision coverage ratio, leverage ratio and loan provision ratio. The Bank also took legal risk, compliance risk, operational risk, audit findings or business risk omissions as risk cost control indicators for assessment, so as to increase the risk offsetting factors of performance assessment. At the same time, the deferred payment mechanism was used to better match the remuneration with the performance, so as to prevent the occurrence of employees' imprudent behaviors caused by improper or excessive incentives and inadequate linkage with risks.

3. *Deferred payment of performance-based remuneration*

During the Reporting Period, the Bank implemented deferred payment of performance-based bonus in accordance with relevant remuneration management measures.

4. *Formulation of performance assessment measures and fulfillment of assessment indicators*

During the Reporting Period, the Bank formulated the Implementation Plan for Comprehensive Performance Assessment of Branches in 2020, and revised the performance assessment measures, such as the Administrative Measures for Performance Assessment of Departments and Departmental Managers of the Head Office and the Administrative Measures for Annual Comprehensive Performance Assessment of Middle-level Managers.

The Bank's economic performance indicators, such as rate of return on equity, rate of return on total assets, cost-to-income ratio, operating income, profit before taxation and net profit all fulfilled the 2020 performance assessment targets set by the Board of Directors. The Bank's indicators, such as capital adequacy ratio, provision coverage ratio, NPL ratio, leverage ratio and loan provision ratio met the requirements of assessment indicators. The Bank's social responsibility indicators, such as regulatory assessment and customer satisfaction met the requirements of assessment indicators.

5. *Exceptions beyond the original remuneration package*

During the Reporting Period, the Bank did not have any exceptions beyond the original remuneration package.

6. *Remuneration of employees with a significant influence on risks*

The Bank has 303 employees with a significant influence on risks, including assistant to president of the Head Office, president of business line, general manager of department, deputy general manager, assistant to general manager, senior expert, senior business advisor, senior manager, head of branch level and head of marketing. In 2020, the total remuneration reached RMB658.49 million, of which 40% of performance-based remuneration were paid in three years in a deferred payment, which meets the regulatory requirements.

(III) Position Held by Directors, Supervisors and Senior Management in Corporate Shareholder

Name	Name of Corporate Shareholder	Position	Term of Office
CUI Xuesong	TEDA Investment Holding Co., Ltd.	Assistant to general manager	September 2019 to present
FUNG Joi Lun Alan	Standard Chartered Bank (Hong Kong) Limited	Managing director	October 2020 to present
ZHANG Xifang	Oceanwide Industry Co., Ltd.	Director	February 2018 to present
ZHANG Yunji	Tianjin Shanghai Investment Holding Company Limited	Chairman of the board of directors	September 2009 to present

(IV) Major Work Experience, Positions and Part-time Jobs of Directors, Supervisors and Senior Management

Directors

Mr. LI Fuan

Representative of the 19th National Congress of the Communist Party of China, Representative of the 17th National People's Congress of Tianjin Municipality, senior economist, holder of doctoral degree, Director of Western Returned Scholars Association (Overseas-educated Scholars Association of China), and Director of the Finance Committee. He has been engaged in supervision in the systems of PBoC and CBRC for a long time, and once held the positions of deputy division director and division director of internal control and supervision bureau of PBoC, division director of foreign banks supervision division of the first division of banks supervision, division director of supervision and regulation division and assistant inspector of division of banks regulation; deputy director of the policy and legal department of CBRC, deputy director and director of banking innovation supervision department, secretary of the party committee and head of Henan Supervision Bureau of CBRC, and director of non-bank financial institutions supervision department of CBRC. He currently serves as the secretary of the party committee and chairman of the Bank.

Mr. FUNG Joi Lun Alan

Associate of the Chartered Institute of Bankers, United Kingdom with a bachelor's degree. He previously served as regional director of East Asia, chief operating officer of the China region and head of strategic development (Greater China) of Standard Chartered Bank (Hong Kong) Limited, responsible for leading and implementing strategic plans and cross-border projects. He currently serves as vice chairman of the Bank and managing director of Standard Chartered Bank (Hong Kong) Limited.

Mr. CUI Xuesong

Being a senior engineer and senior economist with a master's degree, he previously served as deputy manager of investment management department and manager of asset management department of TEDA Investment Holding Co., Ltd.. He currently serves as a non-executive Director of the Bank, assistant to general manager of TEDA Investment Holding Co., Ltd., chairman of Tianjin TEDA Asset Operating and Management Co., Ltd. (天津泰達資產運營管理有限公司), vice chairman of Tianjin TEDA East Gas Co., Ltd. (天津泰達東方油氣有限公司), director of Tianjin TEDA International (Group) Co., Ltd. (天津市泰達國際控股(集團)有限公司) and director of TEDA Hong Kong Property Company Limited (泰達香港置業有限公司).

Ms. YUAN Wei

Being a senior economist with a doctoral degree, she previously served as deputy general manager of financial affairs department of China Shipping Container Lines Co., Ltd. (中海集裝箱運輸股份有限公司), deputy general manager of financial affairs department of COSCO SHIPPING Development Co., Ltd. (中遠海運發展股份有限公司), and investment director of COSCO Shipping Captive Insurance Co., Ltd. (中遠海運財產保險自保有限公司). She currently serves as a non-executive Director of the Bank, chief investment officer and general manager of financial investment department of COSCO SHIPPING Development Co., Ltd.

Mr. YE Baishou

Being a senior accountant with a bachelor's degree, he previously held the positions of division director of the finance division, vice director of finance and accounting department, and deputy director of finance planning department of State Development & Investment Corporation; chairman of the board of directors of Shenzhen Kangtai Biological Products Co., Ltd, director of finance and accounting department and deputy chief economist of State Development & Investment Corporation, vice chairman and chairman of SDIC Capital Holdings Co., Ltd. He currently serves as a non-executive Director of the Bank, chairman of SDIC Capital Co., Ltd., and chairman of the board of directors of SDIC Taikang Trust Co., Ltd. and UBS SDIC Fund Management Co., Ltd.

Mr. HU Aimin

Mr. HU has a university education background. He previously served as a deputy general manager and the general manager of the capital operation department and the general manager of the investment management department, the general manager of industry and finance integrated development center and the secretary of the party working committee of industry and finance of China Baowu Steel Group Corporation Limited, the secretary of the party committee, a director and senior vice president of Shanghai Baosteel Packaging Co., Ltd., and the general manager of Hwabao Investment Co., Ltd. He currently serves as a non-executive Director of the Bank, the Secretary of the party committee and chairman of the board of directors of Hwabao Investment Co., Ltd., the chairman of the board of directors of Hwa Bao Securities Co., Ltd., a director of Hwa Bao Trust Co., Ltd., Zhongjin Ruide (Shanghai) Shareholding Investment Management Co., Ltd., New China Life Insurance Company Ltd. and Baowu Group Zhongnan Steel Co., Ltd. (寶武集團中南鋼鐵有限公司) (formerly known as "Baowu Group Guangdong Shaoguan Steel Co., Ltd."), and a supervisor of Xinjiang Tianshan Steel United Co., Ltd.

Mr. ZHANG Xifang

Mr. ZHANG is a senior economist with a university education background and holds a master's degree in business management. He previously served as a director and the general manager of Yingda Taihe Property Insurance Co., Ltd., the chairman of the board of directors of Yingda Insurance Asset Management Co., Ltd., the chief executive officer and chairman of the board of supervisors of Oceanwide Equity Investment Management Co., Ltd., a vice executive officer of Oceanwide Holdings Co., Ltd., and a vice chairman of the board of directors of Oceanwide Investment Group Co., Ltd. and China Minsheng Trust Co., Ltd., and a vice executive officer of China Oceanwide Holdings Group Co., Ltd. He currently serves as a non-executive Director of the Bank, an executive director of China Oceanwide Holdings Group Co., Ltd., a vice chairman and the president of Oceanwide Holdings Co., Ltd., the chairman of the board of directors of Oceanwide Investment Group Co., Ltd., Oceanwide Equity Investment Management Co., Ltd. and China Minsheng Trust Co., Ltd., the chairman of the board of supervisors of Wuhan Central Business Zone Operation and Development Co., Ltd., a director of Minsheng Securities Co., Ltd., China Tonghai International Financial Limited, China Oceanwide Holdings Limited, Wuhan Central Business Zone Stock Co., Ltd., Oceanwide Industry Co., Ltd. and Asia-Pacific Property and Casualty Insurance Co., Ltd.

Mr. ZHANG Yunji

Mr. ZHANG has a master's degree. He once worked in Tianjin Branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司天津市分行) for a long time, where he served as an assistant to the president and a vice president. In addition, he used to serve as the chairman of the board of directors and the general manager of Tianjin Rongsheng Xinye Investment and Development Co., Ltd. He currently serves as a non-executive Director of the Bank and the chairman of the board of directors of Tianjin Shanghai Investment Holding Company Limited and Rongxinhui (Tianjin) Finance Lease Co., Ltd.

Mr. QU Hongzhi

Mr. QU is a senior economist with a master's degree in finance and a doctor's degree in management. He once worked in China Construction Bank Corporation, where he served as the general manager of asset security department and general manager of legal affairs department of Tianjin branch, the president of Nankai sub-branch, the president of Heping sub-branch, an assistant to the president, a vice president and a member of the party committee of Tianjin branch, and the deputy secretary of the party committee and a vice president of Jiangsu branch. He currently serves as the deputy secretary of the party committee, an executive Director and the president of the Bank.

Mr. LI Yi

Mr. LI is an economist with a university education background and a master's degree in business management. He once worked in Bank of China, where he served as the general manager of the risk management department of Beijing branch, and a member of the party committee, an assistant to the president, and the chief risk officer for credit loans at Gansu branch. He once served as the chief risk officer of the Bank and is currently a member of the party committee, an executive Director and a vice president of the Bank.

Mr. DU Gang

Mr. DU has a master's degree and used to be engaged in supervision at the PBoC and the CBRC for a long time. He was once the deputy inspector of the national joint stock commercial bank supervision department of China Banking and Insurance Regulatory Commission. He currently serves as an executive Director, a vice president and the secretary to the Board of Directors of the Bank.

Mr. MAO Zhenhua

Mr. MAO is a senior economist with a doctor's degree and has been working in China Chengxin Credit Management Co., Ltd. (formerly known as China Chengxin Securities Rating Co., Ltd.) for a long time. He once served as the chairman of the board of directors of China Chengxin Securities Rating Co., Ltd. and a director of China Chengxin International Credit Rating Co., Ltd. He is currently an independent non-executive Director of the Bank, the chairman of the board of directors of China Chengxin Credit Management Co., Ltd. and China Chengxin Investment Group Co., Ltd., a director of China Chengxin Securities Rating Co., Ltd., China Chengxin Credit Technology Co., Ltd., Shengang Securities Co., Ltd. and Airstar Bank Limited, a non-executive director of Meilleure Health International Industry Group Limited, an independent non-executive director of China Infrastructure & Logistics Group Ltd., the chief economist of China Chengxin International Credit Rating Co., Ltd., the joint head of Economic Research Institute of Renmin University of China, and the dean of Dong Fureng Economic and Social Development Research Institute of Wuhan University (Beijing).

Mr. CHI Guotai

Mr. CHI is a professor and doctoral supervisor with a doctor's degree. He once served as a lecturer and an associate professor in the banking management department of Heilongjiang College of Financial Staff and an associate professor in the School of Economics and Management of Dalian University of Technology. He is currently an independent non-executive Director of the Bank, a professor in the School of Economics and Management, and the director of the Research Center for Financial Risk and Systematic Evaluation Management (金融風險與系統評價管理研究中心) of Dalian University of Technology, and an expert in the Discipline Planning and Review Team (學科規劃評審組) of the National Social Science Fund of China.

Mr. MU Binrui

Mr. MU is a senior economist with a bachelor's degree and is granted the special government allowance by the State Council. He once served as a deputy general manager of foreign business department, a deputy general manager of marketing department, a deputy general manager and the general manager of credit management department, a deputy chief credit executive officer and the general manager of credit management department of Bank of Communications Co., Ltd. He is currently an independent non-executive Director of the Bank and an independent non-executive director of China Yongda Automobiles Services Holdings Limited.

Mr. TSE Yat Hong

Mr. TSE is a Fellow of the Hong Kong Institute of Certified Public Accountants, and a Fellow of Certified Public Accountants (FCPA) of CPA Australia with a bachelor's degree. He once served as the chief financial officer and company secretary of Shenzhen International Holdings Limited and as a joint company secretary and non-executive director of Shenzhen Expressway Company Limited. He is currently an independent non-executive Director of the Bank and an independent non-executive director of China Huirong Financial Holdings Limited, Sky Light Holdings Limited, Radiance Holdings (Group) Company Limited and E-Star Commercial Management Company Limited.

Mr. WANG Ren

Mr. WANG has a master's degree and once served as the associate in the investment banking department of Salomon Smith Barney Holdings Inc. of Citigroup, a managing director of investment banking department and joint head of the financial institutions group in Asia of UBS AG, a managing director, the president of Asia, and a joint head of Asia Investment Banking and Capital Markets at Jefferies Hong Kong Limited, and the chief financial officer and the president of investment bank of China Minsheng Financial Holding Corporation Limited. He is currently an independent non-executive Director of the Bank, a vice president and the chief investment officer of Forchn Holdings Group, a vice chairman of the board of directors of Forchn International Pte. Ltd., and a member of the MIT Sloan Asian Executive Board.

Mr. ZHU Ning

Mr. ZHU is a professor and doctoral supervisor with a doctor's degree. He once taught at the University of California, Davis. He is currently an independent non-executive Director of the Bank, a vice dean and professor of Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University, an independent non-executive director of China Huarong Asset Management Co., Ltd. and an independent director of Utour Group Co., Ltd. and Molecular Data Inc.

Supervisors

Mr. WANG Chunfeng

Mr. WANG is a professor (教授) and a doctoral supervisor (博士生導師) with a doctorate's degree. He served as the director (所長) at the Institute of Systems Engineering, School of Management (管理學院系統工程研究所), the director (主任) of the Financial Engineering Research Center (金融工程研究中心) in Tianjin University. He also served as the secretary general (秘書長) of Tianjin University Beiyang Education Foundation (天津大學北洋教育基金會), a vice president (副總裁) (temporary assignment) (掛職) at Bohai Securities Co., Ltd., a deputy director (副主任) at Tianjin Municipal Development Planning Commission (天津市發展計劃委員會), a deputy secretary of the party committee, the president (總裁), a secretary of the party committee, the chairman of the board of directors at Bohai Securities Co., Ltd. (渤海證券股份有限公司). He now serves as a deputy secretary of the party committee, the chairman of the Board of Supervisors (監事長), the union president (工會主席) at our Bank, the Executive Director of the China Society for Finance and Banking (中國金融學會), the chairman of the board of supervisors of the Northern Finance Institute (北方新金融研究院).

Mr. FENG Jiankuan

Mr. FENG is an ideological and political work researcher with a master's degree. He served as a deputy division director (副處長) of the organization division, the division director (處長) of the publicity division (宣傳處), and the director of office (辦公室主任) at the Comprehensive Economic Management Working Committee under the Tianjin Municipal Committee (天津市委綜合經濟管理工作委員會) of CPC, the director of office (辦公室主任) at the Finance (Comprehensive Economics) Working Committee under the Tianjin Municipal Committee (天津市委金融(綜合經濟)工作委員會) of CPC, the union president (工會主席) at Tianjin Rural Cooperative Bank (天津農村合作銀行), the union president (工會主席) at the Tianjin Rural Commercial Bank Co., Ltd. (天津農村商業銀行股份有限公司), a member of the party committee (黨委委員) and a secretary of the discipline inspection committee (紀委書記) of our Bank. He now serves as the vice chairman of the Board of Supervisors of our Bank.

Mr. QI Ershi

Mr. QI is a professor and a doctoral supervisor with a master's degree. He served as the head (院長) at the College of Management in Tianjin University, an expert of the National High-Tech Research and Development Program (國家高技術研究發展計劃) ("863 Program"), the director (主任) of the Management Science and Engineering Specialty Teaching Guidance Committee of Higher Schools of the Ministry of Education (教育部高等學校管理科學與工程類專業教學指導委員會), a general expert of Informatization of the Ministry of Science and Technology (科技部). He now serves as an external Supervisor of our Bank, a professor (教授) at the College of Management and Economics (管理與經濟學部) in Tianjin University, an expert in management innovation methods of the Ministry of Science and Technology, an expert in the Academic Degrees Committee of the State Council (國務院學位委員會).

Mr. DIAO Qinyi

Mr. DIAO is a senior economist with a bachelor's degree. He worked at Agricultural Bank of China, and served as a member of the party committee and a vice president at Shandong branch (山東省分行) of Agricultural Bank of China, a secretary of the party committee and the president at Shandong branch, the general manager of the credit management department (信貸管理部) and the credit review and approval center (信貸審查審批中心) (tier-two department) (二級部) (director level) (正局級), the chief operating officer (運營管理總監), the chief investment officer (投資總監), and the chief compliance officer (合規總監) at the head office. He now serves as an external Supervisor of our Bank, an external director (外部董事) at Angang Group Company Limited (鞍鋼集團有限公司), and a director at CITIC-Prudential Life Insurance Company Ltd. (中信保誠人壽保險有限公司).

Mr. HUI Yung Chris

Mr. HUI has a bachelor's degree. He served as a manager of the financial engineering department (金融工程部) at the Hong Kong branch of Citibank N.A. (花旗銀行), a vice president (副總裁) of the debt transaction group (債務交易組) at Merrill Lynch (Asia Pacific) Limited (美林(亞太)有限公司), a director in the global markets (全球市場), debt capital markets South Asia department (東南亞債務資本市場部) at the Hong Kong branch of Deutsche Bank AG (德意志銀行), a managing director (董事總經理) at Barclays Capital Asia Limited (巴克萊亞洲有限公司) (during which period he had also been the head (主管) of the investment banking department in China and Hong Kong (中國和香港投資銀行部)), a director at New China Trust Co., Ltd. (新華信託股份有限公司), a founding partner (創始合夥人) at J&Partners GP Limited, the secretary of the board of directors at Wanda Commercial Properties Company Limited (萬達商業地產股份有限公司), a non-executive director at Wanda Hotel Development Company Limited (萬達酒店發展有限公司). He now serves as an external Supervisor of our Bank, an executive director of Hong Kong Taigu (China) Group Co., Ltd (香港太谷(中國)集團有限公司) and its subsidiary, Weigu (Guangdong) Biological Engineering Technology Co., Ltd. (味谷(廣東)生物工程科技有限公司), an independent non-executive director of Clarity Medical Group Holding Limited (清晰醫療集團控股有限公司).

Mr. FAN Zhigui

Mr. FAN is a senior economist with a bachelor's degree. He served as a member of the party committee and a vice president at ICBC Qinhuangdao branch (秦皇島分行) in Hebei Province, a deputy secretary of the party committee and a vice president at ICBC Chengde branch (承德分行), the secretary of the party committee (黨委書記) and the president at ICBC Qinhuangdao branch (秦皇島分行), the director of the office (辦公室主任), the director of the party office, the minister of party committee propaganda department at ICBC Hebei Province branch (河北省分行), the secretary of the party committee and the president at ICBC Handan branch (邯鄲分行), a member of the party committee and a vice president at the Shijiazhuang branch of Shanghai Pudong Development Bank (上海浦東發展銀行), a proposed president, and then the secretary of the party committee and the president at Shijiazhuang branch (石家莊分行) of our Bank. He now serves as an employees' representative Supervisor of our Bank and a director (主任) of our office of the Board of Supervisors (監事會辦公室).

Senior management

The detailed biographies of Mr. QU Hongzhi, Mr. LI Yi and Mr. DU Gang are set out in the section headed "Directors".

Mr. WU Siqi

Mr. WU is a senior economist. He once worked in Agricultural Bank of China, Agricultural Development Bank of China, The Export-Import Bank of China and National Development Bank. He also used to serve as an employees' representative Supervisor of the first and the second sessions of our Board of Supervisors and a director of our office of the Board of Supervisors, as well as the president of Binhai New District branch, the president of Shenzhen branch, the president of Beijing branch and the president of Beijing management department of the Bank. He is currently a vice president of the Bank.

Mr. ZHAO Zhihong

Mr. ZHAO is a senior economist with a doctor's degree. He once worked in CCB, where he served as a deputy division director of the general business division of the credit management department, a deputy division director of sub-branches supervision division III, the division director of the risk study division, and a manager of the general division at the credit risk management department, a manager and senior manager of authorization management division and a senior risk manager at the risk management department, a senior risk manager and deputy general manager of the quality and efficiency control department, a deputy general manager of the product and quality management department, and a deputy general manager of the product innovation and management department. He once served as the director of the strategic development and investment management office, strategic development president, an assistant to the president and the secretary to the Board of Directors of the Bank. He is currently a vice president and the chief risk officer of the Bank.

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

The changes in the Bank's Directors were as follows:

On November 14, 2019, the 56th Shareholders' general meeting of the Bank elected Mr. ZHANG Xifang as Director of the Bank. On January 15, 2020, the CBIRC issued the Reply of the CBIRC to the Qualifications of ZHANG Xifang of China Bohai Bank (Yin Bao Jian Fu [2020] No. 37) (《中國銀保監會關於渤海銀行張喜芳任職資格的批覆》(銀保監覆[2020]37號)) to approve the qualifications of Mr. ZHANG Xifang as Director.

On December 16, 2019, the Resolution on the Election of Directors of the Fifth Session of the Board of Directors of the Bank was reviewed and approved at the 57th Shareholders' general meeting of the Bank, which approved 18 Directors of the fifth session of the Board of Directors, including: Mr. LI Fuan, Mr. ZHANG Bingjun, Mr. CUI Xuesong, Mr. FUNG Joi Lun Alan, Ms. YUAN Wei, Mr. YE Baishou, Mr. HU Aimin, Mr. ZHANG Xifang, Mr. ZHANG Yunji, Mr. QU Hongzhi, Mr. LI Yi, Mr. DU Gang, Mr. MAO Zhenhua, Mr. CHI Guotai, Mr. MU Binrui, Mr. TSE Yat Hong, Mr. WANG Ren and Mr. ZHU Ning. On January 23, 2020, the CBIRC issued the Reply of the CBIRC to the Qualifications of QU Hongzhi, DU Gang and CUI Xuesong of China Bohai Bank (Yin Bao Jian Fu [2020] No. 69) (《中國銀保監會關於渤海銀行屈宏志、杜剛、崔雪松任職資格的批覆》(銀保監覆[2020]69號)) to approve the qualifications of Mr. CUI Xuesong, Mr. QU Hongzhi and Mr. DU Gang as Directors. On June 11, 2020, the CBIRC issued the Reply of the CBIRC to the Qualifications of TSE Yat Hong, WANG Ren and ZHU Ning of China Bohai Bank (Yin Bao Jian Fu [2020] No. 350) (《中國銀保監會關於渤海銀行謝日康、汪韜、朱寧任職資格的批覆》(銀保監覆[2020]350號)) to approve the qualifications of Mr. TSE Yat Hong, Mr. WANG Ren and Mr. ZHU Ning as independent Directors.

The 18th meeting of the fifth session of the Board of Directors of the Bank reviewed and approved that Mr. ZHANG Bingjun would no longer serve as the non-executive Director of the Bank due to the adjustment of work position, which came into effect from March 29, 2021. After the resignation took effect, Mr. ZHANG Bingjun also ceased to serve as a member of the Nomination and Remuneration Committee under the Board of the Bank.

From the beginning of the Reporting Period to the date of this annual report, there was no change in the Supervisors of the Bank.

The changes in members of senior management of the Bank were as follows:

On December 16, 2019, Mr. QU Hongzhi was appointed as president at the 1st meeting of the fifth session of the Board of Directors of the Bank. On January 23, 2020, the CBIRC issued the Reply of the CBIRC to the Qualifications of QU Hongzhi, DU Gang and CUI Xuesong of China Bohai Bank (Yin Bao Jian Fu [2020] No. 69) (《中國銀保監會關於渤海銀行屈宏志、杜剛、崔雪松任職資格的批覆》(銀保監覆[2020]69號)) to approve the qualifications of Mr. QU Hongzhi as president.

On February 4, 2020, Mr. ZHAO Zhihong was appointed as the chief risk officer of the Bank at the 3rd meeting of the fifth session of the Board of Directors of the Bank. The Bank has filed the adjustment and change of the chief risk officer with the CBIRC.

On October 10, 2020, Mr. ZHAO Zhihong was appointed as vice president at the 12th meeting of the fifth session of the Board of Directors of the Bank. On November 10, 2020, the CBIRC issued the Reply of the CBIRC to the Qualifications of ZHAO Zhihong of China Bohai Bank (Yin Bao Jian Fu [2020] No. 769) (《中國銀保監會關於渤海銀行趙志宏任職資格的批覆》(銀保監覆[2020]769號)) to approve the qualifications of Mr. ZHAO Zhihong as vice president.

On October 10, 2020, the 12th meeting of the fifth session of the Board of Directors of the Bank reviewed and approved Mr. ZHAO Zhihong will no longer serve as the Secretary to the Board of Directors of the Bank due to his work transfer, and Mr. DU Gang will serve as the Secretary to the Board of Directors of the Bank. The Bank has filed the adjustment and change of the Secretary to the Board of Directors with the CBIRC.

(VI) Changes in the Information of Directors and Supervisors

Mr. HU Aimin, a non-executive Director of the Bank, ceased to serve as the director of Baosteel Group Finance Co., Ltd.

Mr. ZHANG Xifang, a non-executive Director of the Bank, ceased to serve as the chairman of Wuhan Central Business Zone Operation and Development Co., Ltd. and the chief executive officer of Oceanwide Investment Group Co., Ltd.

Mr. DU Gang, an executive Director of the Bank, served as a Joint Company Secretary of the Bank.

Save as above information and the content disclosed in “(IV) Major work experience, positions and part-time jobs of Directors, Supervisors and Senior Management”, no information on Directors or Supervisors is subject to disclosure in accordance with paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

(VII) Directors, Supervisors and Chief Executives’ Interests in the Bank

As of the end of the Reporting Period, none of our Directors, Supervisors and chief executive had any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (as defined in Part XV of the SFO) which were required to be entered in the register kept by the Bank pursuant to section 352 of the SFO, or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

II. STAFF

(I) The Number and Structure of Staff

As of the end of the Reporting Period, the Bank had 10,447 employees, including 5,017 male employees and 5,430 female employees. The age structure, educational background and professional post structure of the employees are as follows:

1. Age structure of employees

Age	Number of employees	Structure (%)
Aged 30 or below	2,411	23.08
Aged 31-35	3,195	30.58
Aged 36-40	2,325	22.26
Aged 41-45	1,129	10.81
Aged 46-50	946	9.05
Aged over 50	441	4.22
Total	10,447	100.00

2. Educational background of employees

Educational background/degree	Number of employees	Structure (%)
Postgraduate/Master’s degree and above	2,376	22.74
Undergraduate/Bachelor’s degree	7,737	74.06
College and lower	334	3.20
Total	10,447	100.00

3. Professional post structure of employees

Professional post	Number of employees	Structure (%)
Corporate Banking	2,434	23.30
Retail Banking	2,512	24.05
Financial Markets	248	2.37
FinTech	128	1.23
Finance and assets & liabilities	275	2.63
Risk management	749	7.17
Audit, legal, internal control & compliance	339	3.25
Business operation	1,976	18.91
Information technology	551	5.27
Others	1,235	11.82
Total	10,447	100.00

In addition to the employees with whom the Bank has entered into labor contracts, as of the end of the Reporting Period, the Bank also engaged 313 dispatched workers through third-party human resources agencies and they generally hold non-essential positions at the Bank.

(II) Human Resource Management

During the Reporting Period, the Bank focused on the overall objective of human resource management strategy to provide effective organizational and personnel support for the operation and management of the Bank. It controlled the total number of staff appropriately, optimized their structure constantly, recruited more staff across business lines and in the front line of market; expanded talent introduction channels, vigorously introduced social talents and rationally allocated human resources; strengthened the brand building of management trainees named “young navigators (青春航海家)”, promoted outstanding young talents to stand out and built a team of high-quality talents; adopted exchange rotation and other ways to implement the communications between mid-level managers at work in accordance with the requirements of supervision; and recruited mid-level managers from the whole society to promote the appointment system of mid-level managers.

We improved and completed the incentive and restraint mechanism, actively promoted the reform of remuneration and evaluation mechanism, and insisted on remuneration growth to favor frontline employees, value creation, and business backbone. We implemented KPI and 360 value assessment and evaluation system covering the employees of the whole bank to strengthen performance evaluation orientation to match the salary level with the results of the assessment and evaluation and improve human efficiency.

(III) Staff Training

During the Reporting Period, the Bank has formulated the training system building plan of Bohai Bank, further detailed the functions and roles of the departments in head office and branches and sub-branches in the training system. The Bank has also classified the training curriculum system and trainees in line with the assessment of work indicators and actively mobilized resources of the Bank to participate in the building of the training system. The Bank established the “crowd-funding” platform for internal learning with a focus on the demand system; unified the learning channel, integrated online and offline curriculum entrance to enhance the platform building, thus setting up a whole career training system; established a series of characteristic training brands and learning-oriented organization ecology to serve the business development and team-building of the Bank.

During the Reporting Period, the Bank has organized Huawei senior management seminar for middle and senior management, orientation training for fresh college graduates, trainings for junior and intermediate internal trainers and other various training courses. The online training, which remains dynamic, has invited experts and scholars from the Party School of the Central Committee of CPC, the Ministry of Finance, Renmin University of China and other institutions, as well as senior management members of the Bank to give lectures and seminars on national policy, project management, strategic management, etc. The online training platform has made outstanding contributions to promoting the business expansion of the whole bank, spreading knowledge, increasing organization efficiency and improving staff quality. During the Reporting Period, we have developed 992 online courses independently and trained 575,045 employees, with 691,585 viewers; 576 live-streaming trainings were held with 266,084 viewers, with a total learning time of 110,967 hours.

III. BRANCHES

Head Office/ Branch	Number of employees	Address	Tier-two branches and sub-branches under jurisdiction	Number of employees in the institutions under jurisdiction
Head Office	1,615	218 Haihe East Road, Hedong District, Tianjin	–	–
Tianjin Branch	390	8-15/F, Part 1/F, Part 2/F, Bohai Bank Building, 218 Haihe East Road, Hedong District, Tianjin	0/24	610
Tianjin Binhai New District Branch	151	North District, Financial Street, No. 9 Shengda Street, Tianjin Economic and Technological Development Area	0/06	109
Tianjin Pilot Free Trade Zone Branch	28	No. 3 Building, Financial Center, No. 158 West 3rd Road, Tianjin Pilot Free Trade Zone (Airport Economic Area)	0/01	26
Beijing Branch	338	1F-3F, East Tower C, Chemsunny World Trade Center, 28 Fuxingmennei Street, Xicheng District, Beijing	1/17	382
Hangzhou Branch	193	Bohai Bank Building, No. 117 Tiyuchang Road, Xiacheng District, Hangzhou City, Zhejiang Province	3/11	295
Taiyuan Branch	176	No. 308, Changzhi Road, Xiaodian District, Taiyuan City, Shanxi Province	1/06	157
Chengdu Branch	209	No. 87, Jinrongcheng South Road, High-Tech Zone, Chengdu City, Sichuan Province	1/05	150
Jinan Branch	199	Building 3, Lushang Olympic City, 9777 Jingshi East Road, Jinan City, Shandong Province	4/05	251
Shanghai Branch	205	No. 68 Yincheng Middle Road, Pudong New Area, Shanghai	0/10	156
Shanghai Pilot Free Trade Zone Branch	90	No. 1229 Century Avenue, Shanghai Pilot Free Trade Zone	–	–
Shenzhen Branch	165	No. 4009 Shennan Avenue, Futian District, Shenzhen, Guangdong Province	0/09	149
Shenzhen Qianhai Branch	114	Block B, CNOOC Building (Shenzhen), No. 3168 Houhaibin Road, Nanshan District, Shenzhen, Guangdong Province	–	–
Nanjing Branch	237	No. 213 Jiangdong Middle Road, Jianye District, Nanjing City, Jiangsu Province	5/08	338
Suzhou Branch	149	Jianwu Financial Center Building, No. 710 Zhongyuan Road, Suzhou Industrial Park, Jiangsu Province	0/03	49
Dalian Branch	180	Yifang Building, No. 9 Yan'an Road, Zhongshan District, Dalian City, Liaoning Province	1/07	185
Guangzhou Branch	229	Nanya Zhonghe Plaza, 57 Linjiang Avenue, Tianhe District, Guangzhou City, Guangdong Province	4/06	263
Changsha Branch	194	Jiasheng Business Plaza, No. 289 Laodong West Road, Changsha City, Hunan Province	3/02	119
Shijiazhuang Branch	186	18 Zhonghua South Street, Shijiazhuang City, Hebei Province	3/02	163
Wuhan Branch	211	No. 29 Xinhua Road, Jiangnan District, Wuhan City, Hubei Province	2/04	134
Hohhot Branch	114	No. 85, Xinhua East Street, Xincheng District, Hohhot, Inner Mongolia Autonomous Region	1/02	69

Head Office/ Branch	Number of employees	Address	Tier-two branches and sub-branches under jurisdiction	Number of employees in the institutions under jurisdiction
Fuzhou Branch	116	Huaban Building, No. 363 Jiangbin Middle Avenue, Taijiang District, Fuzhou City, Fujian Province	1/01	45
Hefei Branch	109	No. 269 Suixi Road, North First Ring, Hefei City, Anhui Province	0/01	17
Zhengzhou Branch	191	No. 88 Jinshui East Road, Zhengdong New District, Zhengzhou City, Henan Province	0/03	48
Xi'an Branch	139	No. 36 Jinye Road, High-Tech Zone, Xi'an City, Shaanxi Province	0/01	14
Changchun Branch	96	No. 2699, Xi'an Road, Lvyan District, Changchun City, Jilin Province	–	–
Chongqing Branch	101	Building 2, Lifan Center, No. 6, Juxiyan Square, Jiangbei District, Chongqing	–	–
Shenyang Branch	87	No. 32 Yingbin Street, Shenhe District, Shenyang City, Liaoning Province	1/00	25
Xiamen Pilot Free Trade Zone Branch	69	Building A, Cross-strait Trade Center, No. 1-9 Yunan 4th Road, Xiamen Area of China (Fujian) Pilot Free Trade Zone (Bond Area), Xiamen City, Fujian Province	–	–
Haikou Branch	65	S5 Podium Building, Guorui City, No. 11 Guoxing Avenue, Meilan District, Haikou City, Hainan Province	–	–
Qingdao Branch	79	Office Building T8, Shangshi Center, 195 East Hong Kong Road, Laoshan District, Qingdao City, Shandong Province	–	–
Ningbo Branch	63	1F-3F, Emeke Building, No. 188 Dazha Road, Jiangbei District, Ningbo City, Zhejiang Province	–	–
Nanning Branch	67	1F-5F, Podium Building, King's International Merchant Center, 59 Jinhu Road, Qingxiu District, Nanning City, Guangxi Zhuang Autonomous Region	–	–
Nanchang Branch	89	Cuilin Building, 1266 Fenghe Middle Avenue, Honggutan New District, Nanchang City, Jiangxi Province	–	–
Hong Kong Branch	49	Suites 1201-1209 and 1215-1216, 12/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong	–	–
Total	6,693	–	–	3,754

Corporate Governance

I. OVERVIEW OF CORPORATE GOVERNANCE

The Bank has established a corporate governance structure consisting of the general meeting, the Board of Directors, the Board of Supervisors and senior management. The shareholders' general meeting is the supreme authority of the Bank. The Board of Directors undertakes final responsibility of operation and management of the Bank, accountable to the shareholders' general meeting. The Board of Supervisors is the internal supervision body of the Bank, accountable to the shareholders' general meeting. The senior management is responsible for the operation and management of the Bank, accountable to the Board of Directors. For the corporate governance structure of the Bank, please refer to "Organizational Structure Chart" described in this annual report.

In 2020, facing the complicated domestic and international economic situation, the Bank adheres to the core leadership of the party, proactively implements financial regulatory policies, values both balance and effectiveness of corporate governance and seeks the best practice of corporate governance, through which we successfully realize listing of our H shares. Based on a new starting point, we are embracing new journey of high-quality transformation development.

During the Reporting Period, all corporate governance entities of the Bank performed their respective duties and responsibilities, communicated with each other and governed harmoniously, which further improved the level and efficiency of corporate governance.

In accordance with the corporate governance and supervision requirements of the listed place of the Bank, the Board of Directors systematically sorted out the corporate governance system, revised and improved the top-level system to ensure that the Bank operates in accordance with the standards and norms of listed companies. It continued to give priority to strategy, brought the Third "Five Year Plan" to a successful conclusion, and started the formulation of the Fourth "Five Year Plan" to create a new landscape for high-quality development. It further expanded channels for capital replenishment and continued to regulate capital management. The Board also built up the risk prevention and control barriers firmly, strengthened the management of related (connected) transactions, improved the internal control system, and enhanced audit supervision and guidance. It attached great importance to practicing the social responsibilities of financial enterprise and focused on supporting the real economy while creating value for investors and customers. The Board strengthened the self-building and consciously accepted the supervision and guidance from investors, the Board of Supervisors, and the regulatory authorities.

The Board of Supervisors strengthened supervision over risk management and carried out key checks on the main risks faced with by the Bank as well as carried out in-depth research in branches; strengthened supervision over performing the duties and urged the Board and senior management and its members of the Bank to perform their duties; strengthened supervision over finance and paid continuous attention to important financial decisions and implementation of the Bank; strengthened supervision over internal control, and promoted the improvement of internal control mechanism; further improved the system and made adaptive amendments on the relevant system of the Board of Supervisors in accordance with the listing requirements; enhanced learning and communicating and constantly improved its own construction level.

II. SHAREHOLDERS' GENERAL MEETING

The shareholders' general meeting is the supreme authority of the Bank. Its principal responsibilities include: determining the operation strategies and investment plans; approving the annual financial budget plans, final accounting plans, profit distribution plans and loss recovery plans; electing and replacing Directors, Shareholders' representative Supervisors and external Supervisors; approving the reports of the Board of Directors and Board of Supervisors and amending the Articles of Association, etc.

(I) Shareholders' Rights

1. *Convening an extraordinary general meeting*

An extraordinary general meeting shall be convened within two months upon the request in writing of Shareholder(s) individually or jointly holding 10% or more of the total voting shares issued by the Bank (hereinafter referred to as "proposing shareholders"). The proposing shareholders may sign one or several written requests with the same format and contents to propose to the Board to convene an extraordinary general meeting and specify the meeting topics. The Board shall, pursuant to laws, regulations and the Articles of Association of the Bank, give a written reply on whether to convene the extraordinary general meeting within 10 days after receipt of the request.

2. *Proposing a proposal to the Shareholders' general meeting*

Where the Bank convenes a Shareholders' general meeting, Shareholder(s) individually or jointly holding 3% or more of the total voting shares issued by the Bank may put forward an interim proposal and submit it to the Board in writing within 10 days before the Shareholders' general meeting is convened; the Board shall, within two days after receipt of the interim proposal, issue a supplementary notice of the Shareholders' general meeting and submit the interim proposal to the Shareholders' general meeting for consideration. The contents of the interim proposal shall be within the terms of reference of the Shareholders' general meeting and have definite topics for discussion and specific issues for resolution.

3. *Convening an interim Board meeting*

When the Shareholder(s) individually or jointly holding 10% or more of the total voting shares of the Bank propose to convene an interim Board meeting, the chairman of the Board shall convene the meeting within five working days.

4. *Inquiring with the Board of Directors*

Shareholders who provide the Bank with a written document certifying the class and number of shares they hold in the Bank, and upon authentication of the identity of the Shareholder by the Bank, shall have the right to obtain relevant information of the Bank in accordance with laws and regulations and the Articles of Association of the Bank, including the Articles of Association of the Bank, share register, minutes of the Shareholders' general meetings, resolutions of Board meetings, resolutions of the Board of Supervisors, the latest audited financial and accounting report and the auditor's report, etc. For contact details of Shareholders' inquiries to the Bank, please see "Corporate Profile" in this annual report.

For detailed information on the Shareholders' rights of the Bank, please see the Articles of Association published on the websites of the HKEX and the Bank.

(II) Introduction to the General Meeting

During the Reporting Period, the Bank convened 1 general meeting as specified in below:

The Bank held its 2019 Annual General Meeting in Tianjin on March 27, 2020, which was attended by shareholders' representatives representing 100% of the total number of voting shares, with 6 Directors, 1 proposed Director, 6 Supervisors and the secretary to the Board of Directors of the Bank attending the meeting. 8 resolutions were considered and approved at the meeting and the matters considered included: the Bank's Final Accounts Report for 2019, Profit Distribution Plan for 2019, Work Report of the Board of Directors for 2019, Work Report of the Board of Supervisors for 2019, Budget Report for 2020, Financial Bond Issuance Plan for 2020, Tier-two Capital Bond Issuance Plan for 2020, and Loan Waiver Authorization Plan.

The meeting also reviewed 3 written reports, including 2019 Report on Related Party Transactions and Management of Related Party Transactions (2019年度關聯交易及關聯交易管理情況報告), the Board of Supervisors' 2019 Assessment Report on the Performance of Duties of the Board of Directors, Senior Management and their Members (監事會對董事會、高級管理層及其成員2019年度履職評價報告), and the Board of Supervisors' 2019 Report on Self-Evaluation and Assessment of the Performance of Duties of Supervisors (2019年度監事會自我評價和監事履職評價報告).

The convening, holding and voting procedures of the above meeting were in compliance with relevant laws and regulations, the Articles of Association of the Bank and the Rules of Procedure of Shareholders' General Meeting. The lawyers witnessed the meeting and issued legal opinions.

III. BOARD OF DIRECTORS

(I) Members of the Board of Directors

As of the end of the Reporting Period, the Board of Directors of the Bank consists of eighteen Directors, including four executive Directors: Mr. LI Fuan, Mr. QU Hongzhi, Mr. LI Yi and Mr. DU Gang, eight non-executive Directors: Mr. ZHANG Bingjun, Mr. CUI Xuesong, Mr. FUNG Joi Lun Alan, Ms. YUAN Wei, Mr. YE Baishou, Mr. HU Aimin, Mr. ZHANG Xifang, and Mr. ZHANG Yunji and six independent non-executive Directors: Mr. MAO Zhenhua, Mr. CHI Guotai, Mr. MU Binrui, Mr. TSE Yat Hong, Mr. WANG Ren and Mr. ZHU Ning.

Recognizing the importance of board diversity in enhancing corporate governance and operational efficiency, the Bank has formulated the Board Diversity Policy, which sets out the objectives, vision, overall policy, measurable objectives, review and monitoring of the Board Diversity Policy. In designing the composition of the Board of Directors, the Bank takes into consideration many aspects, including but not limited to gender, age, educational background, industry experience, professional skills, length of service, among others. The Nomination and Remuneration Committee of the Board of Directors is responsible for reviewing the Board Diversity Policy and monitoring its implementation. It reviews the structure, size and composition of the Board (including in terms of skills, knowledge and experience) at least once annually, and fully considers the requirements of the Board Diversity Policy when nominating a Director candidate. As of the end of the Reporting Period, the 18 Directors of the Bank include both male and female representatives and have a relatively wide range of age, ranging from 42 to 72 years old. The Directors have a balanced mix of experience in banking, corporate management, economics and finance. The relatively diverse composition of the Board of Directors ensures that the Board of Directors of the Bank can absorb various opinions, accumulate various advantages, and make scientific and efficient decisions. The Directors express their opinions and suggestions based on their respective expertise and advantages, and contribute their wisdom and strength to the effective operation of the Board of Directors and the stable development of the Bank's business.

For basic information and biographical details about the members of the Board of Directors, please see "Directors, Supervisors, Members of Senior Management, Employees and Branches – Directors, Supervisors and Members of Senior Management" in this annual report.

(II) The Responsibility of the Board of Directors

The Board of Directors is accountable to the Shareholders' general meeting and responsible for operation and management of the Bank. Its principal responsibilities include convening Shareholders' general meeting and executing resolutions of general meeting, formulating development strategy and medium and long term development plans and monitoring the implementation of strategies, determining operational plans and investment programs, examining and approving capital management plans, formulating annual financial budget plans, final accounting plans, risk capital allocation plans, profit distribution plans and loss recovery plans, etc.

(III) Board Meetings

During the Reporting Period, the Board of Directors of the Bank convened 12 meetings, at which 63 proposals were considered and approved as resolutions, and 14 reports were reviewed and heard. The relevant information is as follows:

The Board of Directors deliberated on the annual final accounts report, annual budget report, profit distribution plan, annual performance evaluation indicators, performance evaluation plan, overall plan on remuneration, appraisal of Directors and mutual evaluation of independent Directors, assessment and evaluation of senior management members, branch and sub-branch construction plan, establishment of subsidiaries, major related party transactions, financing and bond issuance, internal authorization, appointment and removal of senior management members, reappointment of accounting firms, purchase of liability insurance, external donations, regular reports and other matters on information disclosure, work reports of the Board of Directors, work reports of senior management, report of comprehensive risk management, assessment report on substantial shareholders, assessment report on internal capital adequacy ratio, risk assessment report of derivatives trading business, work report of consumer rights protection and the key work points for next year, country risk rating and quota management scheme, and the rectification scheme of stock assets in financial management. The Board of Directors also formulated and revised the working rules of special committees, evaluation methods on Directors' performance, management methods of related party (connected) transactions, administrative measures for consumer rights protection, rules of internal audit, statement on risk appetite, capital management policies, market risk management policies, outsourcing risk management policies, information technology risk management policies and country risk management measures and other basic systems to further improve the Bank's institutional system.

The Board of Directors also debriefed 14 reports including the report on related transactions and related transactions management, the internal control evaluation report and auditor's statement, the report on audit work of the Audit and Consumer Rights Protection Committee of the Board of Directors and internal audit report, development plan for inclusive finance business, regulatory comments of CBIRC on the Bank and relevant reports on the Bank's rectification, work plans for the Fourth "Five Year Plan" preparation and reports on the statistical work of financial basic data.

(IV) Particulars of Directors' Attendances at Meetings

During the Reporting Period, the particulars of Directors of the Bank attending meetings of the Board of Directors and general meetings are as follows:

Name	Board of Directors ⁽¹⁾				General meetings ⁽²⁾
	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences	
LI Fuan	12	12	–	–	1/1
FUNG Joi Lun Alan	12	12	–	–	1/1
ZHANG Bingjun	12	9	3	–	0/1
CUI Xuesong	12	12	–	–	0/1
YUAN Wei	12	12	–	–	1/1
YE Baishou	12	11	1	–	0/1
HU Aimin	12	12	–	–	1/1
ZHANG Xifang	12	12	–	–	1/1
ZHANG Yunji	12	11	1	–	0/1
QU Hongzhi	12	12	–	–	1/1
LI Yi	12	12	–	–	0/1
DU Gang	12	12	–	–	0/1
MAO Zhenhua	12	11	1	–	0/1
CHI Guotai	12	12	–	–	0/1
MU Binrui	12	12	–	–	0/1
TSE Yat Hong	5	5	–	–	0/0
WANG Ren	5	4	1	–	0/0
ZHU Ning	5	5	–	–	0/0

Notes: (1) During the Reporting Period, the Directors of the Bank convened 12 meetings in total, including 6 onsite meetings, 6 offsite meetings;

(2) represented as “Number of attendances at/occurrence of the general meetings during the tenure”;

(3) During the Reporting Period, for the details of the changes in Directors of the Bank, please refer to “Directors, Supervisors, Members of Senior Management, Employees and Branches – Changes in Directors, Supervisors and Members of Senior Management” in this annual report.

(V) Work of Independent Non-executive Directors

As of the end of the Reporting Period, there are a total of six independent non-executive Directors in the Board of Directors of the Bank, the number of which is not less than one third of the total members of the Board. At least one of them meets the provisions of Rule 3.10(2) of the Listing Rules, and the qualifications, number and proportion of independent non-executive Directors meet the regulatory requirements. None of the independent non-executive Directors of the Bank is involved in a situation where the independence described in Rule 3.13 of the Listing Rules might be challenged. The Bank has received annual confirmations signed by each of the independent non-executive Directors in respect of their independence, confirming that each independent non-executive Director complies with the independence requirements of the Listing Rules.

During the Reporting Period, all independent non-executive Directors kept in mind their responsibilities under the laws and regulations and the Articles of Association of the Bank, fulfilled their due duty of integrity and diligence for the Bank and all its shareholders, with an objective and prudent attitude, a clear and keen perspective and a long-term view of the overall situation, and performed their duties independently under the principle of fairness, impartiality and openness. Independent non-executive Directors actively attend the Board meetings and special committee meetings and independent non-executive Directors who serve as the chairman of the Risk Management Committee of the Board (and affiliated Related Party Transactions Control Committee), Audit and Consumer Rights Protection Committee or the Nomination and Remuneration Committee shall preside over special committee meetings and lead the special committee to conduct in-depth studies and provide professional advice on matters of concern to the Board of Directors effectively play the role of auxiliary decision-making, and provide a strong guarantee for the efficient operation and scientific decision-making of the Board of Directors. Independent non-executive Directors are independent, thoughtful, objective and impartial in expressing their independent opinions on the authenticity and integrity of the Bank's information disclosure, the legitimacy and fairness of major related party transactions, the appointment and dismissal of senior management members, profit distribution, and the renewal of external auditors. During the Reporting Period, the independent non-executive Directors raised no objection to the relevant matters of the Bank.

In accordance with the Working System for Independent Directors' Annual Report of the Bank, the independent non-executive Directors reviewed the audit plans of the annual financial report of the Bank and listened to the external auditor's report on audit work of the annual report of the Bank, carefully reviewed the annual financial statements and notes to be submitted to the Board of Directors and other meetings for deliberation, fully communicated with the external auditors and reviewed the procedures for convening annual board meetings, the decision-making procedures for matters to be reviewed, and the adequacy of information to support sound and accurate judgments, and expressed their opinions on the annual report independently and objectively at meetings of the Board of Directors, playing the supervisory role of independent non-executive Directors in the preparation, review and disclosure of the annual report.

Please refer to Item (IV) of this section for the attendance of independent non-executive Directors at meetings of the Board of Directors and Shareholders' general meetings during the Reporting Period.

(VI) Appointment, Re-election and Removal of Directors

According to the Articles of Association of the Bank, Directors shall be elected or replaced by the Shareholders' general meeting. The term of office shall be three years, counting from the date when the resolution of the Shareholders' general meeting is passed. Their qualifications for holding office shall be approved by regulatory bodies, and they shall not perform their duties before obtaining the qualifications. Directors may be re-elected upon expiration of their term of office. The cumulative tenure of an independent Director in the Bank shall not exceed six years.

Subject to the provisions of the relevant laws and regulations, the Shareholders' general meeting may remove any Director whose term of office has not expired by ordinary resolution (without prejudice to any claims which may be made by such Director under any contract).

(VII) Directors' Responsibility for the Preparation of Financial Statements

The directors of the Bank acknowledge their responsibility to prepare the financial statements of the Bank for the year ended on December 31, 2020. To the knowledge of the Directors, there is no major unclear event or circumstance which would significantly affect the continuous operating ability of the Bank.

(VIII) Special Committees under the Board of Directors

The Bank's Board of Directors has set up the Risk Management Committee (and the Related Party Transactions Control Committee subordinated to it), the Audit and Consumer Rights Protection Committee, the Nomination and Remuneration Committee and the Development Strategy and Inclusive Finance Committee. Each special committee provides professional advices to the Board of Directors and makes decisions on special matters according to the authorization of the Board of Directors. During the Reporting Period, special committees under the Board of Directors convened 27 meetings in total, at which 68 resolutions were considered and approved and 7 reports were heard and reviewed, details of which are as follows:

1. Risk Management Committee of the Board of Directors

(1) Personnel composition

As of the end of the Reporting Period, the Risk Management Committee of the fifth session of the Board of Directors of the Bank consists of seven members, being independent non-executive Directors Mr. MU Binrui and Mr. CHI Guotai; non-executive Directors Mr. FUNG Joi Lun Alan, Mr. ZHANG Xifang, and Mr. ZHANG Yunji; executive Directors Mr. QU Hongzhi, Mr. LI Yi, respectively, and is chaired by Mr. MU Binrui.

(2) Main responsibilities

The main responsibilities of the Risk Management Committee of the Board of Directors of the Bank include: setting the basis and method for the level of risk that the Bank can undertake; reviewing risk appetite and risk management policies, systems and basic principles; reviewing the sale of assets and external guarantees that are not within the scope of business operations; supervising the senior management's control over risks, regularly debriefing the senior management's report on risks and risk management status, timely putting forward opinions on risk management and internal control, reporting to the Board of Directors when necessary, and informing the senior management and the Board of Supervisors. If necessary, they need to debrief senior management's reports on compliance with relevant laws and regulations, regulatory requirements, policies of the Bank, rules and regulations, anti-money laundering arrangements and self-inspection results. They shall also authorize the affiliated Related Party Transaction Control Committee to exercise relevant functions and powers over related transactions control and perform other duties as assigned by the Board of Directors.

(3) Meetings and work

During the Reporting Period, the Risk Management Committee of the fifth session of the Board of Directors of the Bank held five meetings in total, reviewed and passed 17 proposals and debriefed one report. The Risk Management Committee of the Board of Directors reviewed the report on the comprehensive risk management situation of the Bank, summary of prevention and control work on non-compliance cases, self-assessment report on money laundering risk and amendments to various risk management policies. It also acquired the risk management status throughout the Bank in a timely manner, and required the senior management to continuously work on improving the comprehensive risk management system and the long-term mechanism of internal control compliance management so as to enhance the prediction of various risks and implement more prudent and efficient risk management.

During the Reporting Period, the attendance of the members of the Risk Management Committee of the Board of Directors of the Bank are as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
MU Binrui	5	5	–	–
FUNG Joi Lun Alan	5	5	–	–
ZHANG Xifang	5	5	–	–
ZHANG Yunji	5	5	–	–
QU Hongzhi	4	3	1	–
LI Yi	5	5	–	–
CHI Guotai	5	5	–	–

Notes: (1) During the Reporting Period, the Risk Management Committee of the fifth session of the Board of Directors of the Bank convened three off-site meetings.

(2) For changes in the Bank's Directors during the Reporting Period, see "Directors, Supervisors, Members of Senior Management, Employees and Branches – Changes in Directors, Supervisors and Members of Senior Management" in this annual report.

2. *Related Party Transaction Control Committee of the Board of Directors*

(1) *Personnel composition*

As of the end of the Reporting Period, the Related Party Transaction Control Committee of the fifth session of the Board of Directors of the Bank consists of seven members, being independent non-executive Directors Mr. MU Binrui and Mr. CHI Guotai; non-executive Directors Mr. FUNG Joi Lun Alan, Mr. ZHANG Xifang, and Mr. ZHANG Yunji; executive Directors Mr. QU Hongzhi, Mr. LI Yi, respectively, and is chaired by Mr. MU Binrui.

(2) *Main responsibilities*

The main responsibilities of the Related Party Transaction Control Committee of the Board of Directors of the Bank include: reviewing the administrative measures on related (connected) transactions, and preparing annual special reports on the implementation of such administrative systems and submitting them to the Board of Directors; reviewing and approving the list of related parties (connected persons), and reporting to the Board of Directors and the Board of Supervisors. It shall examine related (connected) transactions in accordance with laws and regulations, the provisions of the exchanges on which the Bank's securities are listed and the commercial principles of fairness and impartiality; review the information disclosure matters of related (connected) transactions and supervise the authenticity, accuracy and integrity of such disclosure; and perform other duties as assigned by the Board of Directors or the Risk Management Committee of the Board.

(3) *Meetings and work*

During the Reporting Period, the Related Party Transaction Control Committee of the fifth session of the Board of Directors of the Bank held eight meetings and reviewed and passed 14 proposals. The Related Party Transaction Control Committee of the Board of Directors attaches great importance to the management of related (connected) transactions, strictly examines material related transactions, and provides clear opinions for the Board of Directors to make scientific decisions. It also reviews administrative measures for related (connected) transactions, reviews and approves the list of related parties (connected persons), and expresses opinions on the authenticity, accuracy and integrity of information disclosure of related transactions.

During the Reporting Period, the attendance of the members of the Related Party Transactions Control Committee of the Board of Directors of the Bank are as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
MU Binrui	8	8	–	–
FUNG Joi Lun Alan	8	8	–	–
ZHANG Xifang	8	8	–	–
ZHANG Yunji	8	8	–	–
QU Hongzhi	8	8	–	–
LI Yi	8	8	–	–
CHI Guotai	8	8	–	–

Notes: (1) During the Reporting Period, the Related Party Transactions Control Committee of the fifth session of the Board of Directors of the Bank convened eight off-site meetings.

(2) For changes in the Bank's Directors during the Reporting Period, see "Directors, Supervisors, Members of Senior Management, Employees and Branches – Changes in Directors, Supervisors and Members of Senior Management" in this annual report.

3. *Audit and Consumer Rights Protection Committee of the Board of Directors*

(1) Personnel composition

At the end of the Reporting Period, the Audit and Consumer Rights Protection Committee of the fifth session of the Board of Directors of the Bank consists of seven members, being independent non-executive directors Mr. TSE Yat Hong, Mr. MU Binrui, Mr. WANG Ren, Mr. ZHU Ning; non-executive Directors Mr. CUI Xuesong, Mr. FUNG Joi Lun Alan, Mr. YE Baishou, respectively, and is chaired by Mr. TSE Yat Hong. All members of the Audit and Consumer Rights Protection Committee of the Board of Directors are non-executive Directors, and the majority is the independent non-executive Directors, which complies with the Listing Rules and the Articles of Association of the Bank.

(2) Main responsibilities

The main responsibilities of the Audit and Consumer Rights Protection Committee of the Board of Directors of the Bank include: reviewing internal audit articles of association and medium- and long-term audit plans, organizing and leading the internal audit work as authorized by the Board of Directors. It shall be responsible for the communication between internal audit and external audit; review and approve the appointment and removal of the responsible person of internal audit, be responsible for the assessment and supervision of the responsible person of internal audit and the audit department. It shall debrief audit department's reports on major audit findings from internal audit, external audit and regulatory audit, and urge senior management to make corrective actions accordingly. The Committee shall review the financial position, accounting policies and procedures, and financial reporting procedures of the Bank, designate working groups to conduct independent investigations and assessment to monitor its implementation, and submit review opinions to the Board of Directors when necessary, and notify the senior management and the Board of Supervisors at the same time. It shall be responsible for organizing the annual audit work, designating working groups to conduct independent review on the financial reports and making judgmental reports on the authenticity, integrity and accuracy of the audited financial reports; designating working groups to conduct independent assessment on the internal control and risk management system, and supervising the implementation and effectiveness of the system. It shall also organize discussions on the internal control system and report to the Board of Directors on relevant issues and make recommendations to the Board of Directors on matters relating to the recruitment, renewal or dismissal of external auditors. It shall formulate strategies, policies and objectives for the protection of consumers' rights and interests, and supervise senior management to effectively carry out relevant work; regularly debrief special reports on the protection of consumers' rights and interests, supervise and evaluate the comprehensiveness, timeliness and effectiveness of the protection of consumer rights and interests, as well as the performance of senior management. And it shall also review and propose proposals on the protection of consumers' rights and interests to be submitted to the Board of Directors for deliberation and perform other duties as assigned by the Board of Directors and required by laws and regulations.

(3) Meetings and work

During the Reporting Period, the Audit and Consumer Rights Protection Committee of the fifth session of the Board of Directors of the Bank held four meetings, reviewed and passed 15 proposals and debriefed four reports. The Audit and Consumer Rights Protection Committee of the Board of Directors regularly debriefed internal audit work reports, continuously strengthened supervision and guidance over the audit work throughout the Bank, took solid steps to solve root causes of audit findings, and effectively promoted the improvement of internal and external audit efficiency. It also reviewed the 2019 and 2020 interim financial reports in strict accordance with the relevant rules and regulations of the Bank and gave full play to its supervisory role in the annual audit process, and designated working groups to carry out the annual internal control evaluation, reviewed the evaluation report and the auditor's statement. It reviewed the 2019 work report on the protection of consumers' rights and interests and the key aspects of work for 2020, and made arrangements for the work on the protection of consumers' rights and interests throughout the year.

During the Reporting Period, the attendance of the members of the Audit and Consumer Rights Protection Committee of the Board of Directors of the Bank are as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
TSE Yat Hong	2	2	–	–
CUI Xuesong	4	4	–	–
FUNG Joi Lun Alan	4	4	–	–
YE Baishou	4	4	–	–
MU Binrui	4	4	–	–
WANG Ren	2	2	–	–
ZHU Ning	2	2	–	–

Notes: (1) During the Reporting Period, the Audit and Consumer Rights Protection Committee of the fifth session of the Board of Directors of the Bank convened two off-site meetings.

(2) For changes in the Bank's Directors during the Reporting Period, see "Directors, Supervisors, Members of Senior Management, Employees and Branches – Changes in Directors, Supervisors and Members of Senior Management" in this annual report.

(4) **Audit and Consumer Rights Protection Committee of the Board reviewed the annual financial report for 2020**

The Audit and Consumer Rights Protection Committee of the Board of the Bank performed the following duties during the review of the 2020 Annual Report in accordance with the relevant policies of the Bank: at the preparatory stage of the accountants for annual audit, the 6th meeting of the Audit and Consumer Rights Protection Committee of the fifth session of the Board was held on January 22, 2021, at which, the committee listened to the audit work reports of the accountants for annual audit on the annual financial report for 2020, in particular, scope of audit work, time and personnel arrangement, communication mechanism, the overall audit strategy, the audit focus, pre-audit work situation and COVID-19 outbreak influence on the financial report and the auditing, and put forward advices and requests. In the process of auditing, the committee strengthened the communication with the accountants for annual audit. After the preliminary audit opinions were issued by the accountants for annual audit, the 7th meeting of the Audit and Consumer Rights Protection Committee of the fifth session of the Board was held on March 19, 2021, at which, the committee reviewed the Bank's financial statements for 2020 and the audit report, listened to the external auditor's report on the Bank's annual audit work in 2020, and put forward advices. Before holding the annual meeting of the Board, the 8th meeting of the Audit and Consumer Rights Protection Committee of the fifth session of the Board was held on March 19, 2021, at which, the committee considered and approved the annual financial report for 2020, and agreed to submit it to the Board of the Bank for consideration.

4. Nomination and Remuneration Committee of the Board of Directors

(1) **Personnel composition**

As of the end of the Reporting Period, the Nomination and Remuneration Committee of the fifth session of the Board of Directors of the Bank is composed of seven members: independent non-executive Directors: Mr. MAO Zhenhua, Mr. CHI Guotai, Mr. WANG Ren, Mr. ZHU Ning; executive Director: Mr. LI Fuan; non-executive Directors: Mr. ZHANG Bingjun, Mr. HU Aimin; and chairperson of the Committee: Mr. MAO Zhenhua. The Nomination and Remuneration Committee of Board of Directors is composed of independent non-executive Directors in majority, which is in accordance with the Listing Rules and the Articles of Association of the Bank.

(2) Main responsibilities

The main responsibilities of the Nomination and Remuneration Committee of the Board of Directors of the Bank include: reviewing procedures and standards for the election and appointment of Directors and senior management members, submitting comments and recommendations to the Board for its consideration, nominating members of the Board of Directors and Senior management, preliminarily examining the qualifications and conditions of Directors and senior management members, and making recommendations to the Board of Directors. It shall review the evaluation criteria and evaluation reports of Directors and senior management members, as well as the mutual evaluation reports of independent Directors, examine remuneration packages for Directors, senior management members and other key positions, formulate remuneration policies with respect to the establishment of formal and transparent procedures, and submit comments and recommendations to the Board for its consideration. It shall also review employee remuneration management policies and retirement policies, review business performance assessment indicators and performance assessment policies and perform other duties as authorized by the Board of Directors and required by laws and regulations.

In nominating Directors to the Board of Directors, the Nomination and Remuneration Committee of the Board of Directors of the Bank will take into consideration, including but not limited to, the following:

- the Company Law, Commercial Banking Law, the Guidelines on Corporate Governance of Commercial Banks, Measures for the Administration of the Office-holding Qualifications of the Directors (Council Members) and Senior Managers of Banking Financial Institutions, Implementation Measures on Administrative Licensing Items on Chinese-Funded Commercial Banks, Listing Rules and other relevant laws and regulations;
- relevant provisions of the Articles of Association of the Bank and the Working Rules of the Nomination and Remuneration Committee of the Board of Directors and other internal governance documents;
- the actual work of the Bank;
- the Board Diversity Policy of the Bank, including but not limited to, gender, age, cultural and educational background, race, industry and professional experience, technical and professional skills and/or qualifications, knowledge, length of service and time required to be a Director;
- the factors set out in Article 3.13 of the Listing Rules that may affect the independence of an independent non-executive Director candidate; and
- any other factors which the Nomination and Remuneration Committee of the Board of Directors may deem relevant and applicable from time to time.

The Nomination and Remuneration Committee of the Board of Directors shall nominate and review the qualifications and conditions for the appointment of directors in accordance with the Articles of Association and the procedures and standards for the appointment of Directors and make recommendations to the Board of Directors on the nomination of such persons after identifying the suitably qualified person to serve as Director.

(3) Meetings and work

During the Reporting Period, the Nomination and Remuneration Committee of the fifth session of the Board of Directors of the Bank held a total of six meetings, deliberated and approved 13 proposals, and reviewed one report. The Nomination and Remuneration Committee of the Board of Directors organized and carried out annual director evaluation, independent Director mutual evaluation and senior management evaluation. It carefully reviewed the annual group performance assessment index, overall performance assessment scheme, overall remuneration scheme and performance assessment contract of the chairperson of the Board, president and secretary to the Board of Directors and provided clear advice to the Board on changes in duties of the senior management members.

During the Reporting Period, the attendance of the members of the Nomination and Remuneration Committee of the Board of Directors of the Bank is set forth as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
MAO Zhenhua	6	6	–	–
LI Fuan	6	6	–	–
ZHANG Bingjun	6	6	–	–
HU Aimin	6	6	–	–
CHI Guotai	6	6	–	–
WANG Ren	2	2	–	–
ZHU Ning	2	2	–	–

- Notes: (1) During the Reporting Period, the Nomination and Remuneration Committee of the fifth session of the Board of Directors of the Bank held 6 meetings by way of off-site meetings;
- (2) Please refer to “Directors, Supervisors, Members of Senior Management, Employees and Branches – Changes in Directors, Supervisors and Members of Senior Management” in this annual report for the changes in the Directors of the Bank during the Reporting Period.

5. Development Strategy and Inclusive Finance Committee of the Board of Directors

(1) Personnel composition

As of the end of the Reporting Period, the Development Strategy and Inclusive Finance Committee of the fifth session of the Board of Directors of the Bank is composed of seven members: executive Directors Mr. LI Fuan, Mr. QU Hongzhi, Mr. DU Gang; non-executive Directors: Mr. CUI Xuesong, Mr. FUNG Joi Lun Alan, Ms. YUAN Wei, Mr. YE Baishou; and chairperson Mr. LI Fuan.

(2) Main responsibilities

The main responsibilities of the Development Strategy and Inclusive Finance Committee of the Board of Directors of the Bank include: reviewing business development strategies and medium and long-term development plans; assessing development strategies on a regular basis; reviewing proposals for material changes in shareholding, financial reorganization, merger, division and dissolution; reviewing proposals for capital management planning, listing or other fund raising arrangements, use of proceeds, increase or reduction of registered capital and share repurchase; reviewing plans for annual financial budget, final accounts, risk capital allocation, profit distribution and recovery of losses and other financial plans that materially affect our business operations and development, as well as giving opinions or making recommendations as to whether these plans are in line with our development strategies; reviewing annual operational and investment plans as well as giving opinions or making recommendations as to whether these plans are in line with our development strategies; reviewing risk management policies, capital management policies and other policies that have a significant impact on the development of the Bank, as well as giving opinions or making recommendations as to whether they are in line with our development strategies; assessing our proposals for external investments that are outside the ordinary course business and other issues that may materially affect our business development, as well as making relevant recommendations; formulating our plans for the development of our inclusive finance business, designing basic management policy and supervising its implementation; and performing other responsibilities as authorized by our Board of Directors.

(3) Meetings and work

During the Reporting Period, the Development Strategy and Inclusive Finance Committee of the fifth session of the Board of Directors of the Bank convened a total of four meetings, at which 9 resolutions were considered and approved and 1 report was heard. The Development Strategy and Inclusive Finance Committee of the Board of Directors reviewed and studied the plans for annual financial budgets, final accounts, profit distribution proposals, establishment plan of subsidiaries, bond issuance plan and construction plan of branches and sub-branches; formulated the annual development plan for inclusive finance business and set development goals, listened to the formulation plans of the Fourth "Five Year Plan" and offered professional opinions on relevant matters for the reference in decision-making of Board of Directors.

During the Reporting Period, the attendance of the members of the Development Strategy and Inclusive Finance Committee of the Board of Directors of the Bank are as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
LI Fuan	4	4	–	–
CUI Xuesong	4	4	–	–
FUNG Joi Lun Alan	4	4	–	–
YUAN Wei	4	4	–	–
YE Baishou	4	4	–	–
QU Hongzhi	4	4	–	–
DU Gang	4	4	–	–

Notes: (1) During the Reporting Period, the Development Strategy and Inclusive Finance Committee of the fifth session of the Board of Directors of the Bank held 4 meetings by way of off-site meetings;

(2) Please refer to "Directors, Supervisors, Members of Senior Management, Employees and Branches – Changes in Directors, Supervisors and Members of Senior Management" in this annual report for the changes in the Directors of the Bank during the Reporting Period.

(IX) Corporate Governance Functions

The Board of Directors of the Bank is responsible for performing its corporate governance functions set out in Appendix 14 of the Listing Rules, including: developing and reviewing the corporate governance policies and practices; reviewing and monitoring the training and continuous professional development of directors and senior management members; reviewing and monitoring the Bank's policies and practices in compliance with legal and regulatory requirements; developing, reviewing and monitoring codes of conduct and compliance manuals for employees and directors; and reviewing the Bank's compliance with the Corporate Governance Code and the disclosure of corporate governance information in the annual report.

IV. BOARD OF SUPERVISORS

(I) Members of the Board of Supervisors

As of the end of the Reporting Period, the fifth session of the Board of Supervisors of the Bank consists of six Supervisors, including three external Supervisors: Mr. QI Ershi, Mr. DIAO Qinyi and Mr. HUI Yung Chris, and three employees' representative Supervisors: Mr. WANG Chunfeng, Mr. FENG Jiankuan and Mr. FAN Zhigui.

For basic information and biographical details about the members of the Board of Supervisors, please see "Directors, Supervisors, Members of Senior Management, Employees and Branches – Directors, Supervisors and Members of Senior Management" in this annual report.

(II) The Responsibility of the Board of Supervisors

The Board of Supervisors is the Bank's internal supervisory organization. It is accountable to the Shareholders' general meeting and targets on protecting the legal rights of the Bank, the Shareholders, employees, creditors and other stakeholders. Its major functions and powers include supervising the Board of Directors to establish sound business philosophy, value standards and formulate development strategies in line with the Bank's actual situation; regularly evaluating the scientificity, rationality and effectiveness of the development strategies formulated by the Board of Directors, to generate an evaluation report; inspecting and supervising the Bank's financial activities, operating decisions, internal control and risk management and pushing forward relevant rectifications; supervising the election and appointment process of Directors; supervising the violation of laws and regulations or Articles of Association of the Bank by the Directors and senior management members when performing their duties, and comprehensively evaluating the performance of the Directors, Supervisors and senior management members, etc.

For the work of the Board of Supervisors and its special committees during the Reporting Period, please refer to the "Report of the Board of Supervisors" in this annual report.

(III) Work of External Supervisors

According to the provisions of the Articles of Association, the Bank shall have 3 external Supervisors. The chairmen of the Nomination Committee and the Supervision Committee under the Board of Supervisors are all external Supervisors. During the Reporting Period, the external Supervisors of the Bank strictly complied with the laws and regulations and the Articles of Association of the Bank, performed their duties conscientiously and diligently, attended meetings of the Board of Supervisors and special committees on time, actively attended the Shareholders' general meeting, meetings of the Board of Directors and special committees, carefully reviewed the resolutions before the meetings, actively spoke at the meetings and provided professional advice to the Board of Directors and senior management. During the adjournment period, they paid close attention to the Bank's business development, carefully studied various information reports of the Bank, actively promoted various supervision work; focused on the interests of depositors and the Bank as a whole, made active efforts to protect the interests of Shareholders and the Company, and mainly carried out the following tasks: attended all meetings of the Board of Supervisors that they should attend during the Reporting Period, and complying with regulatory requirements in terms of in-person attendance rate; presided over and convened 2 meetings of the Nomination Committee of the Board of Supervisors and 2 meetings of the Supervision Committee of the Board of Supervisors, respectively; attended one Shareholders' general meeting, all on-site meetings of the Board of Directors during the Reporting Period, supervised all meetings of special committees under the Board of Directors by attending or reviewing the relevant documents; and supervised the operation of the meetings, and the Directors' performance of duties during the meetings; regularly reviewed the Bank's financial statements and monitored significant changes in financial aspects; reviewed the materials, such as minutes of president's office meetings, minutes of special meetings conducted by the president, reports on related party transactions and the internal control and compliance risk alerts, to strengthen daily supervision of the performance of duties; conducted surveys and research at branches to understand the implementation of risk management and internal control at the grassroots level; attended external trainings on corporate governance to enhance the ability to perform duties.

V. TRAINING AND INVESTIGATIONS OF DIRECTORS AND SUPERVISORS

The Directors of the Bank attach great importance to their own continuous professional development. During the Reporting Period, the members of the Board of Directors, including Mr. LI Fuan, Mr. FUNG Joi Lun Alan, Mr. ZHANG Bingjun, Mr. CUI Xuesong, Ms. YUAN Wei, Mr. YE Baishou, Mr. HU Aimin, Mr. ZHANG Xifang, Mr. ZHANG Yunji, Mr. QU Hongzhi, Mr. LI Yi, Mr. DU Gang, Mr. MAO Zhenhua, Mr. CHI Guotai, Mr. MU Binrui, Mr. TSE Yat Hong, Mr. WANG Ren, Mr. ZHU Ning have taken an active part in special training of the Bank and external organizations, carefully studied all kinds of information and materials related to regulatory policies, industry development, corporate governance and operation management of the Bank, timely grasped the latest regulatory trends and the development status of the Bank, and kept the theoretical level and practical ability current. All Directors participated in the pre-listing training organized by the legal counsel of the Bank to learn about the responsibilities of directors of listed companies and other compliance matters, strengthening their awareness of compliance and enhancing their ability to perform their duties.

During the Reporting Period, the Board of Supervisors of the Bank continued to pay attention to the key regulatory issues and the latest developments, enhanced the efforts in the training of Supervisors, and organized Supervisors to attend trainings, including the senior training course of "the National Work Practice of Board of Supervisors and Construction of Corporate Supervisory System (全國監事會工作實務暨公司大監督體系建設)", anti-money laundering and the new Securities Law; overcame the adverse impact of the pandemic, actively conducted interbank surveys and research, strengthened communications within the industry, and visited two organizations for the Board of Supervisors of listed banks to learn advanced experience in the industry; by focusing on the work centers of the Bank and integrating the requirements of various supervisory functions of the Board of Supervisors, insisted on conducting the in-depth investigation and research in branches during the normal pandemic prevention and control, earnestly understood the implementation of various policies in branches and the opinions and suggestions of the grassroots employees to the head office, and further strengthened the supervision of performance, finance, internal control, risk and strategy, played a positive role in promoting and ensuring the further improvement of the Bank's corporate governance and the stable business development.

VI. SENIOR MANAGEMENT

Senior management is responsible for conducting operational and management activities in accordance with the Articles of Association of the Bank and the authority of the Board of Directors to ensure that the Bank's operations are consistent with the development strategies, risk appetite and other policies approved by the Board of Directors. Senior management is accountable to the Board of Directors and accepts the supervision from the Board of Supervisors. Senior management shall not be interfered with in the operation management activities within the scope of its functions and powers in accordance with the law.

The president shall exercise his/her functions and powers in accordance with the relevant laws and regulations and the Articles of Association of the Bank. The vice president and other senior management members shall assist the president in his/her work and perform their duties in accordance with the relevant authorizations.

(I) Composition and Basic Information of Senior Management

As of the end of the Reporting Period, the senior management of the Bank consists of five members, including: Mr. QU Hongzhi, the president, Mr. LI Yi and Mr. WU Siqi, Mr. DU Gang (secretary to the Board of Directors) and Mr. ZHAO Zhihong (the chief risk officer), vice presidents. During the Reporting Period, among these five members of senior management, four persons received less than RMB2 million and one person received more than RMB2 million for the total amount of pre-tax remuneration received from the Bank during their terms of office. For detailed information about the remuneration and other basic information of members of senior management, please refer to "Directors, Supervisors, Members of Senior Management, Employees and Branches – Directors, Supervisors and Members of Senior Management" of this annual report.

During the Reporting Period, the senior management of the Bank, under the leadership of the party committee of the Head Office and Board of Directors, united and led the whole bank to actively respond to the increasingly demanding business situation and risk challenges, earnestly implemented various decisions and deployments of the party committee of the Head Office and Board of Directors, and adhered to high-quality development of transformation, where business transformation has achieved initial results. At the same time, the senior management resolutely returned to our main businesses, strictly complied to the bottom line of compliance, and consolidated management quality and efficiency. The operating results registered a stable performance with good momentum for growth, our profitability maintained a stable growth, the ability to serve the real economy continued to improve, and the ability to resist risks continued to increase.

During the Reporting Period, the senior management of the Bank, in accordance with relevant laws, regulations, the Articles of Association and the Work Rules for Senior Management (《高級管理層工作規則》) of the Bank, conscientiously performed their duties, and worked hard to improve the level of operation and management. A total of four bank-wide comprehensive meetings, two business analysis meetings, 28 office meetings of the president, 33 special meetings of the president, 11 meetings of the Assets and Liabilities Management Committee, 17 meetings of the Risk Control Committee, 25 meetings of the Finance Review and Approval Committee, two meetings of the Innovation Committee, eight meetings of the Information Technology Committee, four meetings of the Data Management Committee, and 11 meetings of the Channel Establishment Management Committee were held during the whole year. At each meeting, senior management members actively expressed professional opinions, fully communicated information, and solved problems conscientiously, and ensured the operation and management running in efficient and orderly manners.

(II) Performance Assessment and Incentive and Restraint Mechanism of Senior Management Members

During the Reporting Period, the Board of Directors of the Bank has conscientiously implemented the resolutions of the Shareholders' general meeting and conducted performance assessment of senior management members in accordance with the Performance Evaluation Measures for Senior Management Personnel (《高級管理人員績效考核辦法》). The Board of Directors has reviewed and approved the Group's performance assessment criteria of the Bank for 2020, which closely combined the performance assessment of senior management members with the Group's performance criteria, and further strengthened the incentives and constraints on senior management members.

VII. CHAIRMAN OF THE BOARD OF DIRECTORS AND THE PRESIDENT

The Articles of Association of the Bank stipulates that the Bank shall have a chairman and a president respectively. As of the end of the Reporting Period, Mr. LI Fuan serves as the chairman of the Board of Directors of the Bank and is mainly responsible for the overall work of the party committee and Board of Directors of the Bank. Mr. QU Hongzhi serves as the president of the Bank and is mainly responsible for the operation and management of the Bank. The duties of the chairman and the president are clearly defined and comply with the requirements of the Listing Rules.

VIII. COMPANY SECRETARY

As of the end of the Reporting Period, Mr. DU Gang (succeeding Mr. ZHAO Zhihong as joint company secretary with effect from November 6, 2020) and Ms. SO Shuk Yi Betty of SWCS Corporate Services Group (Hong Kong) Limited serve as joint company secretaries of the Bank. Mr. DU Gang is the main contact person of Ms. SO Shuk Yi Betty in the Bank.

During the Reporting Period, both Mr. DU Gang and Ms. SO Shuk Yi Betty have complied with the relevant requirements of Rule 3.29 of the Listing Rules and have attended the relevant professional training for no less than 15 hours.

IX. RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND MEMBERS OF SENIOR MANAGEMENT

There is no financial, business, family or other material relationship among the Directors, Supervisors and members of senior management of the Bank.

X. SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

The Bank has adopted the Model Code as the code of conduct for the supervision of securities transactions by Directors and Supervisors of the Bank. Following specific inquiries with all Directors and Supervisors of the Bank, the Directors and Supervisors of the Bank confirmed that they have complied with the Model Code from the Listing Date until the end of the Reporting Period.

XI. CONTRACTED INTERESTS AND SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

To the knowledge of the Bank, the Directors and Supervisors of the Bank have no material interest, directly or indirectly, in any material transactions, arrangements or contracts entered into by the Bank during the Reporting Period. The Directors and Supervisors of the Bank did not enter into any service contract with the Bank which is liable to indemnity (other than statutory indemnity) in the event of termination of the contract within one year.

XII. INFORMATION DISCLOSURE

The Bank attaches great importance to information disclosure, strictly implements the information disclosure regulations and the requirements of the Listing Rules, adheres to the principles of truthfulness, accuracy, completeness, timeliness and fairness, fulfills the obligation of information disclosure, and protects investors' right to know. During the Reporting Period, the Bank has comprehensively sorted out and revised the Administrative Measures on Information Disclosure (《信息披露管理办法》) in accordance with the relevant regulatory regulations on information disclosure in the listing place, which took effect on the Listing Date upon the review and approval of the Board of Directors. The Bank has also successfully completed the preparation and disclosure of periodic reports, and timely disclosed the temporary announcements in accordance with regulatory provisions. It continued to strengthen the initiative and pertinence of information disclosure, so as to provide reference for investors to timely understand the operation and development of the Bank. In 2020, more than 30 information disclosure documents, including periodic reports and temporary announcements, were published on the websites of the HKEX and the Bank.

The Bank carried out inside information management in strict accordance with the regulatory requirements of the place where the securities were listed. Through establishing and optimizing the internal information reporting mechanism, the Bank defined the information reporting route, and ensured the timely, compliant and effective transmission of material information among corporate governance entities. In case of "inside information" as referred to in the Securities and Futures Ordinance, the Bank can timely deal with and release inside information in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission of Hong Kong and other relevant regulatory requirements, and strictly keep confidential relevant information before disclosure. During the Reporting Period, the Bank strengthened compliance publicity and education and enhanced the compliance awareness of insiders by organizing relevant trainings, timely forwarding the latest regulatory requirements, and timely releasing the confidentiality notice and the notice on prohibiting securities trading, effectively preventing insider dealing risk.

XIII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In order to meet the needs of the Bank's overseas initial public offering and listing, the Bank has made amendments to the Articles of Association according to the requirements of the listing of H Shares, which have come into effect on the Listing Date of the Bank upon consideration and approval of the Shareholders' general meeting of the Bank and approval of the CBIRC.

After the completion of Global Offering, the Bank filed an application to CBIRC for change of registered capital. In December 2020, CBIRC approved the change of the registered capital of the Bank from RMB14.45 billion to RMB17.762 billion in the Reply of the CBIRC to the Change of Registered Capital of China Bohai Bank (Yin Bao Jian Fu [2020] No. 916) (《中國銀保監會關於渤海銀行變更註冊資本的批覆》(銀保監覆[2020]916號)). Accordingly, the Bank revised the corresponding articles of the Articles of Association, and has reported to the CBIRC. For details, please refer to relevant announcements and the Articles of Association published on the websites of the HKEX and the Bank.

XIV. COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank has adopted the applicable code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules. The Bank has complied with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules from the Listing Date to the end of the Reporting Period. The Bank has also complied with certain recommended best practices set out in the Code.

XV. APPOINTMENT OF AUDITORS

The Bank has engaged KPMG and KPMG Huazhen LLP as its 2020 overseas and domestic auditors respectively.

During the Reporting Period, the Bank paid RMB5 million for audit expense and RMB0.64 million for non-audit expense to the aforementioned auditors.

The Bank has not changed auditors in the past three years.

XVI. INTERNAL CONTROL

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective risk management and internal control system, and ensuring the Bank's prudent operation under the framework of laws and policies. The Board of Supervisors is responsible for supervising the Board of Directors and the senior management to improve the risk management and internal control system, and supervising the performance of risk management responsibilities by the Board of Directors, the senior management and their members. The senior management is responsible for implementing the resolutions of the Board and ensuring effective performance of risk management responsibilities.

The Board of Directors is responsible for risk management and internal control system, and is responsible for reviewing the effectiveness of relevant systems. The risk management and internal control system are designed to manage rather than eliminate the risk of failure to achieve business objectives, so the Board of Directors can only provide reasonable but not absolute guarantees to avoid material misrepresentation or loss.

The Bank has established a risk management and internal control system consisting of three lines of defense. The first line of defense of risk management and internal control is formed by various business departments, divisions, branches and sub-branches, who assume direct responsibilities for the risk management and internal control; the second line of defense is departments of risk management line, Assets and Liabilities Management Department, Internal Control and Compliance Department, the General Office (Public Relations Department) and Office of Strategic Development and Investment Management, who take the lead in formulating policies and procedures, monitoring and managing risks; the third line of defense of risk management and internal control is the Audit department, who assume audit responsibilities for the performance of our business departments and risk management and internal control departments.

The Bank closely monitors various risks through risk appetite, risk limits, risk management information systems and a series of risk management policies and measures to respond in a timely manner, especially major risks related to daily operation, including credit risk, market risk, liquidity risk, operational risk, country risk, interest rate risk in the banking book, reputational risk, strategic risk and information technology risk. The Bank focuses on the formulation of rules, policies and implementation of measures related to major risks to optimize the effectiveness and efficiency of risk identification, analysis, assessment and mitigation. For various risks and risk events, the Bank has formulated clear communication and reporting procedures to ensure orderly and efficient risk management. The Board of Directors of the Bank regularly evaluates the effectiveness of the Bank's risk management system. During the Reporting Period, the Bank's risk management system was sound and effective. Please refer to "Management Discussion and Analysis – Comprehensive Risk Management" in this annual report for the details of the Bank's risk management system.

The Bank has established a "four-in-one" internal control organization system consisting of process execution, functional management, second-line supervision and internal audit. The Bank adheres to the principle of "comprehensive, whole-process, and whole-workforce" in internal control management, compliance support, operational risk prevention, case prevention and control, anti-money laundering management, business continuity management, auditing and inspection and other aspects, to promote compliant and orderly management and steady development of all operations.

During the Reporting Period, the Bank continued to improve the internal control and compliance management system, streamline the management coverage and connection of various mechanisms, and consolidate the management foundation with reference to the Basel and COSO risk frameworks and the guidelines for internal control of commercial banks. The Bank further clarified the division of responsibilities, highlighted internal control environment construction, system advancement, case prevention and control, and employee behavior management, earnestly performed the anti-money laundering responsibilities, and carried out in-depth inspection, rectification and responsibility identification. The Bank highlighted technology empowerment and information technology risk management, actively cooperated with the regulatory authorities in on-site inspection, and started a new chapter in internal control and compliance management.

During the Reporting Period, the Bank improved various internal audit policies and procedures, enhanced internal audit capability and technological level, and adopted risk-oriented audit strategies and methods. The Bank carried out various audit evaluations by means of on-site and off-site audits, performed audit supervision duties, and promoted the continuous improvement of the Bank's internal control and risk management.

The Bank organized and carried out the 2020 internal control evaluation work for the whole bank based on the Basic Standards for Enterprise Internal Control (《企業內部控制基本規範》) and its application guidelines, and assessed the soundness, reasonableness and effectiveness of internal control design and operation, timely found out internal control deficiencies and improved internal control management. During the Reporting Period, no major or material defects were found in the internal control and risk management of the Bank. The Bank considers that its internal control is adequate and effective.

XVII. INTERNAL AUDIT

The Bank has established an independent and vertical internal audit system of “Audit Department + Audit Center”, which performs the audit function independently as the working body subordinated to the Audit and Consumer Rights Protection Committee of the Board of Directors and the Board of Supervisors.

The Bank adopts a risk-based audit model in internal audit. Based on the division of audit units and regular risk assessment of audit units, the Bank determines audit items according to regulatory requirements, risk level and the principle of materiality, formulates annual plan for internal audit work, ensures that all audit units are audited once every three years, and actively performs the duties of audit supervision on key businesses and major risk areas within its scope of responsibility.

During the Reporting Period, the audit department of the Bank actively expanded the breadth and depth of audit supervision, increased audit efforts on high-risk businesses and institutions, and focused on the quality of the Bank’s assets and the whole process of operation and management of credit extension, and focused on the key tasks in operation and management and innovative businesses. Focusing on the Bank’s central tasks, it carried out 21 special audits and 6 regular audits of branches in accordance with the plan for internal audit work approved by the Audit and Consumer Rights Protection Committee under the Board of Directors, the work arrangements of the Board of Supervisors and regulatory requirements, and completed exit audits in a timely manner according to the Bank’s actual situation, revealed the control deficiencies in various risk management of the Bank, including credit risk, compliance risk, market risk, operational risk and technology risk, continuously promoted the rectification of the problems identified by the audits, fully performed the audit duties and continuously promoted the continuous improvement of the internal control and risk management system of the Bank.

Report of the Board of Directors

I. PRINCIPAL BUSINESS

The Bank is mainly engaged in banking and related financial services. Please refer to the section headed “Management Discussion and Analysis – Scope of Principal Businesses” in this annual report for the Bank’s main business scope.

II. BUSINESS REVIEW

Please refer to the section headed “Management Discussion and Analysis” in this annual report for the financial performance, major risks, uncertainties and business outlook of the Bank during the Reporting Period. Please refer to “Important Events” in this annual report for details of important events after the Reporting Period; please refer to “XIII. Compliance with Laws and Regulations” in this chapter for compliance with laws and regulations; for environmental policies and performance, and relations with employees, customers, suppliers and other stakeholders, please refer to “XIV. Performance of Social Responsibilities” in this chapter.

III. IMPLEMENTATION OF THE RESOLUTIONS OF SHAREHOLDERS’ GENERAL MEETING BY THE BOARD OF DIRECTORS

During the Reporting Period, the Board of Directors fully implemented the resolutions of the shareholders’ general meeting, earnestly implemented the Profit Distribution Plan for 2019, Budget Report for 2020, Financial Bond Issuance Plan for 2020 and Tier-two Capital Bond Issuance Plan for 2020, reviewed and approved by the shareholders’ general meeting.

IV. PROFIT DISTRIBUTION

(I) Profit Distribution Policy

The Bank’s Dividend Policy was considered and approved by the Board of Directors of the Bank on June 10, 2020, which came into effect as of the Listing Date. The contents are as follows:

Profit after income tax paid by the Bank was distributed in the following order:

- Making up for losses of previous years;
- Setting aside 10% for statutory reserve fund;
- Setting aside for general (risk) reserve;
- Setting aside for discretionary reserve fund;
- Paying dividends to shareholders.

No profit shall be distributed to the Bank’s shares held by the Bank. The Bank may distribute dividends in cash or by shares. After the shareholders’ general meeting of the Bank made a resolution on the profit distribution plan, the Board of Directors of the Bank shall complete the distribution of dividends (or shares) within two months upon the shareholders’ general meeting. Any shares paid before the call is entitled to interest, but the holders of the shares have no right to participate in the dividends subsequently declared for the prepaid shares. Subject to the provisions of laws and regulations, the Bank may exercise the power of forfeiture with respect to unclaimed dividends, provided that such power may only be exercised after the expiration of the corresponding limitation period applicable to the declaration of dividends.

The Bank shall have the right to cease delivering dividend notice to the holders of H shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly. Subject to the laws and regulations, the Bank shall have the right to sell the shares of the unreachable holders of H Shares through the methods the Board deems appropriate and subject to the following conditions:

- the Bank has distributed dividends on such shares at least three times in a period of 12 years and the dividends are not claimed by anyone during this period;
- after the expiration of the twelve-year period, the Bank makes a public announcement in one or more newspapers in the place where the Bank's shares are listed, stating its intention to sell such shares and notifies the securities regulatory authority of the place where the Bank's shares are listed of such intention.

Our Bank shall appoint for Shareholders of overseas listed shares a recipient agent. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other funds payable by the Bank in respect of the overseas listed foreign shares. The recipient agent appointed by the Bank shall comply with the laws of the locality in which the Bank's shares are listed or the relevant requirements of the stock exchange. The recipient agent appointed by the Bank for Shareholders of H-shares shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong.

(II) Profit Distribution Proposal for 2020

The Bank proposes to distribute profits for 2020 in below order:

1. The Bank will appropriate statutory surplus reserve base on 10% of the net profit under China Accounting Standards for Business Enterprises amounted to RMB859.025 million;
2. The Bank will appropriate general (risk) reserve amounted to RMB3,583.078 million;
3. The Bank will not appropriate discretionary surplus reserve during this year;
4. The Bank will distribute cash dividends for 2020 of RMB0.85 (tax inclusive) per 10 shares to all shareholders whose names appear on the register of members on May 27, 2021. Dividends and other amounts paid by the Bank to the holders of Domestic Shares shall be denominated, declared and paid in RMB; dividends and other amounts paid by the Bank to holders of H Shares shall be denominated and declared in RMB and paid in Hong Kong dollars. The cash dividends for 2020 of H Shares holders will be translated into Hong Kong dollars with the central parity of the Renminbi against the Hong Kong dollars announced by the People's Bank of China on the date of 2020 Annual General Meeting of the Bank. As of the end of 2020, the total distribution of ordinary shares based on 17.762 billion ordinary shares is RMB1,509.77 million (tax inclusive), representing 20.14% of the net profit attributable to holders of ordinary shares;
5. In 2020, the Bank will not transfer any reserve funds to increase its share capital.

The aforementioned profit distribution proposal is subject to the review and approval on the 2020 annual general meeting of the Bank.

Further announcements will be made in due course regarding the last share registration date, the closure of register of members, the payment date and other relevant information in relation to the aforesaid 2020 Final Dividend.

(III) Cash Dividends in the Past Three Years

	2020 ⁽¹⁾	2019	2018 ⁽²⁾
Dividend payable per 10 shares (tax inclusive, RMB)	0.85	–	N/A
Cash dividends (tax inclusive, RMB'000)	1,509,770	–	2,060,965
Percentage of cash dividends (tax inclusive) in the net profit attributable to ordinary Shareholders of the Bank (%)	20.14	–	N/A

Notes: (1) Profit distribution proposal for 2020 is subject to the review and approval on the 2020 Shareholders' general meeting;

(2) In accordance with the resolution at the Bank's 44th meeting of the fourth Board of Directors on September 27, 2019, the Board of Directors approved the declaration of remaining special dividends in an aggregation amount of approximately RMB2,060.965 million to non-trust shareholders who have completed the contribution obligation under the second capital injection in 2011 with the authorisation by the General Meeting of shareholders.

(IV) Tax on Dividends

Pursuant to the applicable provisions and the Implementing Regulations of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》), the Bank shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise holders of H Shares (including H shares registered in the name of HKSCC Nominees Limited).

Pursuant to the Notice on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Guo Shui Fa [1993] No. 045 Document (Guo Shui Han [2011] No.348), the Bank shall withhold and pay individual income tax for Individual holders of H Shares.

For individual holders of H Shares who are Hong Kong or Macau residents and those whose country of domicile is a country or region which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Bank shall withhold and pay individual income tax at the rate of 10% for those shareholders.

For individual holders of H Shares whose country of domicile is the country or region which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Bank shall withhold and pay individual income tax at the rate of 10% for individual holders of H Shares. If those shareholders require a refund of the excessive amount of individual income tax payable under the tax treaty, the Bank will handle applications on their behalf for preferential treatments pursuant to the relevant tax treaties. However, in accordance with the Administrative Measures for Non-resident Taxpayers Preferential Treatments of Tax Treaty (No. 35 Announcement of the State Taxation Administration in 2019) (《非居民納稅人享受稅收協定待遇管理辦法》) and the requirements of relevant tax treaties, shareholders shall promptly provide relevant papers and data. Upon the review and approval of the applicable tax authorities, the Bank will assist in refunding the excessive amount of tax withheld.

For the individual holders of H Shares whose country of domicile is a country or region which has entered into a tax treaty with the PRC stipulating a rate of more than 10% but less than 20%, the Bank shall withhold and pay individual income tax at the applicable tax rate stipulated in the relevant tax treaty for those shareholders.

For the individual holders of H Shares whose country of domicile is a country or region which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country or region which has not entered into any tax treaties with the PRC, or under any other circumstances, the Bank shall withhold and pay individual income tax at the rate of 20% for those shareholders.

V. REASONS AND EFFECTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR CORRECTIONS OF SIGNIFICANT ACCOUNTING ERRORS

During the Reporting Period, the Bank had no changes in accounting policy and accounting estimates and corrections of significant accounting errors.

VI. DIRECTORS' INTERESTS IN THE BUSINESS WHICH COMPETES WITH THE BANK

Mr. YE Baishou, a non-executive Director of the Bank, is the chairman of the board of directors for SDIC Capital Co., Ltd. (國投資本股份有限公司), UBS SDIC Fund Management Co., Ltd. (國投瑞銀基金管理有限公司) and SDIC Taikang Trust Co., Ltd. (國投泰康信託有限公司). Mr. ZHANG Xifang, a non-executive Director of the Bank, is the executive director of China Minsheng Trust Co., Ltd., a director of Minsheng Securities Co., Ltd., an executive director of China Tonghai International Financial Ltd., and a director of Asia-Pacific Property and Casualty Insurance Co., Ltd.

Our Directors are of the view that, there is no competition or only minimal potential competition between those financial institutions and our Bank arising from our Directors' positions in those financial institutions, since: (I) they are not involved in the daily operation and management of our Bank; (II) we have appointed six independent non-executive Directors, representing one-third of the members of our Board of Directors to balance any potential conflict of interests in order to safeguard the interests of our Bank and the Shareholders as a whole.

Save as disclosed in this annual report, none of our Directors are interested in any business, which competes or is likely to compete, either directly or indirectly, with our business under Rule 8.10 of the Listing Rules.

VII. DONATIONS

During the Reporting Period, the total donations made by the Bank amounted to RMB22,215,900.

VIII. RESERVES AND RESERVES AVAILABLE FOR DISTRIBUTION

For changes in the Bank's reserves and reserves available for distribution, please refer to the "Audit Report and Financial Report-Statement of Changes in Equity" contained in this annual report.

IX. MAJOR CUSTOMERS

As of the end of the Reporting Period, the five largest depositors of the Bank accounted for less than 30% of gross deposits from customers and the five largest borrowers accounted for less than 30% of gross loans and advances to customers.

X. EQUITY-LINKED AGREEMENT

From the Listing Date to the end of the Reporting Period, the Bank did not enter into any equity-linked agreement.

XI. PERMITTED PROVISION ON INDEMNITY

The Bank has purchased appropriate liability insurance for Directors, Supervisors and members of senior management in accordance with the relevant provisions of the Articles of Association.

XII. MANAGEMENT CONTRACTS

During the Reporting Period, the Bank did not enter into any administrative or management contracts in respect of the overall or material business of the Company, nor did such contracts existed.

XIII. COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Bank consciously observed various relevant laws and regulations of the banking industry, firmly established the concept of "noncompliance is risk and compliance is benefit", paid close attention to the adjustment and change of regulatory environment, law and regulation, continuously improved the long-term internal control and compliance mechanism.

XIV. PERFORMANCE OF SOCIAL RESPONSIBILITIES

Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Bank has seriously implemented the development concepts of innovation, coordination, green, openness and sharing, and insisted on high-quality transformation and development to achieve steady improvement in operating results. With firm conviction and dedication, the Bank has fully fulfilled its corporate social responsibility.

To win the battle of the prevention and control of the COVID-19 pandemic, we had speed, strength and warmth, took actions at the earliest, and donated RMB20 million to Hubei Province; implemented various measures of prevention and control, endeavored to ensure the life and health safety of employees and customers; strengthened financial services with extraordinary operations during the special periods and provided continuous high-quality services through online and offline linkages; supported the resumption of work and production with precise financial services, and worked with small and micro enterprises to overcome the difficulties together.

The Bank strengthened its support to poor areas by strengthening the main responsibility of the Party Committee, revising relevant systems, increasing resource protection, optimizing service models and process innovation, and carrying out various measures such as project assistance, industrial assistance, intellectual assistance and consumption assistance to targeted villages in difficulty, helped to win the battle against poverty. As of the end of the Reporting Period, the balance of targeted poverty alleviation loans of the Bank amounted to RMB5.087 billion, representing a growth rate of 47.32%.

The Bank firmly grasped the key points of promoting the development of private and small and micro enterprises, the expansion of domestic demand, the construction of new infrastructure, the promotion of rural economic development, as well as the transformation and upgrading of industrial structure and the coordinated development of regional economy and society, relied on FinTech and the professional advantages of commercial banks, and strived to serve the construction of a modern economic system and provide financial dynamics for high-quality economic and social development.

The Bank further promoted high-quality transformation and development, successfully listed on the Main Board of the Hong Kong Stock Exchange, and had been included in the MSCI indices, Hang Seng Index and Hong Kong Stock Connect in less than half a year, and was awarded the "Main Board Rising Star Award" of the "Listed Company Award of Excellence" by the Hong Kong Economic Journal. The listing on the international capital market further strengthened the capital base, promoted the continuous improvement of our corporate governance and overall competitiveness, and facilitated the Bank to better feed the real economy and serve the development of the society.

The Bank continued to enhance its information technology application capabilities and deepen the construction of the ecological banking system. Focusing on the "pressurized generation (壓力一代)" and "grey-haired group (養老一族)" as the core retail customer groups, the Bank relied on the internet platform and leveraged on financial technology such as big data and cloud computing to enhance customer experience. The Bank insisted on serving the real economy and provide customized products for upstream and downstream enterprises based on the core enterprise ecosystem and business scenarios; built scenario platforms with industry leaders to serve the industrial chain and provide a one-stop supply chain financial platform based on block-chain technology.

The Bank continued to strengthen channel construction and enhance the intelligent and scenario service capabilities of the outlets; promoted the "Light Boat Plan (輕舟計劃)" to build an offline service network closer to community customers. The Bank strengthened the infrastructure management, continued to improve the service quality, fulfill the main responsibility of protecting the rights and interests of financial customers, and continuously improved the customer service experience.

The Bank attached great importance to the development of green finance and made the development and support of green finance as a priority in its strategic planning. In line with its own practice, the Bank continuously improved and explored to build a green financial system and strengthen the level of environmental and social risk management, continuously improved and explored and achieved good results, made certain contributions to improving the regional ecological environment. The Bank committed to being an outstanding corporate citizen, actively participated in public welfare and poverty alleviation projects, promoted employee volunteerism, and helped to build a harmonious society.

The Bank continued to improve its comprehensive, vertical and independent comprehensive risk management organization system around the strategic direction of high-quality transformation and development; established a "four-in-one" internal control organization system for orderly and stable development of operation and management. We have always practiced the core value of "Humanity Care", fully protected the legitimate rights and interests of employees, continuously broadened the development path of employees, and helped employees to create a happy life, so as to ultimately achieve the goal of common development of employees and the enterprise.

The year of 2021 marks the centennial of the Communist Party of China. Standing at the historical intersection of the "two centenary", a new journey of building a modern socialist country has begun. The Bank will proactively seek changes, innovate and transform, adhere to the long-term development path of ESG, promote sustainable economic and social development, and contribute to the realization of the grand blueprint of the "14th Five-Year Plan".

For more details of the Bank's environmental policy and performance and fulfillment of social responsibility, please refer to the Bank's Social Responsibility Report of 2020.

XV. PROGRESS OF POVERTY ALLEVIATION

During the Reporting Period, the Bank kept in mind that winning the battle against poverty is an unshirkable political task and social responsibility of the financial system, deepened its ideological understanding, further promoted financial targeted poverty alleviation and effectively served rural revitalization. As of the end of the Reporting Period, the Bank recorded a loan balance of RMB5.087 billion for targeted poverty alleviation, representing an increase of RMB1.635 billion or 47.32% as compared with the end of last year.

The Bank focused on strengthening the entity responsibility of the Party committee and continuously optimizing the targeted poverty alleviation system and mechanism. During the Reporting Period, in order to strengthen the entity responsibility of Party committees at all levels in poverty alleviation, the Bank incorporated the indicators of targeted poverty alleviation into the indicators for performance appraisal for Party building of Party committees at all levels. All departments enhanced the synergy and further promoted the poverty alleviation under the unified command of the poverty alleviation leading group headed by the secretary of the Party committee. The Inclusive Finance Department, Organization Department of Party committee, Party and the Masses Work Department played a leading role in the business poverty alleviation, fixed-point pairing poverty alleviation, consumption poverty alleviation and other key sectors. Efforts were made to increase financial supply in areas of extreme poverty and improve the quality of poverty elimination to prevent returning to poverty and attention was focused on connecting financial policies to serve rural revitalization after the end of the poverty elimination period.

The Bank increased the network layout and built working platform to support agriculture. We earnestly implemented the general requirements of local governments and regulatory departments for poverty alleviation in institutional construction. In the network planning, we actively arranged the construction of agriculture-related county sub-branches and extended the financial service tentacles of poverty alleviation to lay the platform foundation for winning the battle against poverty and supporting rural revitalization.

The Bank revised and improved relevant systems to ensure the orderly implementation of poverty alleviation. The Bank improved relevant credit risk management policies, included rural revitalization and poverty alleviation into the credit extension support field during the Reporting Period, specified the key directions and areas of credit support for poverty alleviation and rural revitalization, guided the whole bank to actively explore the poverty alleviation financial service mode, and adhered to differential management. Besides, the Bank connected key poverty alleviation projects and poverty alleviation in deep poverty-stricken areas, met the poverty alleviation micro-credit demand for employment and schooling of the poor and met the financial service demand for local poverty alleviation and relocation.

The Bank strengthened resource guarantee to ensure the availability of poverty alleviation credit funds. Focusing on winning the battle against poverty by comprehensively promoting rural revitalization, the Bank increased the proportion of capital allocation, supported the business investment in agriculture-related, poverty alleviation and other inclusive finance areas, guided all branches and sub-branches to actively assist poverty alleviation, and effectively played the role of resource support and guarantee. At the same time, the Bank standardized the fees collection management, took the initiative to reduce cost for poverty-alleviation customers, and further expanded authority of fee reduction and exemption for the charging items so that our grass-roots organizations can boost profits to poverty-alleviation customers at a price closer to the market. Meanwhile, the Bank has employed differentiated internal and external pricing mechanism. In terms of external pricing, taking into account factors such as capital cost, operating cost, service mode, guarantee type, product type and regional inter-bank prices, the Bank made downward adjustments to interest rate for loans targeted poverty alleviation based on interest rate pricing level of general business, so as to implement the most favorable interest rate. In terms of internal fund transfer price, the Bank made dynamic adjustments based on accurate accounting to implement at the internal fund transfer price with the most favorable treatment.

The Bank strengthened the innovation of products and service mode, and improved the ability and level of financial poverty alleviation. The Bank adhered to the principle of adapting to local conditions and meeting poverty alleviation needs, insisted on market orientation, grasped national policies, took the "1 + N" business mode as the main starting point, actively utilized modern technologies, continuously strengthened the innovation of products and service mode, and enhanced the capability of financial poverty alleviation. The Bank also implemented the Business Plan on "Agriculture Development Loan Cooperated between and Provided by Bank, Government and Guarantee Institutions" of China Bohai Bank to give full play to the role of fiscal guarantee in risk diversification and credit enhancement, and to establish a sustainable cooperation mode in which the government, banks and financing guarantee institutions jointly participated and reasonably shared risks.

The Bank took multifaceted actions to actively respond to and mitigate the impact of the epidemic. The Bank actively supported and helped the temporarily stranded customers affected by the epidemic, and adopted the policies of postponing the repayment of principal and interest and loan renewal to help the customers overcome the difficulties. The Bank continuously improved the service capacity of the B2B and B2C platforms, so as to help build the ecological agriculture platforms, alleviate the situation of stagnant productivity and dull sales of agricultural goods in the agricultural trade caused by the epidemic, and assist the smooth transformation of the agricultural products trading platform.

XVI. IMPLEMENTATION OF BANKING CONSUMER RIGHTS AND INTERESTS PROTECTION

During the Reporting Period, the Bank actively implemented the various management requirements of regulators on the protection of financial consumer rights and interests, earnestly fulfilled the main responsibility on the protection of financial consumer rights and interests, and comprehensively strengthened the top-level design. Moreover, the Bank consolidated a number of management mechanisms, strengthened basic management, timely and properly handled consumer complaints, actively explored new forms of financial knowledge popularization and consumer education, and continuously improved the level of protection of consumer rights and interests. Firstly, the Bank strengthened the construction of protection of consumer rights and interests system and mechanism, included protection of consumer rights and interests in corporate governance, corporate culture building and business development strategy, and reinforced the concept of protection of consumer rights and interests of the Bank. The Bank also took compliance management and protection of legitimate rights and interests of consumers as an important part of its performance of social responsibilities, and ensured effective implementation of strategic objectives and policies of protection of consumer rights and interests. Secondly, the Bank established and refined the internal control system for protection of consumer rights and interests with clear objectives, comprehensive contents and concrete measures to assure the implementation, and updated timely the system in line with regulatory requirements and actual business development, forming a set of relatively sound system for protection of consumer rights and interests and risk prevention and control and accountability mechanisms. Thirdly, the Bank continued to properly handle and manage consumer complaints, implemented the industry standards for statistical classification and coding of complaints of banking financial institutions, and was one of the first financial institutions in China that successfully connect with the complaint data system of regulators. In addition, the Bank continuously improved the complaint handling mechanism, smoothed the complaint channel, optimized the handling process, timely and properly accepted and handled consumer complaints, and actively promoted the application of the mediation mechanism to resolve financial consumption disputes. During the Reporting Period, the Bank received a total of 6,300 consumer complaints through various complaint channels, with the complaint settlement rate of 100% and the customer return visit satisfaction rate of 95.5%. The Bank maintained a low level of complaint volume, complaint volume per 1,000 outlets, 10 million personal customers and 100 billion assets among the nationwide joint-stock commercial banks. Fourthly, during the special period of the epidemic, the Bank persisted in financial knowledge popularization, publicity and education, and independently carried out special publicity activities while implementing the uniform deployment of regulators. Besides, the Bank vigorously expanded online publicity and education channels while doing a good job in traditional offline publicity and education. During the Reporting Period, the Bank organized various financial knowledge popularizations, publicity and education activities that accumulatively covered more than 3.5 million consumers throughout the whole year, effectively improving the financial knowledge level and risk prevention capacity of consumers. The Bank carried out internal special training on protection of consumer rights and interests that accumulatively covered 87,000 employees, covering all medium and senior management members and grassroots business personnel, and achieved good results. Fifthly, the Bank carried out review on protection of consumer rights and interests in an all-round manner, ensuring effective implementation of regulations and requirements on protection of consumer rights and interests in all business links, such as product and service design and development, pricing management, text formulation, market access, marketing promotion and after-sales management.

XVII. DEVELOPMENT OF GREEN CREDIT

During the Reporting Period, the Bank earnestly implemented the regulatory spirit, vigorously carried out green finance business and actively fulfilled its social responsibilities, and achieved certain results. The business scale, number of customers and industry scope of the Bank continued to expand. As of the end of the Reporting Period, the Bank recorded a balance of on-balance-sheet green finance amounted to RMB19.881 billion, provided green finance support for 215 enterprises across the country that involved environmental protection projects, such as renewable energy and clean energy, waste treatment and pollution prevention and control, industrial energy saving, water saving and contributed to strengthening climate environment management, coping with climate change and improving regional ecological environment. As a member of Tianjin Climate Exchange, the Bank actively responded to the strategic deployment of national energy conservation and emission reduction, took advantage of the important opportunity of the establishment of the national carbon market to conduct marketing, and set up a trading fund deposit business platform which provided efficient trading fund deposit services for carbon emission trading institutions.

Upgrade the organizational structure of green finance. The Bank established and improved a Green Finance leading Group, and the general office of the Leading Group is responsible for taking a lead in organizing, managing, coordinating and promoting all work of green finance. Each branch had full-time staff for green finance to assume the implementation of policies and business related to green finance of the head office, and take charge of information collection, data statistics, evaluation report and other related work.

Establish a sound green financial management system. During the Reporting Period, the Bank issued such management systems as the Guidance Opinions on Marketing in the Field of “New Infrastructure Construction”, the Guiding Opinions on Marketing of New Energy Vehicles, and the Implementation Opinions on Accelerating the Development of Green Finance Business. Besides, the Bank continued to improve green financial policies, such as marketing guidelines, market access and differentiated credit extension.

Strengthen process management. The Bank optimized business procedures and established a “green channel” for green finance across the head office, branches and front and back offices. The Bank strove to realize the connection from preliminary marketing, due diligence, identification, risk review, loan review to post-disbursement management.

Improve the system functions of green financial services. The Bank embedded the environmental and social risk classification into the risk management system, and realized comprehensive online management of the environmental and social risks of the proposed credit customers or projects. Meanwhile, the Bank systematized the identification process of green finance, and added green finance business flag to the system to meet various management and statistical needs.

Introduce supporting safeguard measures. Since 2012, the Bank has incorporated the green finance business development indicators into the comprehensive evaluation and KPI of the business plans of the branches and relevant departments of the head office, using the assessment leverage to guide and urge the whole jurisdiction to enhance the implementation of green financial regulatory policies, and give priority to the allocation of credit resources. In addition, from the limited new credit scale and risk assets each year, the Bank satisfied the demand of high-quality large-scale green financial customers and relevant innovative products.

XVIII. OTHER MATTERS TO BE DISCLOSED

During the Reporting Period, the Bank had no other matters to be disclosed.

Report of the Board of Supervisors

I. MAIN WORK OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors of the Bank fully implemented the decisions and plans of the CPC Central Committee, the State Council and the Tianjin Municipal Party Committee and Government, and strived to serve the epidemic prevention and control and economic and social development to “win both battles”. The Board of Supervisors performed its duties assigned by the Articles of Association of the Bank diligently and focused on overseeing the performance of duties and responsibilities of the Board of Directors, senior management and their members, and financial activities, internal control and risk management of the Bank in accordance with the requirements of the Company Law, the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》), the Guidelines on the Work of the Board of Supervisors of Commercial Banks (《商業銀行監事會工作指引》) and other laws and regulations. All Supervisors conscientiously and diligently performed their duties, went to the grassroots level to understand the implementation of risk management and internal control, and provided professional advices and recommendations to the Board of Directors and senior management on the issues identified, and played an active role in continuously promoting the improvement of the Bank’s corporate governance and stable operation and development.

(I) Strengthening the Supervision of Performance of Duties and Urging the Board of Directors and Senior Management of the Bank and Their Members to Perform Their Duties and Responsibilities

During the Reporting Period, the Board of Supervisors successfully completed the supervision of the Board of Directors, senior management and their members in performing their duties and responsibilities in accordance with the laws and regulations through a combination of strengthening daily supervision and implementing comprehensive evaluation. Firstly, the Board of Supervisors has strengthened the daily supervision of performance of duties. The Board of Supervisors designated representatives to attend all on-site meetings of the Board of Directors during the Reporting Period and supervised all meetings of special committees under the Board of Directors by attending the meetings or reviewing the related documents. A total of 162 proposals, reports and studies were reviewed before the meetings, and on-site supervision was conducted on the operation of the Board of Directors and its special committees and the speeches of Directors at the meetings in accordance with the law. The Supervisors reviewed 85 copies of information reports, status reports, minutes of the president’s office meeting, minutes of special meetings conducted by the president, reports on related party transactions, internal control and compliance risk alert and other materials. The Chairman of the Board of Supervisors presided over the 2020 annual and interim work meetings, the promotion meeting on pilot political supervision in the credit field, the bank-wide business development seminars and other meetings; the employees’ representative Supervisors also attended the 2020 strategic communication seminar, the kick-off meeting for the consultation project regarding the preparation of the Fourth “Five Year Plan”, and other senior management meetings to strengthen the supervision of the senior management and their members in performing their duties. Secondly, the annual performance evaluation was conducted. In accordance with the “Guidelines on the Work of the Board of Supervisors of Commercial Banks”, “Measures on Performance Evaluation of Directors of Commercial Banks (Trial) (《商業銀行董事履職評價辦法(試行)》)” and the provisions of the Bank’s performance evaluation system, the Board of Supervisors organized an annual performance evaluation of the Board of Directors, senior management and their members with a focus on the performance of the Board of Directors and senior management in the areas of capital management, risk management (including liquidity risk management, stress test management, market risk management, etc.), compliance management, behaviour management of practitioners, data governance, etc. The results of the performance evaluation were reported to the Shareholders’ general meeting and regulatory authorities after being considered and approved by the Board of Supervisors, and were included in the performance supervision file. Thirdly, the implementation of exit audits was conducted. During the Reporting Period, the Board of Supervisors seriously carried out the exit audits on Directors and senior management members, and conducted timely inspection and evaluation of their performance during their terms of office in accordance with the resolutions of the Shareholders’ general meeting and the Board of Directors. The Board of Supervisors organized the exit audits on the Director SHEN Xiaolin, Director WANG Jinhong, Director ZHANG Junxi and Secretary to the Board of Directors ZHAO Zhihong and issued exit audit reports.

(II) Strengthening Financial Supervision, and Constantly Focusing on Major Financial Decisions of the Bank and Their Implementation

During the Reporting Period, the Board of Supervisors attached great importance to financial supervision and paid attention to major financial decisions and their implementation. Firstly, it listened to the reports. The Board of Supervisors attended relevant meetings of the Board of Directors and the senior management for the year to further strengthen the supervision of important financial decisions and their implementation, such as the financial budget, profit distribution and the comprehensive plan of business operation of the Bank. It reviewed the periodic reports. Secondly, it reviewed monthly financial statements and analyzed and studied the changes of the Bank's significant financial indicators. Thirdly, it reviewed major financial matters. A meeting of the Board of Supervisors was convened at the beginning of the year to review the Bank's Profit Distribution Plan for 2019 and the Annual Report 2019 and the highlights, and to express opinions on the truthfulness, accuracy and completeness of the contents. Fourthly, it attached importance to strengthening external supervision. The Board of Supervisors designated representatives to attend the meetings of the Audit and Consumer Rights Protection Committee of the Board of Directors to conduct on-site supervision on the consideration of the Proposal on the Re-appointment of the Accounting Firm of CHINA BOHAI BANK CO., LTD. for the Audit of 2020 Annual Financial Report.

(III) Strengthening the Supervision over Internal Control, and Promoting the Continuous Improvement of Internal Control System Construction of the Bank

Firstly, we sent Supervisors to attend the relevant meetings of the Board of Directors and senior management in 2020 to understand the management of the Bank's internal control work and the performance of duties by the Board of Directors and senior management. Secondly, we reviewed the relevant work materials to strengthen the daily supervision over internal control management. These mainly included reports on internal control and compliance work, reports on internal control evaluation, reports on internal audit work, reports on filling of related transactions, and internal control and compliance risk alerts. Thirdly, we issued independent opinions on the corporate operations in accordance with the law, related party transactions and internal control of the Bank, and included them in the Annual Report 2019 for disclosure after reviewed by the Board of Supervisors. Fourthly, in accordance with the Work Plan of the Board of Supervisors for 2020, we instructed the work organization of the Board of Supervisors (Audit Department) to conduct special audits on the management of related party transactions, anti-money laundering work and business of the FinTech Department of the Bank respectively.

(IV) Strengthening the Supervision over Risk Management, and Promoting the Soundness and Improvement of the Comprehensive Risk Management Mechanism

Firstly, by regularly listening to reports on the comprehensive risk management, we conducted in-depth analysis on the risk management status of the Bank, reviewed materials such as the minutes of the Risk Control Committee of the Bank, strengthened the daily supervision of risk management, conducted research on the prevention and handling of major risks, and focused on credit concentration risk and reputation risk, etc. Secondly, we conducted focused supervision on significant risks faced by the Bank, and arranged the work organization of the Board of Supervisors (Audit Department) to conduct special audits on the write-off of bad debts, stress testing and information security management of the Bank, respectively. The audited units formulated rectification plans, defined rectification measures and set time limits for rectification of the problems identified.

(V) Carrying out in-depth Special Research around the Central Task of the Whole Bank

According to the work plan for the beginning of the year, the Board of Supervisors of the Bank insisted on carrying out in-depth research in branches during the regular epidemic prevention and control. In 2020, a team led by the chairman of the Board of Supervisors visited the financial market line, the branches in Suzhou, Nanjing, Nanchang, Guangzhou, Shenzhen and Shenzhen Qianhai, and sub-branches in Dagu South Road, Aocheng and Huayuan in Tianjin to conduct research. Discussions with relevant personnel in charge of branches and sub-branches were held for the team to have a deep understanding of the ideas of transformation and innovation work and the progress of main businesses, and to listen to the voice of the primary-level staff, and to help them solve difficult problems. The employees' representative Supervisors led the team to successively visit Qingdao Branch, Fuzhou Branch and Xiamen Free Trade Zone Branch during the year to conduct research, and focused on operational strategy, credit risk management and control, anti-money laundering, employee behavior management and employee care in conjunction with the work deployment of the Bank to compile a research report for submission to the meetings of the Board of Supervisors for study and discussion, and to send the relevant information to the Board of Directors and senior management in the form of minutes.

(VI) Strengthening Self-construction, and Continuously Improved the Work Level of the Board of Supervisors

Firstly, we completed the results of self-evaluation of the Board of Supervisors and the assessment of the performance of duties of Supervisors and reported them to the Shareholders' general meeting and the regulatory authorities, and included them in the files of the performance of duties of the Board of Supervisors and Supervisors. Secondly, we continuously strengthened the communication between the Board of Supervisors and various stakeholders. We cooperated with each preparatory work for the IPO, continued to strengthen the communication and liaison among the Board of Supervisors, shareholders, the Board of Directors, senior management, regulatory authorities, listing offices, and intermediaries, and assisted to jointly promote the efficient performance of the Shareholders' general meetings, the board of directors, the board of supervisors and the senior management. Thirdly, we took the listing of H Shares as an opportunity to further establish and improve the system of the Board of Supervisors. In accordance with the Articles of Association of the Bank and the Rules of Procedure of the Board of Supervisors recently approved by the Shareholders' general meeting, we made adaptive amendments on the work rules of the special committees of Nomination Committee and the Supervision Committee under the Board of Supervisors, as well as the three methods of assessment of the performance of duties for Directors, Supervisors and senior management of the Bank respectively, to ensure a strong institutional basis and guarantee for the effective performance of the supervisory role of the Board of Supervisors.

II. MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

(I) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors of the Bank convened a total of 5 meetings at which 15 resolutions were considered and approved and 18 reports were heard and reviewed. Details are as follows:

1. *The 2nd meeting of the fifth session of the Board of Supervisors (Annual Meeting 2019)*

The 2nd meeting of the fifth session of the Board of Supervisors of the Bank was held in Tianjin on March 27, 2020. The meeting was held legally and effectively with 6 Supervisors actually attended. 11 resolutions were considered and approved at the meeting and the matters considered included: Work Report of the Board of Supervisors for 2019, the Independent Opinions of the Board of Supervisors on the Relevant Matters for 2019, the Board of Supervisors' 2019 Report on Self-Evaluation and Assessment of the Performance of Duties of Supervisors (2019年度監事會自我評價和監事履職評價情況報告), the Board of Supervisors' 2019 Assessment Report on the Performance of Duties of the Board of Directors, Senior Management and their Members (監事會對董事會、高級管理層及其成員2019年度履職評價報告), Profit Distribution Plan for 2019, Annual Report 2019 and Its Summary, Internal Control Evaluation Report and Auditor's Statement for 2019, Work Plan of the Board of Supervisors for 2020, Work Rules of the Nomination Committee of the Board of Supervisors (2020 Revised Draft), Work Rules of the Supervision Committee of the Board of Supervisors (2020 Revised Draft), and the Administrative Measures for Exit Audit of Directors and Senior Management Members (2020 Revised Draft).

The meeting also reviewed 5 reports including the 2019 Report on the Comprehensive Risk Management, 2019 Report on Internal Audit Work of the Audit Department, 2019 Report on Internal Control and Compliance Work, 2019 Audit Report on Management of Related Party Transactions, and the Audit Report on Management of Large Risk Exposures.

2. *The 3rd meeting of the fifth session of the Board of Supervisors*

The 3rd meeting of the fifth session of the Board of Supervisors of the Bank was held in Tianjin on June 23, 2020. The meeting was held legally and effectively with 6 Supervisors actually attended. The 4 reports were heard at this meeting, including Report on the Management of Recognition for Liability of Non-Performing Assets for Credit Business, Report on Off-office Auditing of Director SHEN Xiaolin, Report on Off-office Auditing of Director WANG Jinhong, and Report on Off-office Auditing of Director ZHANG Junxi.

3. *The 4th meeting of the fifth session of the Board of Supervisors*

The 4th meeting of the fifth session of the Board of Supervisors of the Bank was held in Tianjin on August 28, 2020. The meeting was held legally and effectively with 6 Supervisors actually attended. The resolution on Interim Report 2020 of the Bank was considered and approved at the meeting.

4. *The 5th meeting of the fifth session of the Board of Supervisors*

The 5th meeting of the fifth session of the Board of Supervisors of the Bank was held in Tianjin on September 22, 2020. The meeting was held legally and effectively with 6 Supervisors actually attended. 6 reports were listened to at the meeting, including the Report on Comprehensive Risk Management for the First Half of 2020, the Report on Internal Control and Compliance Work for the First Half of 2020, the Report on Internal Audit Work of the Audit Department for the First Half of 2020, the Audit Report on Bad Debt Write-off, the Audit Report on Anti-money Laundering Work and the Report of CBIRC on the Regulatory Notifications of China Bohai Bank for 2019 and its Rectification.

5. The 6th meeting of the fifth session of the Board of Supervisors

The 6th meeting of the fifth session of the Board of Supervisors of the Bank was held in Tianjin on December 16, 2020. The meeting was held legally and effectively with 6 Supervisors actually attended. 3 resolutions were considered and approved at the meeting and the matters considered included: the Evaluation Methods on Directors' Performance (2020 Revised Draft), the Evaluation Methods on Supervisors' Performance (2020 Revised Draft), the Evaluation Methods on Senior Management Members' Performance (2020 Revised Draft).

The meeting reviewed three reports on the internal audit work report of the Audit Department for the third quarter of 2020, the audit report on the departure of ZHAO Zhihong (趙志宏), who served as the secretary to the Board of Directors and the assistant to the president (行長助理), the report related to the trip of the Office of the Board of Supervisors to Fujian for interbank study and the branches' investigation.

During the Reporting Period, the attendance of the Bank's supervisors at meetings of the Board of Supervisors was as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
WANG Chunfeng	5	5	–	–
FENG Jiankuan	5	5	–	–
QI Ershi	5	5	–	–
DIAO Qinyi	5	5	–	–
HUI Yung Chris	5	5	–	–
FAN Zhigui	5	5	–	–

(II) Meetings of each special committee of the Board of Supervisors

During the Reporting Period, each special committee of the Board of Supervisors of the Bank convened 4 meetings, considered and approved 5 proposals and heard 5 reports. Details are as follows:

1. Nomination Committee of the Board of Supervisors

(1) Personnel composition

As of the end of the Reporting Period, the Nomination Committee of the fifth session of the Board of Supervisors of the Bank consists of three members, namely, external Supervisor Mr. QI Ershi, employees' representative Supervisor Mr. WANG Chunfeng and Mr. FAN Zhigui, and is chaired by Mr. QI Ershi.

(2) Primary duties

The Nomination Committee of the Board of Supervisors shall be responsible for formulating standards and procedures for selecting and appointing supervisors, and preliminarily examining the qualifications of supervisor candidates, and making recommendations to our Board of Supervisors; supervising scientificity and reasonability of remuneration management system and policies of the Bank and remuneration plan of senior management personnel; supervising the election and appointment process of Directors; evaluating the performance of Directors, Supervisors and senior management comprehensively; performing off-office audits on directors and senior management; and dealing with other matters authorized or designated by the Board of Supervisors.

(3) Meetings and works

During the Reporting Period, the Nomination Committee of the Board of Supervisors of the Bank held 2 meetings on March 25, 2020 and December 16, 2020, at which 5 resolutions were considered and approved and 1 report was heard and the matters considered included: the Board of Supervisors' 2019 Report on Self-Evaluation and Assessment of the Performance of Duties of Supervisors (2019年度監事會自我評價和監事履職評價報告), the Board of Supervisors' 2019 Assessment Report on the Performance of Duties of the Board of Directors, Senior Management and their Members (監事會對董事會、高級管理層及其成員2019年度履職評價報告), Measures on Evaluation of the Performance of Duties of Directors (2020 Revision) (董事履職評價辦法(2020年修訂稿)), Measures on Evaluation of the Performance of Duties of Supervisors (2020 Revision) (監事履職評價辦法(2020年修訂稿)), Measures on Evaluation of the Performance of Duties of Senior Management Members (2020 Revision) (高級管理層成員履職評價辦法(2020年修訂稿)). In addition, it also heard the Report on Off-office Audits on the Secretary to the Board of Directors and the assistant to the president by ZHAO Zhihong.

The attendance of members of the Nomination Committee of the Board of Supervisors of the Bank during the Reporting Period is as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
QI Ershi	2	2	–	–
WANG Chunfeng	2	2	–	–
FAN Zhigui	2	2	–	–

2. *The Supervision Committee of the Board of Supervisors*

(1) Members

As at the end of the Reporting Period, the Supervision Committee of the fifth session of the Board of Directors of the Bank consists of three members, representing the external Supervisors Mr. DIAO Qinyi and Mr. HUI Yung Chris and the employees' representative Supervisor Mr. FENG Jiankuan, and Mr. DIAO Qinyi is the chairman.

(2) Primary duties

The Supervision Committee of the Board of Supervisors shall be responsible for supervising the Board of Directors in the forming of sound operating concept and value standards, and a development strategy consistent with our Bank's circumstances, formulating a supervision plan for our Bank's financial activities and implement relevant inspections, monitoring and inspecting our Bank's business decisions, risk management and internal control, and dealing with other matters authorized or designated by the Board of Supervisors.

(3) Meetings and works

During the Reporting Period, The Supervision Committee of the Board of Supervisors of the Bank held 2 meetings on March 25, 2020 and December 16, 2020, at which 4 reports were heard and the matters heard included: the Report on the Auditing of the Bank's Financial Report for 2019 by the external auditor, the Report on Audits of the Large Risk Management, the Report on Audits of the Related Party Transactions for 2019, and the Report on Internal Audits for the Third Quarter of 2020 by the Audit departments.

The attendance of members of the Supervision Committee of the Board of Supervisors of the Bank during the Reporting Period is as follows:

Name	Number of scheduled attendances	Number of attendances in person	Number of attendances by proxy	Number of absences
DIAO Qinyi	2	2	–	–
FENG Jiankuan	2	2	–	–
HUI Yung Chris	2	2	–	–

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

During the Reporting Period, the Board of Supervisors held no objections to the Bank's legal operations, financial position, use of proceeds raised, purchase and sale of assets, related party transactions, internal control and implementation on resolutions of the general meeting and other matters.

Important Events

I. USE OF PROCEEDS RAISED

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on July 16, 2020, and the over-allotment option set out in the Prospectus was fully exercised on August 7, 2020. The net proceeds from the Global Offering received by the Bank amounted to approximately HK\$15,896.1 million. All our net proceeds from the Global Offering have been utilized for the intended use as disclosed in the Prospectus of the Bank. The net proceeds from the Global Offering of the Bank (after deduction of underwriting fees and commissions and expenses payable by the Bank in relation to the Global Offering) have been used to strengthen our capital base to support the ongoing growth of our business.

For the issuance of H Shares of the Bank, please refer to “Changes in Share Capital and Information on Shareholders – Issuance and Listing of Equity Securities” of this annual report.

II. MATERIAL LITIGATIONS AND ARBITRATIONS

As of the end of the Reporting Period, the Bank was involved in a number of legal proceedings in its ordinary course of business, most of which were dispute litigations initiated by the Bank as the plaintiff for the recovery of NPLs. There was a total of 58 litigations with the amount in dispute (principal) of over RMB30 million each, most of which have been won and are in the execution stage. There was no dispute case (including litigations and arbitrations) against the Bank in which the amount of dispute exceeds RMB10 million each and the final judgment has not been obtained. The Bank considers that the above-mentioned litigations and arbitrations will not have any material and adverse impact on our financial and operating results.

III. INCREASE OR REDUCTION IN THE REGISTERED CAPITAL, ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

During the Reporting Period, as approved by the CBIRC, the registered capital of the Bank was changed from RMB14.450 billion to RMB17.762 billion. The Bank completed the industrial and commercial change registration procedures for the registered capital change and obtained the Business Licence renewed by the Tianjin Administration for Market Regulation on December 31, 2020.

During the Reporting Period, there was no material acquisition and disposal of assets or business merger.

IV. IMPLEMENTATION OF EQUITY INCENTIVE PLANS

During the Reporting Period, the Bank did not implement any equity incentive plan.

V. PRE-EMPTIVE RIGHT

The Articles of Association of the Bank have no mandatory provisions on pre-emptive right.

VI. PUBLIC FLOAT

Based on publicly available information and to the knowledge of our Directors, as of the date of this annual report, the Bank had maintained the public float as required by the Listing Rules and the relevant waivers granted by the Hong Kong Stock Exchange.

VII. MATERIAL RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the Reporting Period, all related party transactions of the Bank, which carried out with related parties, were conducted in accordance with relevant laws and regulations as well as relevant provisions of domestic and overseas regulatory authorities and the Bank's related party transactions. These transactions were conducted in adherence to the general business principles, and based on conditions which not superior to those granted to an independent third party, and their terms were fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The related party transactions of the Bank were mainly the credit business of Shareholders and their related parties. Please refer to the "Audit Report and Financial Report – Notes to the Financial Statements: Related parties" of this annual report for specific data on related party transactions.

(I) Related Party Transactions Relating to Daily Operation

According to the Administrative Measures for Related Party Transactions between Commercial Banks and Their Insiders or Shareholders issued by CBRC and Interim Measures for the Equity Management of Commercial Banks, the material related party transactions of the Bank were all credit business. All credit transactions were conducted in accordance with relevant laws and regulations, external regulatory requirements, the Bank's credit conditions and review procedures, and were classified as normal credit, which had no negative impact on the Company's operating results and financial position.

According to relevant provisions of CBIRC, during the Reporting Period, the Board of Directors approved six resolutions on material related party transactions, namely related party transactions of credit business of China Oceanwide Group Limited, related party transactions of credit business of UBS SDIC Fund Management Co., Ltd., related party transactions of credit business of affiliated group customers of TEDA Investment Holding Co., Ltd., (2) related party transactions of credit business of China Oceanwide Holdings Group Co., Ltd. and related party transactions of credit business of Standard Chartered PLC reviewed and approved at the 4th, 5th, 6th, 9th and 14th meetings of the fifth session of the Board of Directors, respectively.

As of the end of the Reporting Period, the Bank's net credit amount granted to all related parties were RMB14.871 billion according to the standards of the CBIRC. Specifically, the net credit amount granted to TEDA Investment Holding Co., Ltd. and its related parties was RMB5.094 billion, that granted to Standard Chartered Bank (Hong Kong) Limited and its related parties was RMB15 million, that granted to China Shipping Investment Co., Ltd. and its related parties was RMB64 million, that granted to State Development & Investment Corp., Ltd. and its related parties was RMB520 million, that granted to China Baowu Steel Group Corporation Limited and its related parties amounted to RMB348 million, and that granted to Oceanwide Industry Co., Ltd. and its related parties was RMB8.556 billion, and that granted to other related parties reached RMB274 million.

According to the standards of Hong Kong Stock Exchange, the Bank's net credit amount granted to all connected persons amounted to RMB5.176 billion. Specifically, the Bank extended RMB5.094 billion of net credits to TEDA Investment Holding Co., Ltd. and its connected persons, RMB15 million to Standard Chartered Bank (Hong Kong) Limited and its connected persons, RMB64 million to China Shipping Investment Co., Ltd. and its connected persons, and RMB3 million to other connected persons.

The above-mentioned connected transactions are transactions conducted by the Bank with its connected persons in the ordinary course of business on general commercial terms or better terms for the Bank, which are fully exempted in accordance with Chapter 14A of the Listing Rules.

Non-credit transactions between the Bank and related parties, such as custody, leasing, agency sales and other daily related party transactions, are subject to general commercial terms and conditions no superior to those granted to independent third parties. None of the above-mentioned transactions constitute material related party transactions under the standards of the CBIRC, and they are connected transactions meeting the minimum exemption level under Chapter 14A of the Listing Rules.

(II) Related Party Transactions Involving Disposal and Acquisition of Assets or Equity

During the Reporting Period, the Bank was not engaged in any related party transactions involving disposal and acquisition of assets or equity.

(III) Related Party Transactions in Joint External Investment

During the Reporting Period, the Bank was not engaged in any related party transactions in joint external investment.

(IV) Amounts Due to or From Related Parties

During the Reporting Period, the Bank did not have any non-operating amounts due to or from related parties.

VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Material Custody, Contracting or Leasing Matters

During the Reporting Period, the Bank had no material custody, contracting or leasing matters which were required to be disclosed.

(II) Material Guarantees

During the Reporting Period, save as normal operation activities, the Bank had no material guarantee matters which were required to be disclosed.

(III) Other Material Contracts

During the Reporting Period, the Bank had no other material contract matters which were required to be disclosed.

IX. SIGNIFICANT INVESTMENT AND MAJOR INVESTMENT PLAN

During the Reporting Period, the Bank had no significant equity investment or major equity investment plans.

X. MISAPPROPRIATION OF FUNDS BY THE CONTROLLING SHAREHOLDERS AND OTHER RELATED PARTIES

The Bank had no controlling shareholder, and there is no misappropriation of the Bank's funds by other related parties.

The external accounting firm has issued the Explanations for Fund Misappropriation by the controlling Shareholders and Other Related Parties of CHINA BOHAI BANK CO., LTD.

XI. PENALTIES IMPOSED ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND MEMBERS OF SENIOR MANAGEMENT

To the knowledge of the Bank, during the Reporting Period, neither the Bank nor any of its Directors, Supervisors or members of senior management was subject to any investigation by competent authorities or coercive measures taken by judicial authorities or disciplinary inspection departments, or was transferred to a judicial authorities or investigated for criminal responsibility; or was subject to investigation or administrative penalty by the CSRC; or was banned from market, identified as an improper candidate, given an administrative penalty with significant impact on the Bank's operation by other administrative authorities; or was publicly condemned by the stock exchange.

XII. INTEGRITY OF THE BANK

During the Reporting Period, the Bank has not experienced circumstances that fail to comply with the effective judgment of the court in a material litigation case, and there was no outstanding expired debts with a relatively large amount.

XIII. OTHER MATERIAL EVENTS

(I) Obtaining the Admission Qualification

On April 30, 2020, the Bank became one of the primary dealers in the open market business in 2020 thanks to its outstanding performance in the currency and bond markets in recent years. A primary dealer in open market business is a financial institution approved by the PBoC to directly conduct transactions with it, and is a member of the national inter-bank bond market that can directly communicate with PBoC, thus become the important channel of transmitting the monetary policy intention of PBoC. In the list of 49 primary dealers for open market business released this time, the Bank is the only admitted corporate financial institution in Tianjin, and it is also the first time for the Bank to obtain such qualification, representing a great recognition of regulators and the market to the Bank.

On December 25, 2020, the Bank obtained the qualification of being a member of the book-entry government bond underwriting syndicates granted by the Ministry of Finance from 2021 to 2023.

(II) Branches Were Approved to Open for Business

1. *Branch directly administered by our head office was upgraded to tier-one branch*

On January 21, 2020, the CBIRC approved and agreed to upgrade Shenzhen Qianhai Branch to a tier-one branch of the Bank in the Reply of the CBIRC on Upgrading Shenzhen Qianhai Branch of China Bohai Bank to a tier-one branch (Yin Bao Jian Fu [2020] No. 51).

2. *Hong Kong Branch was established*

On August 6, 2020, the Bank has been granted a banking licence by the Hong Kong Monetary Authority to become a licensed bank in Hong Kong. Hong Kong Branch of the Bank officially opened on December 18, 2020.

3. *Sub-branch was upgraded to tier-two branch*

On March 10, 2020, Beijing Bureau of the CBIRC approved and agreed to upgrade Beijing Tongzhou Sub-branch of the Bank to Beijing Tongzhou Branch in the Reply of CBIRC Beijing Bureau on Upgrading Beijing Tongzhou Sub-branch of CHINA BOHAI BANK CO., LTD. to Its Beijing Tongzhou Branch (Jing Yin Bao Jian Fu [2020] No. 118).

(III) Issuance of Bonds

On January 13, 2020, the Bank issued three-year financial bonds with face value of RMB10 billion. The fixed coupon interest rate per annum is 3.47%.

On February 17, 2020, the Bank issued three-year financial bonds with face value of RMB8 billion. The fixed coupon interest rate per annum is 3.24%.

On August 18, 2020, the Bank issued three-year special financial bonds for loans to small and micro enterprises with face value of RMB10 billion. The fixed coupon interest rate per annum is 3.55%.

XIV. SUBSEQUENT EVENTS

On January 15, 2021, the Bank issued tier-two capital debts with face value of RMB9 billion in the national inter-bank bond market. The Bonds are ten-year fixed rate bonds with a right allowing issuer to redeem subject to conditions precedent at the end of the 5th year and a coupon rate of 4.40%, and the bond insurance was completed at January 19, 2021. The proceeds from the bond issuance will be used to supplement the Bank's tier-two capital after deducting the issuance expenses. For details, please refer to the relevant announcement of the Bank published on the website of the HKEX and the website of the Bank.

XV. REVIEW OF ANNUAL RESULTS

The Bank's external auditor KPMG Huazhen LLP and KPMG have reviewed the financial reports prepared by the Bank in accordance with the requirements set out in the China Accounting Standards for Business Enterprises and the IFRS, and standard unqualified audit reports have been issued. The Audit and Consumer Rights Protection Committee under the Board of the Bank has reviewed and approved the Bank's results and financial reports for the year ended December 31, 2020.

XVI. PUBLICATION OF THE ANNUAL REPORT

The English and Chinese versions of the annual report prepared by the Bank pursuant to the IFRS and the Listing Rules are available on the website of the HKEX and the website of the Bank.

Audit Report and Financial Report

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Independent Auditor's Report

Independent Auditor's Report To the Shareholders of CHINA BOHAI BANK CO., LTD.

(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the financial statements of CHINA BOHAI BANK CO., LTD. (the "Bank") set out on pages 138 to 275, which comprise the statement of financial position as at 31 December 2020 and related statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statement including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the HKICPA's code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Key audit matters *(continued)*

Loss allowances of loans and advances to customers and financial investments measured at amortised cost	
<p><i>Refer to the accounting policies in "Note 3 (5) to the Financial Statements: Financial instruments", "Note 4 to the Financial Statements: Significant accounting estimates and judgements", "Note 22 to the Financial Statements: LOANS AND ADVANCES TO CUSTOMERS" and "Note 23 to the Financial Statements: FINANCIAL INVESTMENTS".</i></p>	
The key audit matter	How the matter was addressed in our audit
<p>The Bank's loans and advances to customers and financial investments measured at amortised cost as at 31 December 2020 amounted to RMB1,143,381 million, with loss allowances amounted to RMB34,872 million as at 31 December 2020.</p> <p>The Bank uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with International Financial Reporting Standard 9, Financial instruments ("IFRS 9").</p> <p>The Bank classifies loans and advances to customers and financial investments measured at amortised cost into three stages. A financial asset is classified as stage one when its credit risk has not increased significantly since its initial recognition; otherwise it is classified as stage two. Stage three applies when a financial asset is credit-impaired. The loss allowance for stage one financial assets is measured at an amount equal to a 12-month ECL. The loss allowance for stage two and stage three financial assets is measured at an amount equal to a lifetime ECL.</p> <p>The loss allowance for loans and advances to customers and financial investments measured at amortised cost, other than those that are credit-impaired, is measured based on probability of default (PD), LGD and exposure at default (EAD), which take into account the historical overdue data, historical loss ratios, internal credit gradings and other adjustment factors.</p>	<p>Our audit procedures to assess the loss allowances of loans and advances to customers and financial investments measured at amortised cost included the following:</p> <ul style="list-style-type: none"> • evaluating the effectiveness of internal controls related to ECL allowance: <ul style="list-style-type: none"> – assessing the key design, implementation and operational effectiveness of internal controls of the credit risk management process. In particular, we assessed the design, implementation and operating effectiveness of the key internal controls over the stage classification of loans and advances to customers and financial investments measured at amortised cost; – assessing the operating effectiveness of information system controls, including general information technology control, completeness of key internal historical data, data transmission between systems, mapping of parameters of the ECL model, and system calculation of the ECL allowance with the assistance of our IT audit professionals. • with the assistance of our financial model specialists, assessing the appropriateness of the ECL model, including the reasonableness of probability of default, loss given default, exposure at default, discount rate, forward-looking adjustments and other parameters and key assumptions;

Independent Auditor's Report

Key audit matters *(continued)*

Loss allowances of loans and advances to customers and financial investments measured at amortised cost <i>(continued)</i>	
<i>Refer to the accounting policies in "Note 3 (5) to the Financial Statements: Financial instruments", "Note 4 to the Financial Statements: Significant accounting estimates and judgements", "Note 22 to the Financial Statements: LOANS AND ADVANCES TO CUSTOMERS" and "Note 23 to the Financial Statements: FINANCIAL INVESTMENTS".</i>	
The key audit matter <i>(continued)</i>	How the matter was addressed in our audit <i>(continued)</i>
<p>The loss allowance for credit-impaired loans and advances and financial investments measured at amortised cost are measured using the discounted cash flow method. Management exercises judgement in determining recoverable cash flows based on a range of factors. These factors include available remedies for recovery, the financial situation of the borrowers, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors.</p> <p>ECLs for loans and advances to customers and financial investments measured at amortised cost is a subjective area due to the degree of judgement applied by management in determining loss allowances. From the Bank's perspective, the determination of the loss allowances for loans and advances to customers and financial investments measured at amortised cost is heavily dependent on the external macro economy and the Bank's internal credit risk management strategy.</p> <p>We identified the assessment for the ECL allowance as a key audit matter because of the inherent uncertainty and management judgements involved, and because the loss allowance is significant to the financial results and capital of the Bank.</p>	<ul style="list-style-type: none"> • selecting items to assess the appropriateness of the stage classification. We also focused on loans and investments with perceived higher risks and selected items from non-performing loans, overdue but performing loans and borrowers with negative warning signs or adverse press coverage; • assessing the appropriateness of the forecast of recoverable cash flows based on financial information of borrowers and guarantors, latest collateral valuations and other available information for the selected credit-impaired corporate loans and advances and financial investments measured at amortised cost; • recalculating the amount of credit loss allowance based on the above parameters and assumptions for selected loans and advances to customers and financial investments measured at amortised cost; and • evaluating whether the credit risk related disclosures comply with the prevailing accounting standards.

Independent Auditor's Report

Key audit matters *(continued)*

Fair value of financial instruments	
<p><i>Refer to the accounting policies in "Note 3 (5) to the Financial Statements: Financial instruments", "Note 4 to the Financial Statements: Significant accounting estimates and judgements" and "Note 46 to the Financial Statements: FAIR VALUE".</i></p>	
The key audit matter	How the matter was addressed in our audit
<p>Financial instruments carried at fair value account for a significant part of the Bank's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income.</p> <p>The Bank mainly holds level 2 and level 3 financial instruments measured at fair value. As at 31 December 2020, the carrying amount of the Bank's financial assets and liabilities measured at fair value totalled RMB164,906 million and RMB533 million, respectively.</p> <p>The valuation of the Bank's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use observable inputs. Where one or more significant inputs are unobservable in the valuation techniques, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement.</p> <p>The Bank has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement.</p> <p>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and the degree of judgement exercised by management in determining the inputs used in the valuation models.</p>	<p>Our audit procedures to assess the fair value of financial instruments included the following:</p> <ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of key internal controls over the valuation for financial instruments; • for level 2 financial instruments, assessing the reasonableness of the fair values by comparing the observable inputs against external market data on a sample basis • for level 2 and level 3 fair values, involving our internal valuation specialists, on a sample basis, evaluating the reasonableness of the valuation methods inputs and assumptions adopted by the management, analysing the sensitivities of valuation results to key inputs and assumptions; • assessing whether the disclosures in the financial statements comply with the prevailing accounting standards.

Independent Auditor's Report

Key audit matters *(continued)*

Recognition of interests in and consolidation of structured entities	
<p><i>Refer to the accounting policies in "Note 3 (1) to the Financial Statements: Subsidiary and non-controlling interests", "Note 4 to the Financial Statements: Significant accounting estimates and judgements" and "Note 40 to the Financial Statements: INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES".</i></p>	
The key audit matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Bank may acquire an ownership interest in, or act as a sponsor to, a structured entity, through initiating, investing or retaining shares in a wealth management product, an investment fund, an asset management plan, a trust plan, a structured lease or an asset-backed security. The Bank may also retain partial interests in derecognised assets due to guarantees or securitisation structures.</p> <p>In determining whether the Bank should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Bank is able to exercise over the activities of the entity and its ability to influence the Bank's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.</p> <p>We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and the judgement exercised by management in the qualitative assessment of the terms and the nature of each entity.</p>	<p>Our audit procedures to assess the recognition of interests in and consolidation of structured entities included the following:</p> <ul style="list-style-type: none"> • understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities. • selecting significant structured entities of each key product type: <ul style="list-style-type: none"> – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Bank has with the structured entity and to assess management's judgement over whether the Bank has the ability to exercise power over the structured entity; – inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Bank's involvement in such an entity; – assessing management's judgement over whether the structured entity should be consolidated or not; and • evaluating the disclosures in the financial statements in relation to the recognition of interests in and consolidation of structured entities with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

Other information

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Bank's financial reporting process.

Independent Auditor's Report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report

Auditor's responsibilities for the audit of the financial statements *(continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Siu Tung.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2021

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2020	2019
Interest income		59,907,209	51,598,169
Interest expense		(31,430,173)	(28,576,886)
Net interest income	6	28,477,036	23,021,283
Fee and commission income		5,196,988	5,323,397
Fee and commission expense		(2,294,532)	(1,208,526)
Net fee and commission income	7	2,902,456	4,114,871
Net trading gains	8	44,600	196,392
Net gains arising from investment securities	9	997,253	961,857
Other operating income	10	70,825	83,991
Operating income		32,492,170	28,378,394
Operating expenses	11	(9,182,900)	(8,856,860)
Impairment losses on assets	14	(13,224,178)	(9,566,913)
Share of losses of associate		–	(52,771)
Profit before taxation		10,085,092	9,901,850
Income tax	15	(1,640,521)	(1,709,094)
Net profit		8,444,571	8,192,756
Earnings per share			
– Basic and diluted (RMB yuan)	16	0.47	0.57

The notes on pages 145 to 275 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2020	2019
Net profit		8,444,571	8,192,756
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of financial assets measured at fair value through other comprehensive income	37	(435,997)	73,247
Credit losses of financial assets measured at fair value through other comprehensive income	37	(495,258)	612,834
Reserve from cash flow hedging instruments	37	(160)	–
Other comprehensive income, net of tax		(931,415)	686,081
Total comprehensive income		7,513,156	8,878,837

The notes on pages 145 to 275 form part of these financial statements.

Statement of Financial Position

As at 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December	
		2020	2019
Assets			
Cash and deposits with the central bank	17	96,548,417	93,013,699
Deposits with banks and other financial institutions	18	27,805,363	14,051,627
Placements with banks and other financial institutions	19	6,063,668	4,410,809
Derivative financial assets	20	232,498	158,709
Financial assets held under resale agreements	21	–	1,850,258
Loans and advances to customers	22	867,120,217	687,279,098
Financial investments:	23		
– Financial investments measured at fair value through profit or loss		72,597,497	36,238,313
– Financial investments measured at fair value through other comprehensive income		61,813,595	64,967,327
– Financial investments measured at amortised cost		241,515,654	199,101,251
Property and equipment	25	3,630,154	3,804,211
Deferred tax assets	26	8,664,618	6,365,091
Other assets	27	7,531,444	5,689,632
Total assets		1,393,523,125	1,116,930,025
Liabilities and equity			
Liabilities			
Borrowing from the central bank	28	71,592,485	46,905,557
Deposits from banks and other financial institutions	29	130,273,359	78,547,430
Placements from banks and other financial institutions	30	31,920,614	21,500,177
Derivative financial liabilities	20	533,164	171,758
Financial assets sold under repurchase agreements	31	52,406,083	23,069,093
Deposits from customers	32	758,235,794	647,764,551
Income tax payable		2,485,405	1,887,990
Debt securities issued	33	225,154,090	196,603,843
Other liabilities	34	17,676,301	17,841,029
Total liabilities		1,290,277,295	1,034,291,428

The notes on pages 145 to 275 form part of these financial statements.

Statement of Financial Position

As at 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December	
		2020	2019
Equity			
Share capital	35	17,762,000	14,450,000
Other equity instruments	36	19,961,604	19,961,604
Other comprehensive income	37	38,078	969,493
Capital reserve	38	10,732,077	–
Surplus reserve	38	5,868,637	5,009,612
General reserve	38	17,664,811	14,081,733
Retained earnings	39	31,218,623	28,166,155
Total equity		103,245,830	82,638,597
Total liabilities and equity		1,393,523,125	1,116,930,025

Li Fu'an
*Legal Representative
Chairman of the
Board of Directors*

Qu Hongzhi
*President
Executive Director*

Du Gang
*The person in charge
of accounting affairs*

Wang Fenglei
*The person in charge
of accounting
department*

(Company stamp)

The notes on pages 145 to 275 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Other equity instruments	Other comprehensive income	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2019		14,450,000	19,961,604	969,493	-	5,009,612	14,081,733	28,166,155	82,638,597
Changes in equity for the year:									
Net profit		-	-	-	-	-	-	8,444,571	8,444,571
Other comprehensive income	37	-	-	(931,415)	-	-	-	-	(931,415)
Total comprehensive income		-	-	(931,415)	-	-	-	8,444,571	7,513,156
Issue of H shares	35/38	3,312,000	-	-	10,732,077	-	-	-	14,044,077
Appropriation of profit									
- Appropriation to surplus reserve	38	-	-	-	-	859,025	-	(859,025)	-
- Appropriation to general reserve	38	-	-	-	-	-	3,583,078	(3,583,078)	-
- Dividend distribution to other equity instruments holders	39	-	-	-	-	-	-	(950,000)	(950,000)
Balance at 31 December 2020		17,762,000	19,961,604	38,078	10,732,077	5,868,637	17,664,811	31,218,623	103,245,830

	Note	Share capital	Other equity instruments	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2018		14,450,000	-	283,412	4,176,059	12,641,306	24,308,344	55,859,121
Changes in equity for the year:								
Net profit		-	-	-	-	-	8,192,756	8,192,756
Other comprehensive income	37	-	-	686,081	-	-	-	686,081
Total comprehensive income		-	-	686,081	-	-	8,192,756	8,878,837
Capital contribution by other equity instruments holders	36	-	19,961,604	-	-	-	-	19,961,604
Appropriation of profit								
- Appropriation to surplus reserve	38	-	-	-	833,553	-	(833,553)	-
- Appropriation to general reserve	38	-	-	-	-	1,440,427	(1,440,427)	-
- Cash dividends paid to shareholders	39	-	-	-	-	-	(2,060,965)	(2,060,965)
Balance at 31 December 2019		14,450,000	19,961,604	969,493	5,009,612	14,081,733	28,166,155	82,638,597

The notes on pages 145 to 275 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended 31 December		
	Note	2020	2019
Cash flows from operating activities			
Profit before taxation		10,085,092	9,901,850
<i>Adjustments for:</i>			
Impairment losses on assets		13,224,178	9,566,913
Depreciation and amortisation		1,428,134	1,398,794
Net gains arising from investment securities		(997,253)	(961,857)
Interest expense on debts securities issued		6,551,656	7,207,783
Net trading gains		(44,600)	(196,392)
Interest income arising from financial investments		(11,461,869)	(12,286,730)
Interest expense on lease liabilities		165,020	174,000
Net (gains)/losses on disposal of property and equipment		(178)	548
Share of losses of associate		-	52,771
		18,950,180	14,857,680
<i>Changes in operating assets</i>			
Net decrease in deposits with banks and other financial institutions with maturity over 3 months		1,110,000	16,971,253
Net decrease in deposits with the central bank		1,514,616	7,828,687
Net decrease/(increase) in placement with banks and other institutions		2,250,725	(2,750,725)
Net (increase)/decrease in financial assets held for trading		(7,075,939)	319,211
Net increase in loans and advances to customers		(185,577,707)	(148,709,951)
Net increase in other operating assets		(287,685)	(2,112,268)
		(188,065,990)	(128,453,793)
<i>Changes in operating liabilities</i>			
Net increase in borrowings from the central bank		24,300,000	18,300,000
Net increase in deposits from banks and other financial institutions		51,723,701	8,981,866
Net increase in placements from banks and other financial institutions		10,511,690	1,905,478
Net decrease in financial assets sold under repurchase agreements		29,291,107	705,156
Net increase in deposits from customers		108,790,884	39,768,209
Net (decrease)/increase in other operating liabilities		(384,003)	4,002,529
		224,233,379	73,663,238
Net cash flows generated from/(used in) operating activities before taxation		55,117,569	(39,932,875)
Income tax paid		(3,032,162)	(1,746,643)
Net cash flows generated from/(used in) operating activities		52,085,407	(41,679,518)

The notes on pages 145 to 275 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2020	2019
Cash flows from investing activities			
Proceeds from disposal sale and redemption of investments		314,521,017	248,534,220
Proceeds received from investment activities		10,876,973	12,319,374
Proceeds from disposal of property and equipment and other assets		751	195
Payments on acquisition of investments		(388,583,782)	(233,337,060)
Payments on acquisition of property and equipment, intangible assets and other assets		(395,394)	(309,240)
Net cash flows (used in)/generated from investing activities		(63,580,435)	27,207,489
Cash flows from financing activities			
Proceeds from issuance of H shares		14,044,077	–
Proceeds from capital contribution by other equity instruments holders		–	19,961,604
Proceeds from debt securities issued		368,425,934	370,681,993
Repayment of debt securities issued		(341,414,057)	(392,380,779)
Interest paid on debt securities issued		(5,013,286)	(7,584,147)
Dividends payments to equity and other equity instruments holders		(950,000)	(2,060,965)
Interest paid on lease liabilities		(165,020)	(174,000)
Repayment of capital element of lease liabilities		(581,005)	(516,717)
Net cash flows generated from/(used in) financing activities		34,346,643	(12,073,011)
Effect of foreign exchange rate changes on cash and cash equivalents		(791,350)	387,554
Net increase/(decrease) in cash and cash equivalents	42(a)	22,060,265	(26,157,486)
Cash and cash equivalents as at 1 January		42,694,864	68,852,350
Cash and cash equivalents as at 31 December	42(b)	64,755,129	42,694,864
Interest received		60,357,929	50,008,073
Interest paid (excluding interest expense on debt securities issued)		(27,165,019)	(22,737,276)

The notes on pages 145 to 275 form part of these financial statements.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

CHINA BOHAI BANK CO., LTD. (the “Bank”) is a national joint-stock commercial bank established in Tianjin on 30 December 2005.

The Bank has been approved by the former China Banking Regulatory Commission (the “CBRC”) to hold financial business permit (No. B0017H112000001) and approved by the Tianjin Administration for Market Regulation for the business license (No. 911200007109339563).

On 16 July 2020, the Bank’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 9668).

The Bank commenced its operation on 16 February 2006. As at 31 December 2020, the Bank has established 34 tier-one branches (including Suzhou, Qingdao and Ningbo Branches under direct management of the Head Office and 1 overseas branch), 31 tier-two branches, and 134 sub-branches in 61 major cities and a Special Administrative Region including Tianjin, Beijing, Hangzhou, Taiyuan, Chengdu, Jinan, Shanghai, Shenzhen, Nanjing, Dalian, Guangzhou, Changsha, Shijiazhuang, Wuhan, Hohhot, Fuzhou, Hefei, Zhengzhou, Xi’an, Changchun, Chongqing, Shenyang, Xiamen, Haikou, Qingdao, Ningbo, Nanning, Nanchang and Hong Kong. The total number of outlets reached 239, including 199 branches and sub-branches, and 40 small and micro community sub-branches.

The principal activities of the Bank include absorbing public deposits; offering short-term, medium term and long-term loans; arranging settlement of domestic and international accounts; handling accept and discount of bill; issuing financial bonds; acting as agent to issue, settle and underwrite government bonds and proprietary trading bonds issued by financial institutions and government; inter-bank borrowing and lending; trading of foreign currencies on behalf of its customers; selling and purchasing foreign exchange, bank card business; letters of credit and financial guarantees; acting as agent on inward and outward payments; acting as an insurance agent, safe-deposit facilities, derivative trading, securities investment custody, insurance fund custody, selling securities investment fund and other business approved by the banking regulatory institutions of the State Council.

2 Basis of preparation

(1) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the “IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (the “IAS”) and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Basis of preparation *(Continued)*

(2) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and financial liabilities measured at fair value through profit or loss ("FVTPL") and financial assets measured at fair value through other comprehensive income ("FVOCI"), as further explained in the respective accounting policies below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 4.

(3) Change in accounting policies

Except as described below, the accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2019.

The IASB has issued the following amendments to IFRSs (including IASs) that are first effective for the current accounting period of the Bank.

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendment to IFRS 16	Covid-19-Related Rent Concessions

The adoption of the amendments has no material impact on the financial position and the financial performance of the Bank.

3 Significant accounting policies

(1) Subsidiary and non-controlling interests

Subsidiary are entities controlled by the Bank. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Bank has power, only substantive rights (held by the Bank and other parties) are considered.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(2) Associates and joint ventures

An associate is an entity in which the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Bank's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Bank's share of the investee's net assets and any impairment loss relating to the investment (see Note 3(14)). Any acquisition-date excess over cost, the Bank's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the statement of profit or loss, whereas the Bank's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the combined statement of profit or loss and other comprehensive income.

When the Bank's share of losses exceeds its interest in the associate or the joint venture, the Bank's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Bank's interest is the carrying amount of the investment under the equity method together with the Bank's long-term interests that in substance form part of the Bank's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Bank and its associates and joint venture are eliminated to the extent of the Bank's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Bank ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(3) Translation of foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rate at the date of the statement of financial position.

Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rate at the date on which the fair value is determined.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income (Note 3(5)) recognised in other comprehensive income.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Bank at the exchange rates ruling at the end of the reporting period. All items within equity except for retained profits are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the above translation are taken to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(5) Financial instruments

(a) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(b) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirement to be measured at amortised cost or at FVOCI as a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Bank manages its financial assets in order to generate cash flows. That is, the Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Bank determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Bank's key management personnel.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(b) Classification of financial assets (Continued)

The Bank assesses the characteristics of contractual cash flow of financial assets to determine whether the contractual cash flows generated by the relevant financial assets on a particular date are only payments for principal and interest based on the outstanding principal amount. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Bank also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(c) Subsequent measurement of financial assets

– **Financial assets at FVTPL**

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

– **Financial assets at amortised cost**

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

– **Debt instruments at FVOCI**

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– **Equity investments at FVOCI**

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(d) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL and other financial liabilities.

– Financial liabilities measured at FVTPL

A financial liability is classified as measured at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses (including any interest expense) are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

– Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(e) Impairment of financial instruments

The Bank recognises loss allowances for expected credit loss (ECL) on:

- financial assets measured at amortised cost;
- debt instruments measured at FVOCI;
- Credit commitments other than the financial liabilities at fair value through profit or loss.

Financial assets measured at fair value, including financial assets at FVTPL, equity investments designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).

The Bank's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the Bank is exposed to credit risk.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(e) Impairment of financial instruments (Continued)

Measurement of ECLs *(Continued)*

Lifetime ECL is the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL is the portion of ECL that result from default events that are possible within the 12 months after the date of the statement of financial position (or a shorter period if the expected life of the instrument is less than 12 months).

The Bank classifies financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance. Refer to Note 45 (a) credit risk for the description of how the Bank determines when a significant increase in credit risk has occurred.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

ECLs on these financial assets are estimated based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the date of the statement of financial position.

Please refer to Note 45(a) for the measurement of expected credit losses of the Bank.

Presentation of allowance for ECL

ECLs are re-measured at each date of statement of financial position to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Bank recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(e) Impairment of financial instruments (Continued)

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(f) Determination of fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. The quoted price in the active market should be readily and regularly available from independent sources (e.g. the exchange, broker, industry group or pricing service agency) with prudent utilisation of purchase price, selling price and middle price. The Bank should use market valuation method for fair value assessment as much as is feasible, which represents the prices in actual and regularly market transactions on an arm's length basis.

If there is no active market for a financial instrument, appropriate valuation techniques will be used to establish the fair value. Valuation techniques include referencing the price of recent market transactions between well-informed voluntary parties; reference to the current fair value of other instruments that are substantially the same; discounted cash flow model and referencing the valuation results of the third-party valuation agencies. The Bank selects appropriate models based on the risk characteristics, liquidity, counterparty risk and pricing basis of specific financial instruments or trading strategies to ensure that their fair value are truly and effectively reflected. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each of the reporting periods. When referring to the valuation results of third-party valuation agencies, the authority, independence and professionalism of the agencies should be assessed. Where other pricing models are used, inputs are based on market data at the end of each of the reporting periods.

In estimating the fair value of a financial asset and financial liability, the Bank considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, which are likely to affect the fair value of the financial asset and financial liability.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(f) Determination of fair value of financial assets and financial liabilities *(Continued)*

The Bank uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Bank makes use of all factors that market participants would consider in setting a price as much as possible, and incorporates these into its chosen valuation technique and tests for validity using prices from any observable current market transactions in the same instruments. Observable data is given priority to unobservable data unless it is unpractical or unavailable.

(g) Derecognition of financial assets and financial liabilities

Financial asset of the Bank is derecognised when one of the following conditions is met:

- the contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Bank transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Bank neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred measured at the date of derecognition;
- the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Bank derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(h) Offsetting

Financial assets and financial liabilities are generally presented separately in the statement of financial position, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the statement of financial position when both of the following conditions are satisfied:

- The Bank currently has a legally enforceable right to set off the recognised amounts.
- The Bank intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(6) Perpetual Bonds

At initial recognition, the Bank classifies the perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

(7) Derivatives and hedge accounting

Derivatives

A derivative is a financial instrument or financial contract that meets the following criteria:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in those market factors; and
- it is settled at a future date.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives with a positive fair value are reflected in the balance sheet as derivative financial instrument assets and those with a negative fair value as derivative financial instrument liabilities. The gains or losses from the valuation of the financial instruments as a result of the fluctuation of their fair value are recorded in the statement of profit or loss.

Hedge accounting

At the inception of a hedging relationship, the Bank formally designates the hedge instruments and the hedged items, and documents the hedging relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to meet the hedge effectiveness in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to analyse the sources of hedge ineffectiveness which are expected to affect the hedging relationship in remaining hedging period. If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio, but the risk management objective for that designated hedging relationship remains the same, the Bank would rebalance the hedging relationship.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(7) Derivatives and hedge accounting *(Continued)*

Hedge accounting (Continued)

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in profit or loss. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Bank's accounting policy as set out below.

Cash flow hedges

Cash flow hedges are hedges of the Bank's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction or a component of any such item, and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss.

When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument recognised directly in other comprehensive income is recycled in the corresponding income or expense line of the statement of profit or loss. When the hedging relationship ceases to meet the qualifying criteria after taking into account any rebalancing of the hedging relationship, including the hedging instrument has expired or has been sold, terminated or exercised, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the hedged forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

(8) Financial assets held under resale and repurchase agreements

Financial assets purchased under resale agreements are bonds, loans and bills purchased by the Bank at certain prices from the sellers under agreements with the commitment to resell these instruments to the original sellers in the future at predetermined prices. Financial assets sold under repurchase agreements refer to bonds, loans and bills sold by the Bank at certain prices under agreements with the commitment to buy back these instruments in the future at predetermined prices.

The assets purchased under resale agreements are not recognised, and the payments (including accrued interest) are recognised as receivables on the statement of financial position and are carried at amortised cost. Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds (including accrued interest) from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(9) Property and equipment and construction in progress

Property and equipment are assets held by the Bank for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (see Note 3(14)). Construction in progress is stated in the statements of financial position at cost less impairment loss (see Note 3(14)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Bank in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	5.00%	4.75%
Leasehold improvements	Shorter of useful life or remaining lease term	—	—
Operating equipment	5 years	—	20.00%
Vehicle	5 years	5.00%	19.00%

Useful lives, residual values and depreciation methods of the Bank are reviewed at least at each year-end.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(10) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fix payment, including in substance fix payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(10) Leases *(Continued)*

(a) As a lessee (Continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'other assets' and lease liabilities in 'other liabilities' in the statements of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(11) Land use rights

Land use rights are initially recognised at costs and amortised using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 3(14).

(12) Intangible assets

The intangible assets of the Bank have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment loss (see Note 3(14)). The cost of intangible assets less residual value and impairment loss is amortised on the straight-line method over the estimated useful lives.

The respective amortisation periods for intangible assets of the Bank are as follows:

Computer software and system	3-5 years
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(13) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Bank from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(14) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each of the reporting periods based on the internal and external sources of information to determine whether there is any indication of impairment:

- Property and equipment
- Construction in progress
- Land use rights
- Intangible assets
- Long-term equity investments

Non-financial assets of the Bank that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(14) Provision for impairment losses on non-financial assets *(Continued)*

A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(15) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. Short-term employee benefits are recognised as liabilities in the accounting period in which the service is rendered by the employees based on the amounts paid or the statutory provisioning basis or ratio, with corresponding amounts charged to the profit or loss.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(15) Employee benefits *(Continued)*

The Bank's post-employment benefit plans are defined contribution plans. Defined contribution plans are post-employment benefit plans under which the bank pays fixed contributions into a separate fund and will have no obligation to pay further contributions. During the reporting period, the Bank's post-employment benefits mainly include the social pension schemes, unemployment insurance and annuity plan, all of which are defined contribution plans. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with corresponding amounts charged to the profit or loss.

(16) Income tax

Income tax for the reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Bank controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(16) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(17) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

In terms of off-balance sheet credit commitment, the Bank applies expected credit loss model to measure the loss caused by particular debtors incapable of paying due debts, which is present in provisions. See Note 3(5)(e) for the description of expected credit loss model.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(17) Financial guarantees, provisions and contingent liabilities *(Continued)*

(ii) Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(18) Fiduciary activities

The Bank acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Bank and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Bank enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Bank, and the Bank grants loans to third parties ("entrusted loans") under instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(19) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Bank's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders.

Income is recognised when the Bank satisfies the performance obligation in the contract which by transferring the control over relevant goods or services to the customers.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(19) Income recognition *(Continued)*

The following is the description of accounting policies regarding income from the Bank's principal activities:

(i) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Bank reflects the amount of consideration to which the Bank expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

The Bank recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- The customer controls the service provided by the Bank in the course of performance or;
- The Bank does not provide service with an alternative use to the Bank, and the Bank has an enforceable right to payment for performance completed to date.

In other cases, the Bank recognises revenue at a point in time at which a customer obtains control of the promised services.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(19) Income recognition *(Continued)*

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Bank will comply with the conditions attaching to them. Grants that compensate the Bank for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are initially recognised as deferred income and subsequently are recognised in profit or loss over the useful life of the asset.

(iv) Other income

Other income is recognised on an accrual basis.

(20) Expenses recognition

(i) Interest expense

Interest expense from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(21) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each of the reporting periods are not recognised as a liability at the end of the reporting periods but disclosed separately in the notes to the financial statements.

(22) Related parties

- (a) A person, or a close member of that person's family, is related to the Bank if that person:
- (i) has control or joint control over the Bank;
 - (ii) has significant influence over the Bank; or
 - (iii) is a member of the key management personnel of the Bank or the Bank's parent.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(22) Related parties *(Continued)*

- (b) An entity is related to the Bank if any of the following conditions applies:
- (i) The entity and the Bank are members of the same Bank (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Bank of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
 - (viii) The entity, or any member of a Bank of which it is a part, provides key management personnel services to the Bank or to the Bank's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(23) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Bank's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Bank's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Significant accounting judgements and estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(1) Measurement of expected credit loss

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 45 (a).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 45 (a) credit risk.

(2) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by the Bank make maximum use of market input and rely as little as possible on the Bank's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Bank reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(3) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Significant accounting judgements and estimates *(Continued)*

(4) Impairment of non-financial assets

Non-financial assets of the Bank are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(5) Depreciation and amortisation

Investment properties, property and equipment and intangible assets of the Bank are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(6) Determination of control over investees

The Bank applies its judgement to determine whether the control indicators set out Note 3(1) indicate that the Bank controls a non-principal guaranteed wealth management product and an asset management plan.

The Bank acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Bank controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Bank in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Bank, the Bank's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Bank has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Impact of issued but not yet effective international financial reporting standards

The revised and new accounting standards and interpretations but not yet effective for the year ended 31 December 2020, are set out below:

	Effective for accounting period beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, <i>Interest Rate Benchmark Reform — Phase 2</i>	1 January 2021
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37, <i>Onerous Contracts-Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to IAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
IFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined
Amendments to IFRS 4, <i>Extension of the temporary exemption from applying IFRS 9</i>	To be determined

The Bank has not adopted any new standard, amendment or interpretation that is not yet effective for the current accounting period.

The Bank has assessed the impact of these amendments which is expected to be in the period of initial application. So far it has concluded that the adoptions of them are unlikely to have significant impacts on the Bank's result of operations and financial position and financial performance.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

6 Net interest income

	Years ended 31 December	
	2020	2019
Interest income arising from		
Deposits with the central bank	1,047,020	1,152,852
Deposits with banks and other financial institutions	208,053	822,305
Placements with banks and other financial institutions	272,487	331,144
Loans and advances to customers		
– Corporate loans and advances	27,082,088	23,679,813
– Personal loans	18,758,719	12,639,918
– Discounted bills	849,023	449,895
Financial assets held under resale agreements	227,950	235,512
Financial investments	11,461,869	12,286,730
Sub-total	59,907,209	51,598,169
Interest expense arising from		
Borrowing from the central bank	(1,908,327)	(941,840)
Deposits from banks and other financial institutions	(2,508,869)	(2,302,108)
Placements from banks and other financial institutions	(502,793)	(652,526)
Deposits from customers	(19,327,768)	(16,789,672)
Financial assets sold under repurchase agreements	(630,760)	(682,957)
Debt securities issued	(6,551,656)	(7,207,783)
Sub-total	(31,430,173)	(28,576,886)
Net interest income	28,477,036	23,021,283

Interest income arising from impaired loan for the years ended 31 December 2020 and 2019 amounted to RMB320 million and RMB166 million, respectively.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net fee and commission income

(a) Income and expense streams:

	Years ended 31 December	
	2020	2019
Fee and commission income		
Agency service fees	3,075,667	2,455,269
Custodian service fees	770,970	1,090,351
Settlement and clearing fees	591,198	486,237
Credit commitments and asset management fees	367,637	279,897
Consulting service fees	284,057	678,372
Bank card fees	47,851	42,997
Others	59,608	290,274
Sub-total	5,196,988	5,323,397
Fee and commission expense		
Information service fees	(2,023,435)	(936,113)
Agency service fees	(106,269)	(72,591)
Consulting service fees	(74,475)	(32,916)
Settlement and clearing fees	(39,289)	(37,272)
Bank card fees	(33,212)	(115,467)
Others	(17,852)	(14,167)
Sub-total	(2,294,532)	(1,208,526)
Net fee and commission income	2,902,456	4,114,871

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net fee and commission income

(b) Disaggregation of income:

	Years ended 31 December			
	2020		2019	
	At a point in time	Over time	At a point in time	Over time
Agency service fees	649,750	2,425,917	551,769	1,903,500
Custodian service fees	–	770,970	–	1,090,351
Settlement and clearing fees	1,563	589,635	1,630	484,607
Credit commitments and asset management fees	98,979	268,658	63,744	216,153
Consulting service fees	–	284,057	–	678,372
Bank card fees	47,851	–	42,997	–
Others	15,877	43,731	219,213	71,061
Total	814,020	4,382,968	879,353	4,444,044

8 Net trading gains

	Years ended 31 December	
	2020	2019
Net gains from equity investment	323,030	–
Net losses from derivative instruments	(279,145)	(264,087)
Exchange (losses)/gains	(145,076)	391,877
Net gains from debt securities	67,488	26,872
Net gains from trading of precious metals	55,157	11
Net gains from loans and advances at fair value through profit or loss	23,146	41,719
Total	44,600	196,392

9 Net gains arising from investment securities

	Years ended 31 December	
	2020	2019
Net gains of financial investments at fair value through profit or loss	951,210	840,534
Net gains of financial investments at fair value through other comprehensive income	8,618	39,139
Dividend income	10,800	9,000
Net gains on disposal of financial investments at amortised cost	26,625	73,184
Total	997,253	961,857

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Other operating income

	Years ended 31 December	
	2020	2019
Government grants	39,012	55,698
Rental income	14,024	14,109
Long-term unwithdrawn items income	2,546	2,293
Net gains on disposal of property and equipment	216	194
Others	15,027	11,697
Total	70,825	83,991

11 Operating expenses

	Years ended 31 December	
	2020	2019
Staff costs		
– Salaries, bonuses and allowances	4,027,368	3,783,027
– Social insurance and annuity	451,533	605,324
– Housing allowances	426,637	367,633
– Staff welfares	178,798	171,031
– Employee education expenses and labour union expenses	104,671	122,602
– Others	258,377	301,246
Sub-total	5,447,384	5,350,863
Depreciation and amortisation	1,428,134	1,398,794
Taxes and surcharges	437,697	354,167
Interest expense on lease liabilities	165,020	174,000
Auditors' remuneration	5,000	2,600
Other general and administrative expenses	1,699,665	1,576,436
Total	9,182,900	8,856,860

Expenses relating to short-term leases and leases of low-value assets are RMB20 million and RMB12 million for the year ended 31 December 2020 and 2019, respectively.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Directors' and supervisors' emoluments

The emoluments paid before individual income tax in respect of the directors and supervisors who held office during the year are as follows:

Year ended 31 December 2020								
	Notes	Fees	Salaries	Discretionary bonus	Housing funds And social insurances	Annuities	Others	Total
Executive directors								
Li Fu'an		-	218	991	71	84	-	1,364
Qu Hongzhi	(e)	-	526	400	153	84	-	1,163
Li Yi		-	421	532	69	84	-	1,106
Du Gang	(e)	-	421	359	60	25	-	865
Non-executive directors								
Fung Joi Lun Alan		242	-	-	-	-	-	242
Zhang Bingjun		242	-	-	-	-	-	242
Cui Xuesong	(e)	-	-	-	-	-	-	-
Yuan Wei	(a)	-	-	-	-	-	-	-
Ye Baishou		-	-	-	-	-	-	-
Hu Aimin		242	-	-	-	-	-	242
Zhang Xifang	(c)	-	-	-	-	-	-	-
Zhang Yunji		242	-	-	-	-	-	242
Independent non-executive directors								
Mao Zhenhua		259	-	-	-	-	-	259
Chi Guotai		242	-	-	-	-	-	242
Mu Binrui		259	-	-	-	-	-	259
Tse Yat Hong	(e)	-	-	-	-	-	-	-
Wang Ren	(e)	-	-	-	-	-	-	-
Zhu Ning	(e)	-	-	-	-	-	-	-
Supervisors								
Wang Chunfeng	(b)	-	218	611	144	53	-	1,026
Feng Jiankuan	(d)	-	421	532	119	70	-	1,142
Fan Zhigui	(f)	-	1,116	3,076	443	84	-	4,719
Qi Ershi		259	-	-	-	-	-	259
Diao Qinyi		259	-	-	-	-	-	259
Hui Yung Chris	(g)	-	-	-	-	-	-	-
Total		2,246	3,341	6,501	1,059	484	-	13,631

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Directors' and supervisors' emoluments (Continued)

	Year ended 31 December 2019							
	Notes	Fees	Salaries	Discretionary bonus	Housing funds and social insurances	Annuities	Others	Total
Executive directors								
Li Fu'an		–	212	1,445	123	24	–	1,804
Fu Gang	(i)	–	68	718	61	8	–	855
Li Yi		–	191	1,367	119	21	–	1,698
Wang Jinhong	(k)	–	–	–	–	–	–	–
Qu Hongzhi	(e)	–	–	–	–	–	–	–
Du Gang	(e)	–	127	23	82	27	–	259
Non-executive directors								
Fung Joi Lun Alan		–	–	–	–	–	–	–
Zhang Bingjun		–	–	–	–	–	–	–
Shen Xiaolin	(k)	–	–	–	–	–	–	–
Wan Min	(h)	–	–	–	–	–	–	–
Ye Baishou		–	–	–	–	–	–	–
Hu Aimin		–	–	–	–	–	–	–
Zhang Yunji		–	–	–	–	–	–	–
Cui Xuesong	(e)	–	–	–	–	–	–	–
Yuan Wei	(a)	–	–	–	–	–	–	–
Zhang Xifang	(c)	–	–	–	–	–	–	–
Independent non-executive directors								
Zhang Junxi	(k)	–	–	–	–	–	–	–
Mao Zhenhua		–	–	–	–	–	–	–
Chi Guotai		–	–	–	–	–	–	–
Mu Binrui		–	–	–	–	–	–	–
Tse Yat Hong	(e)	–	–	–	–	–	–	–
Wang Ren	(e)	–	–	–	–	–	–	–
Zhu Ning	(e)	–	–	–	–	–	–	–
Supervisors								
Wang Chunfeng	(b)	–	110	25	94	43	–	272
Wang Wei	(j)	–	732	3,364	139	78	–	4,313
Feng Jiankuan	(d)	–	191	1,380	177	22	–	1,770
Fan Zhigui	(f)	–	34	–	45	7	–	86
Qi Ershi		–	–	–	–	–	–	–
Diao Qinyi		–	–	–	–	–	–	–
Hui Yung Chris	(g)	–	–	–	–	–	–	–
Bai Jie	(l)	–	–	–	–	–	–	–
Total		–	1,665	8,322	840	230	–	11,057

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Directors' and supervisors' emoluments *(Continued)*

There was no amount paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Bank, or inducement to join the Bank. For the year ended 31 December 2020, Ye Baishou, non-executive directors, waived the fee of RMB0.24 million.

Notes:

- (a) In the Annual General Meeting held on 6 March 2019, Yuan Wei was appointed as non-executive director of the Bank. On 25 December 2019, qualification of the director have been approved by the China Banking and Insurance Regulatory Commission ("CBIRC").
- (b) On 26 July 2019, Wang Chunfeng was appointed as employee's representative supervisor of the Bank.
- (c) In the Annual General Meeting held on 14 November 2019, Zhang Xifang was appointed as non-executive director of the Bank, The resolution took into effect on 9 December 2019. On 15 January 2020, the appointment was approved by the CBIRC.
- (d) On 19 November 2019, Feng Jiankuan was appointed as employee's representative supervisor of the Bank.
- (e) In the Annual General Meeting held on 16 December 2019, Qu Hongzhi and Du Gang were appointed as executive directors of the Bank, Cui Xuesong was appointed as non-executive director of the Bank, Tse Yat Hong, Wang Ren and Zhu Ning were appointed as independent non-executive directors of the Bank. On 23 January 2020, the appointment of Qu Hongzhi, Du Gang and Cui Xuesong were approved by the CBIRC. On 11 June 2020, the appointment of Tse Yat Hong, Wang Ren and Zhu Ning were approved by the CBIRC.
- (f) On 16 December 2019, Fan Zhigui was appointed as employee's representative supervisor of the Bank.
- (g) On 16 December 2019, Hui Yung Chris was appointed as external supervisor of the Bank.
- (h) On 6 March 2019, Wan Min resigned as non-executive director of the Bank.
- (i) On 24 April 2019, Fu Gang resigned as executive director of the Bank.
- (j) On 19 November 2019, Wang Wei resigned as employee's representative supervisor of the Bank.
- (k) On 16 December 2019, Wang Jinhong resigned as executive director of the Bank, Shen Xiaolin resigned as non-executive director of the Bank, Zhang Junxi resigned as independent non-executive director of the Bank.
- (l) On 16 December 2019, Bai Jie resigned as shareholders' representative Supervisor of the Bank.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Individuals with highest emoluments

For the years ended 31 December 2020, the five individuals with highest emoluments paid did not include any directors and supervisors of the Bank.

The emoluments paid to the five highest paid individuals for the years ended 31 December 2020 are as follows:

	Years ended 31 December	
	2020	2019
Salaries and other emoluments	5,726	6,914
Discretionary bonuses	23,780	22,044
Housing funds and social insurances	431	494
Annuities	422	261
Others	25	29
Total	30,384	29,742

The number of these individuals whose emoluments are within the following bands is set out below:

	Years ended 31 December	
	2020	2019
HKD5,500,001-6,000,000	–	2
HKD6,000,001-6,500,000	2	–
HKD6,500,001-7,000,000	2	1
HKD7,000,001-7,500,000	–	1
HKD7,500,001-8,000,000	–	1
HKD9,000,001-9,500,000	1	–

None of these individuals received any inducement to join or upon joining the Bank or compensation for loss of office, or waived any emoluments during the year.

14 Impairment losses on assets

	Years ended 31 December	
	2020	2019
Deposits with banks and other financial institutions	17,702	139,697
Placements with banks and other financial institutions	65,334	4,658
Financial assets held under resale agreements	(406)	(1,876)
Loans and advances to customers	6,784,184	8,789,229
Financial investments	6,117,972	807,096
Credit commitments	239,392	(171,891)
Total	13,224,178	9,566,913

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

15 Income tax expense

(a) Income tax expense:

	Note	Years ended 31 December	
		2020	2019
Current tax		3,629,578	3,236,957
Deferred tax	26(b)	(1,989,057)	(1,527,863)
Total		1,640,521	1,709,094

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	Years ended 31 December	
		2020	2019
Profit before taxation		10,085,092	9,901,850
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		2,521,273	2,475,463
Non-deductible expenses		254,518	94,409
Non-taxable income	(i)	(900,194)	(868,858)
Deductible undated capital bonds interest expense		(237,500)	–
Others		2,424	8,080
Income tax		1,640,521	1,709,094

- (i) The non-taxable income mainly represents the interest income arising from the the People's Republic of China ("PRC") government bonds, municipal debts, and dividend income from funds.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

16 Basic and diluted earnings per share

	Note	Years ended 31 December	
		2020	2019
Profit attributable to equity holders of the Bank		8,444,571	8,192,756
Less: interest on undated capital bonds declared		(950,000)	–
Profit attributable to ordinary equity holders of the Bank		7,494,571	8,192,756
Weighted average number of ordinary shares in issue (in thousands)	(a)	15,947,443	14,450,000
Basic and diluted earnings per share (in RMB)		0.47	0.57

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years.

(a) Weighted average number of ordinary shares (in thousands)

	Years ended 31 December	
	2020	2019
Number of ordinary shares at the beginning of the year	14,450,000	14,450,000
Weighted average number of ordinary shares issued during the year	1,497,443	–
Weighted average number of ordinary shares	15,947,443	14,450,000

On 16 July 2020, the Bank issued 2,880 million H-shares with a par value of RMB1 at an offering price of HKD4.80 per share. On 12 August 2020, the Bank exercised the over-allotment option and issued 432 million H-shares with a par value of RMB1 at HKD4.80 per share.

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors during the year.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Cash and deposits with the central bank

	Note	31 December	
		2020	2019
Cash on hand		433,044	429,952
Deposits with the central bank			
– Statutory deposit reserves	(a)	62,256,838	64,105,857
– Surplus deposit reserves	(b)	33,092,724	28,043,847
– Fiscal deposits		735,285	400,882
Sub-total		96,084,847	92,550,586
Interests accrued		30,526	33,161
Total		96,548,417	93,013,699

- (a) The Bank places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	Years ended 31 December	
	2020	2019
Reserve ratio for RMB deposits	9.0%	10.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Bank's daily business.

- (b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December	
	2020	2019
Deposits in Mainland China		
– Banks	12,223,057	10,931,354
Sub-total	12,223,057	10,931,354
Deposits outside Mainland China		
– Banks	15,771,096	3,257,458
Sub-total	15,771,096	3,257,458
Interests accrued	9,428	43,440
Less: Provision for impairment losses	(198,218)	(180,625)
Total	27,805,363	14,051,627

19 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December	
	2020	2019
Placements in Mainland China		
– Banks	2,150,000	4,400,725
– Other financial institutions	1,000,000	–
Sub-total	3,150,000	4,400,725
Placements outside Mainland China		
– Banks	2,942,955	–
Sub-total	2,942,955	–
Interests accrued	44,832	18,952
Less: Provision for impairment losses	(74,119)	(8,868)
Total	6,063,668	4,410,809

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Bank uses derivative financial instruments mainly including forwards, swaps and option contracts.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Bank but does not reflect the risk.

The notional amount and fair value of unexpired derivative financial instruments held by the Bank are set out in the following tables:

	31 December 2020		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	130,258,400	82,861	(73,125)
Exchange rate swaps	25,338,865	16,575	(255,739)
Exchange rate forwards	6,921,165	123,941	(115,620)
Precious metal derivatives	2,739,600	–	(82,149)
Option contracts	1,725,576	9,121	(6,531)
Total	166,983,606	232,498	(533,164)

	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	149,834,098	79,267	(68,938)
Exchange rate swaps	15,694,803	47,843	(75,839)
Option contracts	1,837,080	20,637	(18,047)
Exchange rate forwards	660,085	10,962	(8,934)
Total	168,026,066	158,709	(171,758)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Derivative financial instruments *(Continued)*

Cash flow hedges

The Bank's cash flow hedges consist of interest rate swap contracts that are used to protect against exposures to variability of future cash flows.

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

31 December 2020							
	Notional amounts with remaining life of					Fair Values	
	Within a month	Over a month but within three months	Over three months but within a year	Over a year but within five years	Over five years	Assets	Liabilities
Interest rate swap	-	-	-	200,000	-	-	(245)
Total	-	-	-	200,000	-	-	(245)

Details of the Bank's hedged risk exposures in cash flow hedges and the corresponding effect on equities are as follows:

31 December 2020					
	Carrying amount of hedged items		Effect of hedging instruments on other comprehensive income during the current year	Accumulated effect of hedging instruments on other comprehensive income	Line items in the statement of financial position
	Assets	Liabilities			
Loans	200,000	-	(160)	(160)	Loans and advances to customers
Total	200,000	-	(160)	(160)	

The gain and loss arising from the ineffective portion of cash flow hedges were immaterial for the year ended 31 December 2020 and 2019.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December	
	2020	2019
In Mainland China		
– Banks	–	1,850,000
Sub-total	–	1,850,000
Interests accrued	–	664
Less: Provision for impairment losses	–	(406)
Total	–	1,850,258

(b) Analysed by type of collateral held

	31 December	
	2020	2019
Debt securities		
– Commercial Banks and other financial institutions	–	1,850,000
Sub-total	–	1,850,000
Interests accrued	–	664
Less: Provision for impairment losses	–	(406)
Total	–	1,850,258

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers

(a) Analysed by nature

	31 December	
	2020	2019
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	546,044,790	464,465,437
Personal loans		
– Residential and commercial housing loans	167,701,283	127,816,279
– Personal consumption loans	112,697,982	95,605,758
– Personal business loans	25,665,459	6,711,807
– Credit cards	4,307,303	3,286,066
Sub-total	310,372,027	233,419,910
Interests accrued	4,408,520	2,822,439
Less: Provision for loans and advances to customers measured at amortised cost	(24,825,848)	(23,600,871)
Sub-total	835,999,489	677,106,915
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	31,046,668	9,413,518
Loans and advances to customers measured at fair value through profit or loss:		
Corporate loans and advances	74,060	758,665
Net loans and advances to customers	867,120,217	687,279,098

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluded interests accrued) analysed by industry sector

	31 December 2020		Loans and advances secured by collaterals
	Amount	Percentage	
Lease and business services	171,383,263	19.31%	32,869,421
Real estate	111,774,970	12.59%	77,024,629
Manufacturing	78,572,827	8.85%	45,626,723
Water conservancy, environment and public facilities management	57,281,338	6.45%	7,199,664
Wholesale and retail	46,695,083	5.26%	20,873,159
Construction	25,998,522	2.93%	13,916,968
Transportations and communications, storage and post	15,266,620	1.72%	6,549,398
Mining	10,576,481	1.19%	18,644
Production and supply of electricity, heat, gas and water	8,434,143	0.95%	589,878
Finance	5,220,010	0.59%	1,038,896
Education	2,712,058	0.31%	1,089,600
Public utilities, social security and social organizations	2,588,730	0.29%	564,100
Agriculture, forestry, animal husbandry and fishery	2,381,667	0.27%	337,210
Others	7,233,138	0.82%	2,945,755
Sub-total of corporate loans and advances	546,118,850	61.53%	210,644,045
Personal loans	310,372,027	34.97%	178,515,317
Discounted bills	31,046,668	3.50%	31,046,668
Gross loans and advances to customers	887,537,545	100.00%	420,206,030

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluded interests accrued) analysed by industry sector *(Continued)*

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	137,274,963	19.39%	22,875,794
Real estate	109,253,881	15.43%	75,891,752
Manufacturing	60,302,305	8.52%	26,801,152
Water conservancy, environment and public facilities management	50,870,045	7.18%	6,972,536
Wholesale and retail	37,309,397	5.27%	19,409,665
Construction	19,738,814	2.79%	10,661,925
Transportations and communications, storage and post	14,567,757	2.06%	5,942,711
Mining	7,737,664	1.09%	38,744
Production and supply of electricity, heat, gas and water	6,880,007	0.97%	378,207
Finance	5,628,543	0.79%	637,750
Public utilities, social security and social organizations	5,287,000	0.75%	690,000
Education	2,246,370	0.32%	439,302
Agriculture, forestry, animal husbandry and fishery	1,070,480	0.15%	198,500
Others	7,056,876	0.99%	1,992,782
Sub-total of corporate loans and advances	465,224,102	65.70%	172,930,820
Personal loans	233,419,910	32.97%	134,785,925
Discounted bills	9,413,518	1.33%	9,413,518
Gross loans and advances to customers	708,057,530	100.00%	317,130,263

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluded interests accrued) analysed by industry sector *(Continued)*

As at the end of the reporting period and during the year, detailed information of the credit-impaired loans and advances to customers (exclusive interests accrued) as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	31 December 2020					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses charged during the year	Written-off during the year
Lease and business services	3,135,737	(1,783,856)	(244,876)	(464,229)	(385,308)	-
Real estate	2,385,067	(2,482,659)	(798,483)	(760,810)	(425,021)	-

	31 December 2019					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses charged during the year	Written-off during the year
Lease and business services	647,630	(1,601,013)	(58,120)	(441,222)	(192,739)	-
Real estate	150,701	(3,004,753)	(558,987)	(53,191)	(239,765)	-

(c) Analysed by geographical sector (exclusive interests accrued)

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeast China	389,592,957	43.89%	159,788,724
Eastern China	211,867,272	23.87%	97,939,390
Central and Southern China	209,862,150	23.65%	131,484,717
Western China	76,215,166	8.59%	30,993,199
Gross loans and advances to customers	887,537,545	100.00%	420,206,030

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(c) Analysed by geographical sector (exclusive interests accrued) *(Continued)*

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeast China	326,296,386	46.08%	131,447,343
Eastern China	159,014,593	22.46%	73,894,821
Central and Southern China	167,258,342	23.62%	96,079,705
Western China	55,488,209	7.84%	15,708,394
Gross loans and advances to customers	708,057,530	100.00%	317,130,263

The geographical areas are categorized as follows:

Northern and Northeastern China includes Head Office, Beijing Branch, Tianjin Branch, Binhai Branch, Tianjin Pilot Free Trade Zone Branch, Dalian Branch, Hohhot Branch, Taiyuan Branch, Shijiazhuang Branch, Changchun Branch and Shenyang Branch.

Eastern China includes Nanjing Branch, Hangzhou Branch, Jinan Branch, Shanghai Branch, Shanghai Pilot Free Trade Zone Branch, Hefei Branch, Suzhou Branch, Qingdao Branch, Ningbo Branch and Nanchang Branch.

Central and Southern China includes Guangzhou Branch, Shenzhen Branch, Shenzhen Qianhai Branch, Hong Kong Branch, Changsha Branch, Wuhan Branch, Fuzhou Branch, Zhengzhou Branch, Xiamen Pilot Free Trade Zone Branch, Haikou Branch and Nanning Branch.

Western China includes Chengdu Branch, Xi'an Branch and Chongqing Branch.

(d) Analysed by type of collateral (exclusive interests accrued)

	31 December	
	2020	2019
Unsecured loans	191,402,509	142,638,360
Guaranteed loans	275,929,006	248,288,907
Collateralised loans	294,096,608	236,573,764
Pledged loans	95,062,754	71,142,981
Bank acceptance discounted bills	24,189,841	7,111,743
Commercial acceptance discounted bills	6,856,827	2,301,775
Gross loans and advances to customers	887,537,545	708,057,530

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers (Continued)

(e) Overdue loans (exclusive interests accrued) analysed by overdue period

31 December 2020					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,178,365	1,593,322	514,860	55,566	3,342,113
Guaranteed loans	3,632,195	1,702,760	2,782,758	994,111	9,111,824
Collateralised loans	3,438,574	1,891,123	771,826	606,273	6,707,796
Pledged loans	2,357,456	3,083,464	–	47,559	5,488,479
Total	10,606,590	8,270,669	4,069,444	1,703,509	24,650,212
As a percentage of gross loans and advances to customers	1.20%	0.93%	0.46%	0.19%	2.78%

31 December 2019					
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	573,505	414,157	764,449	48,862	1,800,973
Guaranteed loans	4,466,777	1,921,151	3,096,220	1,740,023	11,224,171
Collateralised loans	1,853,140	480,096	766,281	1,744,538	4,844,055
Pledged loans	3,759,890	–	18,993	29,538	3,808,421
Total	10,653,312	2,815,404	4,645,943	3,562,961	21,677,620
As a percentage of gross loans and advances to customers	1.50%	0.40%	0.66%	0.50%	3.06%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(f) Loans and advances (exclusive interests accrued) and provision for impairment losses

31 December 2020				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	815,010,509	25,692,529	15,713,779	856,416,817
Less: Provision for impairment losses	(9,664,387)	(7,228,243)	(7,933,218)	(24,825,848)
Carrying amount of loans and advances to customers measured at amortised cost	805,346,122	18,464,286	7,780,561	831,590,969
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	31,046,668	–	–	31,046,668
31 December 2019				
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	664,530,049	20,763,849	12,591,449	697,885,347
Less: Provision for impairment losses	(9,281,200)	(6,213,635)	(8,106,036)	(23,600,871)
Carrying amount of loans and advances to customers measured at amortised cost	655,248,849	14,550,214	4,485,413	674,284,476
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	9,413,518	–	–	9,413,518

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers (Continued)

(g) Movements of provision for impairment losses

(i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost:

	Year ended 31 December 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at 1 January	9,281,200	6,213,635	8,106,036	23,600,871
Transferred:				
– to lifetime expected credit losses: not credit-impaired loans	(447,970)	466,896	(18,926)	–
– to lifetime expected credit losses: credit-impaired loans	(357,064)	(642,457)	999,521	–
Charge for the year	1,191,933	1,190,169	4,312,113	6,694,215
Transfer out	–	–	(2,623,253)	(2,623,253)
Recoveries	–	–	114,136	114,136
Write-offs	–	–	(2,949,112)	(2,949,112)
Exchange differences and other	(3,712)	–	(7,297)	(11,009)
As at 31 December	9,664,387	7,228,243	7,933,218	24,825,848

	Year ended 31 December 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at 1 January	7,920,917	5,531,574	5,997,343	19,449,834
Transferred:				
– to expected credit losses over the next 12 months	65,446	(65,446)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(196,612)	251,232	(54,620)	–
– to lifetime expected credit losses: credit-impaired loans	(14,999)	(435,949)	450,948	–
Charge for the year	1,505,226	3,935,281	3,336,740	8,777,247
Transfer out	–	(3,003,057)	(674,403)	(3,677,460)
Recoveries	–	–	89,534	89,534
Write-offs	–	–	(1,040,889)	(1,040,889)
Exchange differences and other	1,222	–	1,383	2,605
As at 31 December	9,281,200	6,213,635	8,106,036	23,600,871

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(g) Movements of provision for impairment losses *(Continued)*

(ii) *Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:*

	Year ended 31 December 2020				Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss		
As at 1 January	37,215	-	-		37,215
Charge for the year	89,969	-	-		89,969
As at 31 December	127,184	-	-		127,184

	Year ended 31 December 2019				Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss		
As at 1 January	7,856	-	17,377		25,233
Charge/(Reversal) for the year	29,359	-	(17,377)		11,982
As at 31 December	37,215	-	-		37,215

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(h) Disposal of loans and advances to customers

During the years ended 31 December 2020 and 2019, the Bank transferred loans and advances with gross amount of RMB1,524 million and RMB668 million to independent third parties, and the transfer price was RMB290 million and RMB133 million.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments

	Note	31 December	
		2020	2019
Financial investments measured at fair value through profit or loss	(a)	72,597,497	36,238,313
Financial investments measured at fair value through other comprehensive income	(b)	61,813,595	64,967,327
Financial investments measured at amortised cost	(c)	241,515,654	199,101,251
Total		375,926,746	300,306,891

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

	31 December	
	2020	2019
Debt securities issued by the following institutions in Mainland China		
– Government	377,181	100,969
– Policy banks	855,306	555,612
– Corporates	7,204,039	148,390
Unlisted	8,436,526	804,971
Investment funds		
– Unlisted	44,178,765	25,480,840
Equity investments		
– Listed outside Hong Kong	298,175	145,274
– Unlisted	1,832,738	1,696,017
Trust plans and asset management plans		
– Unlisted	17,851,293	8,111,211
Total	72,597,497	36,238,313

Note:

As at 31 December 2020 and 2019, there were no investments subject to material restrictions in the realization.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments *(Continued)*

(b) Financial investments measured at fair value through other comprehensive income

	31 December	
	2020	2019
Debt securities issued by the following institutions in Mainland China		
– Government	35,500,988	25,149,120
– Policy banks	22,955,615	29,266,780
– Banks and other financial institutions	1,285,751	300,770
– Corporate	49,612	158,246
Interests accrued	858,658	886,305
Unlisted	60,650,624	55,761,221
Trust plans and asset management plans		
Interests accrued	962,971	8,979,719
Unlisted	962,971	26,387
Equity investments		
Unlisted	200,000	9,006,106
Total	61,813,595	64,967,327

Note:

- (i) As at 31 December 2020 and 2019, certain debt securities were pledged for borrowings from the central bank (Note 48(e)).
- (ii) The Bank irrevocably designate parts of equity investments that are not held for trading as fair value through other comprehensive income (“FVOCI”) with the fair value of RMB200 million. Dividends income from such equity investments during the year ended 31 December 2020 and 2019 was RMB10.8 million and RMB9.0 million, respectively, which was included in the profit or loss. The Bank did not dispose such equity investments during the reporting period, and there was no cumulative gain or loss transferred from other comprehensive income to retained earnings.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments *(Continued)*

(b) Financial investments measured at fair value through other comprehensive income *(Continued)*

Note: *(Continued)*

- (iii) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income is as follows:

	Year ended 31 December 2020				Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses	expected credit losses credit-impaired	
Balance at 1 January	809,442	–	13,371		822,813
(Reversal)/Charge for the year	(766,941)	–	16,629		(750,312)
Balance at 31 December	42,501	–	30,000		72,501

	Year ended 31 December 2019				Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses	expected credit losses credit-impaired	
Balance at 1 January	17,684	–	–		17,684
Transfers					
– to lifetime expected credit losses credit-impaired	(240)	–	240		–
Charge for the year	791,998	–	13,131		805,129
Balance at 31 December	809,442	–	13,371		822,813

Provision for impairment on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments *(Continued)*

(c) Financial investments measured at amortised cost

	Note	31 December	
		2020	2019
Debt securities issued by the following institutions in Mainland China	(i)		
– Government		72,995,069	73,493,360
– Policy banks		47,850,949	29,549,180
– Banks and other financial institutions		2,900,000	1,200,000
– Corporate		11,269,315	7,543,502
Interests accrued		2,089,849	1,882,964
Unlisted		137,105,182	113,669,006
Trust plans and asset management plans		111,855,622	87,813,402
Interests accrued		2,474,099	823,151
Unlisted		114,329,721	88,636,553
Less: Provision for impairment losses	(ii)	(9,919,249)	(3,204,308)
Total		241,515,654	199,101,251

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments (Continued)

(c) Financial investments measured at amortised cost (Continued)

Note:

- (i) As at 31 December 2020 and 2019, certain debt securities were pledged for borrowings from the central bank (Note 48(e)).
- (ii) Movements of provision for impairment losses of financial investments measured at amortised cost is as follows:

	Year ended 31 December 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	1,313,800	406,945	1,483,563	3,204,308
Transfers:				
– to lifetime expected credit losses not credit-impaired	(324,820)	324,820	–	–
– to lifetime expected credit losses credit-impaired	–	(243,157)	243,157	–
Charge for the year	261,798	3,237,281	3,369,205	6,868,284
Transfer out	–	–	(150,186)	(150,186)
Exchange differences and other	(3,157)	–	–	(3,157)
Balance at 31 December	1,247,621	3,725,889	4,945,739	9,919,249

	Year ended 31 December 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	2,066,212	22,583	1,749,942	3,838,737
Transfers:				
– to lifetime expected credit losses not credit-impaired	(89,660)	89,660	–	–
– to lifetime expected credit losses credit-impaired	(43,544)	(22,583)	66,127	–
(Reversal)/Charge for the year	(619,314)	317,285	303,996	1,967
Transfer out	–	–	(636,502)	(636,502)
Exchange differences and other	106	–	–	106
Balance at 31 December	1,313,800	406,945	1,483,563	3,204,308

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Interest in associate

	Note	31 December	
		2020	2019
Interest in associate	(a)	–	–

Notes:

- (a) The following list contains the Bank's associate, which is immaterial to the Bank and is unlisted corporate entity whose quoted market price is not available:

Name	Percentages of Equity/ voting rights		Place of incorporation/ registration	Business sector
	31 December 2020	31 December 2019		
Hawtai Motor Finance Co., Ltd. ("Hawtai Motor Finance")	10%	10%	Tianjin, China	Motor Finance

The following tables illustrate the information of the Bank's associate that is not material:

	31 December	
	2020	2019
Carrying amount of immaterial associate in the statements of financial position of the Bank	–	–
Amounts of the Bank's share of results of this associate		
– Losses from continuing operations	–	(52,771)
– Total comprehensive losses	–	(52,771)

- (b) As at 31 December 2020 and 2019, the Bank has not recognised share of losses totalling RMB81 million and RMB13 million in relation to its interest in the associate, because the Bank has no obligation in respect of this losses.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Property and equipment

	Premises	Leasehold improvements	Operating equipment	Motor vehicles	Construction in progress	Total
Cost						
As at 1 January 2019	3,724,155	616,017	1,190,889	76,638	373,722	5,981,421
Additions	151,829	147,297	178,395	7,476	15,693	500,690
Transfers	–	–	26,538	–	(26,538)	–
Disposals	–	(82,347)	(147,699)	(3,643)	–	(233,689)
As at 31 December 2019	3,875,984	680,967	1,248,123	80,471	362,877	6,248,422
As at 1 January 2020	3,875,984	680,967	1,248,123	80,471	362,877	6,248,422
Additions	–	73,459	147,150	4,468	98,235	323,312
Transfers	–	–	97,299	–	(97,299)	–
Disposals	–	(21,960)	(24,795)	(2,784)	–	(49,539)
As at 31 December 2020	3,875,984	732,466	1,467,777	82,155	363,813	6,522,195
Accumulated depreciation						
As at 1 January 2019	(799,735)	(392,137)	(818,033)	(54,258)	–	(2,064,163)
Charge for the year	(184,469)	(151,911)	(164,367)	(7,999)	–	(508,746)
Disposals	–	17,904	109,134	1,660	–	128,698
As at 31 December 2019	(984,204)	(526,144)	(873,266)	(60,597)	–	(2,444,211)
As at 1 January 2020	(984,204)	(526,144)	(873,266)	(60,597)	–	(2,444,211)
Charge for the year	(185,892)	(108,503)	(178,605)	(6,652)	–	(479,652)
Disposals	–	4,550	24,627	2,645	–	31,822
As at 31 December 2020	(1,170,096)	(630,097)	(1,027,244)	(64,604)	–	(2,892,041)
Net book value						
As at 31 December 2019	2,891,780	154,823	374,857	19,874	362,877	3,804,211
As at 31 December 2020	2,705,888	102,369	440,533	17,551	363,813	3,630,154

The net book values of premises as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

	31 December	
	2020	2019
Held in Mainland China		
– Medium-term leases (10-50 years)	2,705,888	2,891,780

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred tax assets

(a) Analysed by nature

	31 December 2020		31 December 2019	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	30,931,922	7,732,980	22,676,053	5,669,013
– Accrued salary cost	4,061,016	1,015,254	3,615,307	903,827
– Provisions	1,048,631	262,158	810,624	202,656
– Fair value changes	688,360	172,090	171,758	42,940
– Others	145,175	36,294	107,727	26,932
	36,875,104	9,218,776	27,381,469	6,845,368
Deferred income tax liability				
– Fair value changes	(1,879,299)	(469,825)	(1,723,057)	(430,764)
– Others	(337,333)	(84,333)	(198,050)	(49,513)
	(2,216,632)	(554,158)	(1,921,107)	(480,277)
Net balances	34,658,472	8,664,618	25,460,362	6,365,091

(b) Movements of deferred tax

	Allowance for impairment losses Note (i)	Fair value changes Note (ii)	Others	Net balance of deferred tax assets
As at 1 January 2019	4,373,584	(297,664)	990,002	5,065,922
Recognised in profit or loss	1,295,429	(65,743)	93,900	1,323,586
Recognised in other comprehensive income	–	(24,417)	–	(24,417)
As at 31 December 2019	5,669,013	(387,824)	1,083,902	6,365,091
Recognised in profit or loss	2,063,967	(55,296)	145,471	2,154,142
Recognised in other comprehensive income	–	145,385	–	145,385
As at 31 December 2020	7,732,980	(297,735)	1,229,373	8,664,618

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred tax assets (Continued)

(b) Movements of deferred tax (Continued)

Notes:

- (i) The Bank made provision for impairment losses on loans and advances to customers and other assets. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at 31 December 2020 and 2019, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to income tax when realized.

27 Other assets

	Note	31 December	
		2020	2019
Right-of-use assets	(a)	3,976,754	3,920,944
Interest receivable	(b)	1,370,954	197,778
Land use rights	(c)	429,437	444,162
Amount pending for settlement		410,712	117,425
Fees and commission receivable		317,244	242,718
Prepayments		156,789	217,199
Intangible assets	(d)	147,017	135,478
Guarantee deposits		129,844	116,838
Long-term deferred expenses		1,860	5,085
Others		590,833	292,005
Sub-total		7,531,444	5,689,632
Less: Allowances for impairment losses		–	–
Total		7,531,444	5,689,632

(a) Right-of-use assets

	Year ended 31 December	
	2020	2019
Balance at 1 January	3,920,944	4,315,913
Additions	926,043	424,931
Depreciation charge for the year	(870,233)	(819,900)
Balance at 31 December	3,976,754	3,920,944

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Other assets (Continued)

(b) Interest receivable

	31 December	
	2020	2019
Interests receivables arising from:		
Financial investments	1,110,311	64,567
Loans and advances to customers	260,643	133,211
Total	1,370,954	197,778

As at 31 December 2020 and 2019, interest receivable only includes interest that has been due for the relevant financial instruments but not yet received. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(c) Land use rights

	31 December	
	2020	2019
Located in Mainland China: 10-50 years	429,437	444,162

(d) Intangible assets

	Year ended 31 December	
	2020	2019
Cost		
As at 1 January	450,246	387,293
Additions for the year	65,575	62,953
Disposals for the year	(545)	–
As at 31 December	515,276	450,246
Accumulated amortisation		
As at 1 January	(314,768)	(264,239)
Charge for the year	(53,591)	(50,529)
Disposals for the year	100	–
As at 31 December	(368,259)	(314,768)
Book value		
As at 1 January	135,478	123,054
As at 31 December	147,017	135,478

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Borrowings from the central bank

	31 December	
	2020	2019
Medium-term Lending Facility	70,600,000	46,300,000
Interests accrued	992,485	605,557
Total	71,592,485	46,905,557

29 Deposits from banks and other financial institutions

Analysed by type of and location of counterparty

	31 December	
	2020	2019
Deposits in Mainland China		
– Banks	95,899,927	55,244,035
– Other financial institutions	33,762,362	22,694,553
Sub-total	129,662,289	77,938,588
Interests accrued	611,070	608,842
Total	130,273,359	78,547,430

30 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December	
	2020	2019
Placements in Mainland China		
– Banks	11,113,200	5,377,485
Placements outside Mainland China		
– Banks	20,618,686	15,842,711
Interests accrued	188,728	279,981
Total	31,920,614	21,500,177

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December	
	2020	2019
In Mainland China		
– Banks	52,337,687	23,046,580
Interests accrued	68,396	22,513
Total	52,406,083	23,069,093

(b) Analysed by type of collateral held

	31 December	
	2020	2019
Debt securities	41,103,700	20,789,270
Acceptance	11,233,987	2,257,310
Sub-total	52,337,687	23,046,580
Interests accrued	68,396	22,513
Total	52,406,083	23,069,093

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Deposits from customers

	31 December	
	2020	2019
Demand deposits		
– Corporate customers	187,615,249	170,847,236
– Individual customers	20,467,078	18,912,350
Sub-total	208,082,327	189,759,586
Time deposits		
– Corporate customers	288,674,152	244,102,265
– Individual customers	81,475,122	33,234,311
Sub-total	370,149,274	277,336,576
Pledged deposits		
– Acceptances	96,075,072	109,236,107
– Letters of credit and guarantees	32,303,279	35,327,807
– Letters of guarantees	5,788,720	4,429,925
– Others	34,122,644	21,532,578
Sub-total	168,289,715	170,526,417
Fiscal deposits	119,136	258,723
Inward and outward remittances	85,331	53,597
Interests accrued	11,510,011	9,829,652
Total	758,235,794	647,764,551

33 Debt securities issued

	Note	31 December	
		2020	2019
Interbank deposits issued	(a)	165,340,725	149,008,758
Financial bonds issued	(b)	57,951,340	36,954,100
Tier-two capital debts issued	(c)	–	8,990,470
Subordinate bonds issued	(d)	947,004	946,747
Sub-total		224,239,069	195,900,075
Interests accrued		915,021	703,768
Total		225,154,090	196,603,843

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Debt securities issued *(Continued)*

Notes:

- (a) Interbank deposit issued
- (i) For the year ended 31 December 2020, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB344,600 million and duration between 1 to 12 months. The effective interest rates ranged from 1.20% to 3.50% per annum.
 - (ii) For the year ended 31 December 2019, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB375,410 million and duration between 1 to 12 months. The effective interest rates ranged from 2.40% to 3.42% per annum.
 - (iii) As at 31 December 2020 and 2019, the fair value of interbank deposits issued was RMB164,185 million and RMB147,575 million, respectively.
- (b) Financial bonds issued
- (i) On 20 August 2020, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 3.55%.
 - (ii) On 17 February 2020, the Bank issued three-year financial bonds with face value of RMB8,000 million. The coupon interest rate per annum is 3.24%.
 - (iii) On 13 January 2020, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 3.47%.
 - (iv) On 5 November 2018, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 4.07%.
 - (v) On 26 October 2018, the Bank issued three-year financial bonds with face value of RMB20,000 million. The coupon interest rate per annum is 4.09%.
 - (vi) On 21 March 2018, the Bank issued two-year financial bonds with face value of RMB5,000 million. The coupon interest rate per annum is 5.15%. The bank has redeemed all of the bonds at face value on 23 March 2020.
 - (vii) On 28 July 2015, the Bank issued five-year financial bonds with a face value of RMB2,000 million. The coupon interest rates per annum is 4.25%. The bank has redeemed all of the bonds at face value on 29 July 2020.
 - (viii) As at 31 December 2020 and 2019, the fair value of financial bonds issued was RMB58,083 million and RMB37,314 million, respectively.
- (c) Tier-two capital debts issued
- (i) On 19 June 2015, the Bank issued ten-year fixed interest rate tier-two capital debts with face value of RMB9,000 million. The coupon interest rate per annum is 5.15%.
 - (ii) On 24 June, 2020, the Bank exercised redemption right to redeem the 10-year tier-two capital debts issued in 2015 with face value of RMB9,000 million.
 - (iii) As at 31 December 2020 and 2019, the fair value of tier-two capital debts issued was nil and RMB9,054 million, respectively.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Debt securities issued *(Continued)*

Notes: *(Continued)*

(d) Subordinated bonds issued

- (i) On 20 July 2012, the Bank issued fifteen-year fixed interest rate subordinated bonds with face value of RMB950 million. The coupon interest rate per annum is 5.68%.
- (ii) As at 31 December 2020 and 2019, the fair value of subordinated bonds issued was RMB975 million and RMB991 million, respectively.

According to the issuance terms, for 10-year tier-two capital bonds, the Bank has the option to redeem all the bonds at face value on the last day of the fifth year. For 15-year subordinated bonds, the Bank has the option to redeem all the bonds at face value on the last day of the tenth year.

As at 31 December 2020 and 2019, there were no defaults of principal and interest or other breaches with respect to these bonds. None of the above bonds were secured.

34 Other liabilities

	Note	31 December	
		2020	2019
Payment and collection clearance accounts		5,645,377	7,167,805
Accrued staff cost	(a)	4,257,490	3,828,407
Lease liabilities		4,136,314	3,956,296
Provisions	(b)	1,048,631	810,624
Other taxes payable		879,618	746,449
Amount to be settled and cleared		471,656	568,867
Contract liabilities	(c)	140,479	106,481
Others		1,096,736	656,100
Total		17,676,301	17,841,029

(a) Accrued staff cost

	31 December	
	2020	2019
Salary, bonuses and allowances payable	3,883,565	3,543,415
Pension and annuity payable	15,149	13,346
Other social insurance payable	11,045	6,081
Housing fund payable	39,031	4,945
Others	308,700	260,620
Total	4,257,490	3,828,407

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities (Continued)

(b) Provisions

	Note	31 December	
		2020	2019
Provision for credit commitment losses	(i)	1,006,387	768,380
Expected litigation losses		42,244	42,244
Total		1,048,631	810,624

(i) *Movements of provisions for credit commitment losses is as follows:*

	Year ended 31 December 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January 2020	730,049	36,935	1,396	768,380
Charge/(reversal) for the year	132,801	107,329	(738)	239,392
Exchange differences and other	(1,385)	–	–	(1,385)
Balance at 31 December 2020	861,465	144,264	658	1,006,387

	Year ended 31 December 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January 2019	885,490	43,015	11,332	939,837
Transfers				
– to lifetime expected credit losses credit-impaired	–	(90)	90	–
Reversal for the year	(155,875)	(5,990)	(10,026)	(171,891)
Exchange differences and other	434	–	–	434
Balance at 31 December 2019	730,049	36,935	1,396	768,380

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities (Continued)

(c) Contract liabilities

As at 31 December 2020 and 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Bank's existing contracts are approximately RMB140 million and RMB106 million, respectively. This amount represents income expected to be recognised in the future from agency, custody, guarantee and acceptance services. The Bank will recognise the expected income in future as the services are provided.

35 Share capital

Issued share capital

Share capital of the Bank as at 31 December 2020 and 2019 represented share capital of the Bank, which is fully paid.

	31 December	
	2020	2019
Number of shares issued and fully paid at par value of RMB1 each (in thousand)	17,762,000	14,450,000

On 16 July 2020, the Bank issued 2,880 million H-shares with a par value of RMB1 at an offering price of HKD4.80 per share on the Hong Kong Stock Exchange. On 7 August 2020, the over-allotment option was fully exercised, and on 12 August 2020, the Bank issued 432 million H-shares with a par value of RMB1 at HKD4.80 per share. The capital contribution was verified by KPMG Huazhen LLP.

36 Other equity instruments

Undated capital bonds

(a) Outstanding undated capital bonds at 31 December 2020

Financial Instrument outstanding	Issue date	Accounting classification	Distribution rate	Issue price	Amount (million shares)			Conversion	
						In RMB	Maturity	condition	Conversion
Undated Capital Bonds	11 September 2019	Equity	4.75%	100RMB/Share	200	20,000,000	None	No	No
Total						20,000,000			
Less: Issue fees						(38,396)			
Book value						19,961,604			

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Other equity instruments *(Continued)*

Undated capital bonds *(Continued)*

(b) Main Clauses

(i) Principal Amount

RMB20 billion.

(ii) Maturity Date

The Bonds will continue to be outstanding so long as the Issuer's business continues to operate.

(iii) Distribution Rate

The distribution rate of the Bonds will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the Distribution Payments on the Bonds will be paid at a prescribed fixed distribution rate. The distribution rate at the time of issuance is determined by way of book building running and centralised allocation.

The distribution rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity of 5 trading days prior to the Announcement Date of the Subscription Agreement, as indicated by the yield to maturity curve of applicable 5-year China government Notes (rounded up to 0.01%) published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the distribution rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

The Bonds will not have any distribution rate step up nor any other incentive to redeem.

(iv) Conditional Redemption Rights of the Issuer

The Bonds Issuance sets conditional redemption rights for the Issuer. From the fifth anniversary since the Issuance of the Bonds, the Issuer may redeem the Bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the Issuance). If, after the Issuance, the Bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Issuer may redeem all but not some only of the Bonds.

(v) Subordination

The claims in respect of the Bonds, in the event of the liquidation of the Issuer, will be subordinated to claims of depositors, general creditors, and subordinated indebtedness; shall rank in priority to all classes of shares held by the Issuer's shareholders and rank *pari passu* with the claims in respect of any other Additional Tier 1 Capital instruments of the Issuer that rank *pari passu* with the Bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable, such relevant laws and regulations shall prevail.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Other equity instruments *(Continued)*

Undated capital bonds *(Continued)*

(b) Main Clauses (Continued)

(vi) Distribution Payment

The distribution of the Bonds will be payable annually. The distribution payment date of the Bonds shall be 16 September of each year. If any distribution payment date falls on a day which is an official holiday or non-business day in the PRC, it shall be postponed to the subsequent business day. Such postponed distributions shall not bear interest. The Issuer shall have the right to cancel, in whole or in part, distributions on the Bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Issuer will take into full consideration the interest of the Bonds' holders. The Issuer may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the Bonds, no matter in whole or in part, will not impose any other restriction on the Issuer, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the Notes, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting. And the Issuer shall give notice to the investors on such cancellation in a timely manner.

(vii) Put Option

The holder of the Bonds do not have any put option to sell back the Bonds to the Issuer.

(viii) Write-down/write-off Clauses

Upon the occurrence of an Additional Tier 1 Capital Trigger Event, namely, the Issuer's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Issuer has the right, subject to the approval of the China Banking and Insurance Regulatory Commission ("CBIRC") but without the need for the consent of the Bond holders, to write down all or part of the aggregate amount of the Bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%. In the case of a partial write-down, all of the Bonds then issued and outstanding shall be written down on a prorata basis, according to the outstanding par value, with all other Additional Tier 1 Capital instruments with equivalent write-down clauses of the Issuer. The Bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Issuer to above 5.125%.

Upon the occurrence of a Tier 2 Capital Trigger Event, the Issuer has the right to write off in whole, without the need for the consent of Bond holders, the aggregate principal amount of the Bonds then issued and outstanding according to the outstanding par value. A Tier 2 Capital Trigger Event refers to the earlier of the following events: (a) CBIRC having decided that the Issuer would become non-viable without a write-off; (b) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable. Upon write-off of the Bonds, such Bonds are to be permanently cancelled and will not be restored under any circumstances.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other comprehensive income

	Year ended 31 December	
	2020	2019
Items that may be reclassified subsequently to profit or loss:		
<i>Changes in fair value of financial assets measured at FVOCI</i>		
As at 1 January	324,471	251,224
Changes in fair value recognised in other comprehensive income	(712,756)	149,344
Transfer to profit or loss upon disposal	131,427	(51,680)
Less: deferred tax	145,332	(24,417)
As at 31 December	(111,526)	324,471
 <i>Credit losses of financial assets measured at fair value through other comprehensive income</i>		
As at 1 January	645,022	32,188
Impairment losses recognised in other comprehensive income	(660,343)	817,111
Less: deferred tax	165,085	(204,277)
As at 31 December	149,764	645,022
 <i>Reserve from cash flow hedging instruments</i>		
As at 1 January	–	–
Gains during the year recognised in other comprehensive income	(213)	–
Less: deferred tax	53	–
As at 31 December	(160)	–

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Reserves

(a) Capital reserve

	31 December	
	2020	2019
Share premium	10,732,077	–

As stated in Note 35, the Bank issued H shares with a par value of RMB1.00 at an offering price of HKD4.80 per share in 2020. The premium arising from the issuance of new shares amounting to RMB10,732.08 million was recorded in capital reserve.

(b) Surplus reserve

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank appropriated an amount of approximately RMB859 million and RMB834 million to the surplus reserve for 2020 and 2019, respectively.

(c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of the Bank amounted to approximately RMB17,665 million and RMB14,082 million as at 31 December 2020 and 2019, respectively.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Retained earnings

Appropriation of profits

On 29 March 2021, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2020:

- Appropriation of statutory surplus reserve base on 10% of the net profit under the PRC GAAP;
- Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB3,583 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB1,510 million to all existing ordinary equity holders.

Above proposed profit distribution scheme is subject to the approval of the shareholders in the annual general Meeting.

In accordance with the resolution at the Bank's Annual General Meeting on 27 March 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

- Appropriation of statutory surplus reserve base on 10% of the net profit under the PRC GAAP; and
- Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB1,440 million.

In accordance with the resolution at the Bank's 44th meeting of the fourth Board of Directors on 27 September 2019, the Board of Directors approved the declaration of remaining special dividends in an aggregation amount of approximately RMB2,061 million to non-trust shareholders who have completed the contribution obligation under the second capital injection in 2011 with the authorisation by the General Meeting of shareholders.

Interests for Undated Capital Bonds

The Bank declared and distributed the interest on the 2019 Undated Capital Bonds amounting to RMB950 million on 16 September 2020.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Bank holds an interest:

The Bank holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include the investment management products under trust schemes, wealth management products under trust schemes issued by financial institutions and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Bank in unconsolidated structured entities, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised as at 31 December 2020 and 2019:

	31 December 2020		31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments measured at fair value through profit or loss	62,030,058	62,030,058	33,592,051	33,592,051
Financial investments measured at fair value through other comprehensive income	962,971	962,971	9,006,106	9,006,106
Financial investments measured at amortised cost	104,608,861	105,714,077	85,510,600	85,571,429
Total	167,601,890	168,707,106	128,108,757	128,169,586

(b) Structured entities sponsored by the Bank which the Bank does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Bank include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Bank includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2020 and 2019, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material to the Bank's financial positions.

For the years ended 31 December 2020 and 2019, the amount of fee and commission income from the abovementioned structured entities by the Bank amounted to RMB2,414 million and RMB1,850 million, respectively.

As at 31 December 2020 and 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, were RMB213,174 million and RMB234,734 million, respectively.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities *(Continued)*

(c) Unconsolidated structure entities sponsored by the Bank during the year which the Bank does not have an interest in as at 31 December 2020 and 2019:

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2020 but matured before 31 December 2020 was RMB163,492 million and the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2019 but matured before 31 December 2019 was RMB175,086 million.

41 Capital management

The Bank implements a comprehensive capital management framework, covering the management of the regulated capital, economic capital and book capital, particularly the capital compliance management, capital planning, allocation and evaluation.

In setting its capital adequacy objective, the Bank considers regulatory requirements, external rating objective and its own risk preference, so as to protect the interest of its customers and creditors, maximize the value of shareholders and meet all regulatory requirements on capital management.

The Bank calculates capital adequacy ratios in accordance with the "Regulation Governing Capital of Commercial Banks (Provisional)" promulgated by the former CBRC and related regulatory requirements. In calculating its capital adequacy ratios, the Bank considers all its domestic and overseas branches and sub-branches and financial institution subsidiaries (excluding insurance companies).

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The credit risk weighted assets of counterparties in over-the-counter derivatives transactions are the sum of default risk weighted assets of counterparties and credit-adjusted risk-weighted assets. Market risk-weighted assets are calculated using the standardized approach. Operational risk-weighted assets are calculated using basic indicator approach.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For domestic systemically important banks, minimum core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should reach 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. During the year, the Bank has complied in full with all its externally imposed capital requirements.

The Bank calculates its core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with the former CBRC's "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements. The capital adequacy ratios and related components of the Bank illustrated below are computed based on the Bank's statutory financial statements prepared in accordance with PRC GAAP.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Capital management (Continued)

The Bank's capital adequacy ratios at 31 December 2020 and 2019 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	31 December	
	2020	2019
Total core tier-one capital		
– Share capital	17,762,000	14,450,000
– Qualifying portion of capital reserve	10,752,077	20,000
– Surplus reserve	5,868,637	5,009,612
– General reserve	17,664,811	14,081,733
– Other comprehensive income	38,078	969,493
– Retained earnings	31,487,086	28,288,936
Core tier-one capital	83,572,689	62,819,774
Core tier-one capital deductions	(468,892)	(232,140)
Net core tier-one capital	83,103,797	62,587,634
Other tier-one capital	19,961,604	19,961,604
Net tier-one capital	103,065,401	82,549,238
Tier-two capital		
– Instruments issued and share premium	817,124	9,937,217
– Surplus provision for loan impairment	9,239,253	8,977,265
Tier-two capital deductions	–	–
Tier-two capital	10,056,377	18,914,482
Net capital base	113,121,778	101,463,720
Total risk weighted assets	936,106,790	776,353,540
Core tier-one capital adequacy ratio	8.88%	8.06%
Tier-one capital adequacy ratio	11.01%	10.63%
Capital adequacy ratio	12.08%	13.07%

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Notes to the cash flow statement

(a) Net increase/(decrease) in cash and cash equivalents

	31 December	
	2020	2019
Cash and cash equivalents as at 31 December	64,755,129	42,694,864
Less: Cash and cash equivalents as at 1 January	42,694,864	68,852,350
Net increase/(decrease) in cash and cash equivalents	22,060,265	(26,157,486)

(b) Cash and cash equivalents

	31 December	
	2020	2019
Cash on hand	433,044	429,952
Deposits with central bank other than restricted deposits	33,092,724	28,043,847
Deposits with banks and other financial institutions	27,286,406	12,371,065
Placements with banks and other financial institutions	3,942,955	–
Financial assets held under resale agreements	–	1,850,000
Total	64,755,129	42,694,864

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Notes to the cash flow statement (Continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Bank's cash flow statement as cash flows from financing activities.

	Debt securities issued (Note 33)	Interest accrued arising from debt securities issued (Note 33)	Dividends payable (Note 39)	Lease Liabilities (Note 34)	Total
As at 1 January 2020	195,900,075	703,768	-	3,956,296	200,560,139
Changes from financing cash flows					
Net proceeds from new debt securities issued	368,425,934	-	-	-	368,425,934
Repayment of debt securities issued	(341,414,057)	-	-	-	(341,414,057)
Interest paid on debt securities issued	(2,889,456)	(2,123,830)	-	-	(5,013,286)
Dividends paid	-	-	(950,000)	-	(950,000)
Payment of lease liabilities interest	-	-	-	(165,020)	(165,020)
Repayment of lease liabilities	-	-	-	(581,005)	(581,005)
Total changes from financing cash flows	24,122,421	(2,123,830)	(950,000)	(746,025)	20,302,566
Other changes					
Interest expense (Note 6)	4,216,573	2,335,083	-	-	6,551,656
Dividend distribution to other equity instruments holders	-	-	950,000	-	950,000
Addition of lease liabilities	-	-	-	926,043	926,043
Total other changes	4,216,573	2,335,083	950,000	926,043	8,427,699
As at 31 December 2020	224,239,069	915,021	-	4,136,314	229,290,404

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Notes to the cash flow statement (Continued)

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Debt securities issued (Note 33)	Interest accrued arising from debt securities issued (Note 33)	Dividends payable (Note 39)	Lease Liabilities (Note 34)	Total
As at 1 January 2019	217,910,994	767,999	–	4,222,082	222,901,075
Changes from financing cash flows					
Net proceeds from new debt securities issued	370,681,993	–	–	–	370,681,993
Repayment of debt securities issued	(392,380,779)	–	–	–	(392,380,779)
Interest paid on debt securities issued	(4,721,379)	(2,862,768)	–	–	(7,584,147)
Dividends paid	–	–	(2,060,965)	–	(2,060,965)
Payment of lease liabilities interest	–	–	–	(174,000)	(174,000)
Repayment of lease liabilities	–	–	–	(516,717)	(516,717)
Total changes from financing cash flows	(26,420,165)	(2,862,768)	(2,060,965)	(690,717)	(32,034,615)
Other changes					
Interest expense (Note 6)	4,409,246	2,798,537	–	–	7,207,783
Cash dividends paid to shareholders	–	–	2,060,965	–	2,060,965
Addition of lease liabilities	–	–	–	424,931	424,931
Total other changes	4,409,246	2,798,537	2,060,965	424,931	9,693,679
As at 31 December 2019	195,900,075	703,768	–	3,956,296	200,560,139

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties

Related parties of the Bank

(a) The Bank's major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	31 December	
	2020	2019
TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司)	20.34%	25.00%
Standard Chartered Bank (Hong Kong) Co., Ltd. (渣打銀行(香港)有限公司)	16.26%	19.99%
China Shipping Investment Co., Ltd. (中海集團投資有限公司)	11.12%	13.67%
State Development & Investment Corp., Ltd. (國家開發投資集團有限公司)	9.49%	11.67%
China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)	9.49%	11.67%
Oceanwide Industry Co., Ltd. (泛海實業股份有限公司)	7.72%	9.49%
Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司)	6.51%	8.00%

(b) Associate of the Bank

The detailed information of the Bank's associate is set out in Note 24.

(c) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiary) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 43(a) or their controlling shareholders.

Related party transactions

(a) Pricing policy

Transactions between the Bank and related parties are conducted in the normal course of its business and under normal commercial terms. The pricing policies are no more favourable than those offered to independent third parties.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties *(Continued)*

Related party transactions *(Continued)*

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and major shareholders

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest income	217,972	187,296
Interest expense	175	13,000
Operating expense	4,094	2,899

	31 December	
	2020	2019
Balances at end of the year		
Deposits with banks and other financial institutions	1,184,885	–
Loans and advances to customers	3,442,824	3,442,041
Deposits from customers	1,084	1,303
Other liabilities	38,454	63,037

(ii) Transactions between the Bank and associate

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest expense	17	31

	31 December	
	2020	2019
Balances at end of the year		
Deposits from banks and other financial institutions	4,078	731

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties *(Continued)*

Related party transactions *(Continued)*

(b) Transactions with related parties other than key management personnel (Continued)

(iii) Transactions between the Bank and other related parties

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest income	419,843	478,324
Fee and commission income	57,374	70,916
Net gains of investment securities	619	1,211
Other operating income	–	5,529
Interest expense	39,416	35,506
Operating expense	21,298	13,408

	31 December	
	2020	2019
Balances at end of the year		
Deposits with banks and other financial institutions	7,566,578	1,335,781
Financial assets held under resale agreements	–	1,850,664
Loans and advances to customers	3,941,371	5,398,335
Financial investment	2,650,279	2,539,524
Deposits from banks and other financial institutions	1,863,776	367,030
Deposits from customers	1,119,803	1,447,754
Debt securities issued	374,041	750,000
Other liabilities	259,826	290,824
Derivative financial instruments-notional amount	4,123,088	1,881,000
Bank acceptances	236,942	269,860
Letters of guarantees	243	1,599
Letters of credit	31,920	91,046

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties *(Continued)*

Related party transactions *(Continued)*

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest income	136	266
Interest expense	8	6

	31 December	
	2020	2019
Balances at end of the year		
Loans and advances to customers	3,310	3,695
Deposits from customers	3,402	1,108

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	Years ended 31 December	
	2020	2019
Key management personnel compensation	20,266	23,352

(iii) Loans and advances to directors, supervisors and officers

	31 December	
	2020	2019
Aggregate amount of relevant loans outstanding at the end of the year	3,302	3,687
Maximum aggregate amount of relevant loans outstanding during the year	3,302	3,687

There were no amount due but unpaid as at 31 December 2020 and 2019.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting

(a) Business segment

The Bank manages its business by business lines. Consistent with the way in which information is reported internally to the Bank's most senior executive management for the purposes of resource allocation and performance assessment, the Bank defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Financial market business

This segment covers the Bank's treasury business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial markets business segment also covers management of the Bank's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Bank's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the years ended 31 December 2020 and 2019 to acquire property and equipment, intangible assets and other long-term assets.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management

The Bank has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

The Bank develops and continually improves risk management policies, limit system, control procedures and IT systems based on the latest changes in regulatory policies, market conditions and business development to analyze, identify, monitor and report various risks.

This note presents information about the Bank's exposure to each of the above risks and their sources, and the Bank's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The backbones of the Bank's organizational structure to manage its risks are the Board of Directors, the Risk Management Committee of the Board of Directors, (Related Party Transactions Control Committee), the Audit and Consumer Rights Protection Committee of the Board of Directors, Development Strategy and Inclusive Finance Committee of the Board of Directors, the Board of Supervisors, senior management and its Risk Control Committee, Assets and Liabilities Management Committee, Information Technology Committee, Data Management Committee, Financial Review and Approval Committee, and relevant functional departments at Head Office, including Risk Management Department, Credit Review Department and Regional Approval Center, Credit Monitoring Department, Retail Risk Management Department, Assets and Liabilities Management Department, Internal Control and Compliance Department, Legal Affairs Department, and other departments responsible for operational risks, Information Technology Department, the General Office (Public Relations Department), Office of Strategic Development and Investment Management, Audit Department and Regional Audit Center, and risk management functional departments of the subsidiaries and branches.

The Board of Directors of the Bank is responsible for the ultimate responsibility for comprehensive risk management and is responsible for fulfilling the establishment of risk culture, formulating risk management strategies, setting risk preferences and ensuring the establishment of risk limits, reviewing and approving major risk management policies and procedures, and supervising senior management to conduct comprehensive risk management, reviewing comprehensive risk management reports, approval of the disclosure of comprehensive risks and various significant risk information, hiring the chief risk management officer, and taking the lead in comprehensive risk management and other responsibilities related to risk management.

The Board of Supervisors of the Bank is responsible for the supervision of comprehensive risk management and is responsible for supervising the performance of the Board of Directors and senior management in risk management and the rectification.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

Risk management system *(Continued)*

The senior management shall assume the responsibilities for implementing comprehensive risk management, implementing the resolutions of the Board of Directors and fulfilling the following duties: establishing an operational management structure applicable to the comprehensive risk management; clarifying the division of risk management responsibilities of the comprehensive risk management department, business department and other departments; building an operational mechanism featuring mutual coordination and effective checks and balances among departments; formulating a clear implementation and accountability mechanism to ensure that the risk management strategies, risk appetites and risk limits are fully conveyed and effectively implemented; setting risk limits according to the risk appetites set by the Board of Directors for various dimensions including, but not limited to, industries, regions, customers and products; formulating risk management policies and procedures, and conducting periodic assessments and making adjustments when necessary; evaluating the management for comprehensive risks and various key risks and reporting to the Board of Directors; establishing a sound management information system and data quality control mechanism; supervising the breach of risk appetites and risk limits and violations of risk management policies and procedures, and handling such cases according to the authorization of the Board of Directors; and other risk management responsibilities

The Bank has established a risk prevention system consisting of three lines of defense against each main risk to which it is exposed. The first line of defense is formed by various business departments at the head office, branches, and sub-branches of the Bank, who are directly responsible for the prevention of various types of risks. The second line of defense is business management departments of risk management line, Assets and Liabilities Management Department and Internal Control and Compliance Departments of the Bank, who take the lead in formulating the requisite policies and procedures, and supervising bank-wide risk management measures. The third line of defense is the Audit departments of the Bank, which are responsible for conducting independent valuation of risk management system and its implementation, and monitoring the effectiveness of risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Bank. It arises primarily from credit and bond investment portfolios and guarantees granted. Credit risk is one of the most important risks facing the business operations of the Bank. The Bank may be exposed to significant risks when all counterparties are concentrated in a single industry or region. This is mainly because the counterparties' abilities to repay their loans are subject to the same impact by the economic development of the region or industry in which they operate.

The Bank insists on a comprehensive, vertical and independent management model of risk management, continuously improving the posting mechanism of risk management personnel. At the head office level, Risk Management Department, Credit Review Department, Credit Monitoring Department, Retail Risk Management Department and Regional Approval Centers of Beijing, Shanghai and Guangzhou are established. At the branch level, all tier-one branches appoint a Risk Director to report to the Chief Risk Officer.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

The Bank balances the benefits and risks through active controls, so that each type of business could achieve benefits matching its risk level at least and the capital could achieve optimal allocation. The Bank controls credit risks by formulating policies, limit control, conducting pre-lending investigation, pre-repayment monitoring, post-lending management, risk classification and recovery of bad loans. The Bank has set up a kind of credit decision-making mechanism of "three in one", with the independent responsibility examination, risk review and accountability approval as the core, to improve the expertise and independence of credit approval.

By attaching high importance to credit risk management, the Bank assiduously complies with different requirements of Board of Directors and regulatory bodies, which include persistently building a defense line of risk and strictly observing the systemic risk bottom line, combined with the current economic environment, adjusting credit policies in a timely manner, strengthening management on credit admission and approval processes, as well as lending and post-lending processes, and putting into production information system tools relating to risk warning through research & development, reinforcing risk warning of key areas, checking out disposal of non-performing assets and continuing to optimize asset structure according to changes in external environment, to maintain asset stability and ensure that the general credit risk is controllable. By considering changes in economic environment, the Bank reasonably makes provision for impairment loss and enhances the ability to resist risk on a continuous basis.

Measurement of credit risk

Loans and advances to customers and off-balance sheet credit commitments

The Risk Management Department, Credit Review Department, Credit Monitoring Department and Retail Risk Management Department are jointly responsible for management of credit risks in various credit exposures, and the credit risk management for financial investments. For corporate credit, the Bank keeps itself closely informed of the clients' credit ratings through credit rating assessment using its client credit rating models and facility rating models, and applies the ratings in its loan reviews. Together with the early warning system which monitors the risk of a customer in real time, they are the basis of credit extension. The Bank uses facility rating to determine the loss given default for each credit facility and help its credit officers to balance the risks and rewards. With respect to retail credit business, the Bank analyses business characteristics and customer structure by the fintech, continuously improving credit scoring models and data mining and risk analysis of the historical performance of the borrowers, so as to gradually improve the effectiveness and efficiency of credit access, asset management, asset classification and impairment provisioning.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Measurement of credit risk (Continued)

Deposits and placements with banks and other financial institutions and financial assets purchased under resale agreements

The Bank adopts a centralized underwriting process in relation to approving credit limits for financial institution counterparties engaged in interbank placements, investment securities and securities under repurchase and resale agreements. The Bank assesses the credit risk of these counterparties adopting a quantitative and qualitative approach which collectively involves the assessment and review of their credit rating in the banking industry, customer base and profiles, management capabilities, business prospects, industry position, external environment, cooperation with the Bank and financial standing and performance etc.

Debt investments and derivative financial instruments

Before making investment in bonds issued by financial institutions or corporate bonds or before any dealing in financial derivatives with clients, the Bank conducts credit assessment on the issuers and the potential clients for dealing in derivative financial instruments. The Bank is also appropriately using external credit rating in assessing risk.

The credit risks in derivatives engaged by the Bank are mitigated mainly through margin deposits and credit facilities from banks.

Prior to approval, the Asset and Liability Management Department assess the potential future exposure ratio for settlement of foreign exchange on behalf of customers which is guaranteed by margin. The authorized approver is responsible for approving credit limits. The Credit Monitor Department is responsible for reviewing the specific business, specific operations are carried out in accordance with the business administrative measures.

Credit risk limit management

Loans and advances to customers and off-balance sheet credit commitments

The Bank establishes credit limit for the customers in accordance with the approval opinions. Meanwhile, the Bank reviews the approved conditions for the credit line, and monitors the use of the credit limit. Where clients provide collateral, credit limits shall be frozen or adjusted in a timely manner in responding to the change in value of the collateral in order to meet the approved conditions for the credit lines.

Debt investment and derivative trading

In monitoring the limits of debt investments and derivative instruments to other bank clients or non-banking clients with respect to debt investments and derivative trading, the Bank considers all relevant information, including credit approval and risk exposure.

Establishment of credit limits for financial institutions and the monitoring of the limits for debt investments and derivative trading are charged by the Credit Monitoring Department of the head office.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures

Collateral

The credit policies of the Bank provide specific requirements on the acceptable collaterals and pledges, and set different rates for different collaterals and pledges based on their nature and extent of realization. The Bank sets out specific requirements for the qualifications of professional evaluation agencies. In addition, through credit risk management system, the Bank implements strict management on the collaterals and pledges and their ownership certificates to prevent the occurrence of operational risks.

If the decrease in value or quantity of collateral makes it insufficient for the actual value of the collateral to meet collateral rate, the Bank shall freeze the underlying credit lines, require the client to provide additional collateral or security deposit or return the corresponding credit lines.

In respect of real estate development loans, the Bank, by complying with relevant regulatory requirements, assesses the value of collateralized real estate properties based on their progress of construction, cost to resume and complete construction, expected time of completion, selling prices and reasonable discount rates to prevent over extension of credit. For real estate properties accepted for pledge, the Bank sets the minimum requirements on their completion.

The acceptable collateral includes financial collateral, real estate properties, accounts receivable and other collateral, mainly consisting of the following types:

- Cash and it equivalent
- Bills
- Stock
- State-owned construction land use right
- Residential real estate
- Commercial real estate
- Accounts receivable
- Vehicle
- Mechanical equipment
- Inventory
- Resource assets
- Intellectual property

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures (Continued)

Master netting arrangements

The Bank and its counterparties enter into master netting arrangements for derivatives transactions to further reduce credit risk. Master netting arrangements may not lead to the offsetting between assets and liabilities on the statement of financial position, because the transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts are terminated and settled on a net basis.

The derivatives are mainly settled in accordance with the provisions of the International Swaps and Derivatives Association and the features of the products, using, in principle, the method that involves the lowest settlement risk.

Credit commitments

The main objective of credit commitments is to ensure that clients obtain the funds they need. The Bank makes irrevocable guarantee when it issues letters of guarantee, letters of credit and bank's acceptance bill, i.e., the Bank shall make repayments on behalf of the client if the client cannot meet its repayment obligations to a third party, and the Bank assumes the same credit risks as those of a loan, review should be done in strict compliance with the Bank's relevant requirements in conducting such business.

The Bank defines margin deposit as one of the risk mitigations and receives certain margin deposits when conducting relevant credit extension business, with the exception of certain creditworthy clients, to reduce the credit risk involved in providing this service. The margin deposit is collected at a certain percentage of the committed amount based on the credibility of the client.

Impairment and provisioning policies

Stages of risks in financial instrument

The financial assets are categorized by the Bank into the following stages to manage its financial assets' credit risk:

- Stage 1: Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.
- Stage 2: Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.
- Stage 3: Financial assets that are in default and considered credit-impaired.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures (Continued)

Impairment and provisioning policies *(Continued)*

Significant increase in credit risk

The Bank evaluates the whether the credit risk of related financial instruments at least on each date of statement of financial position has increased significantly since initial recognition. The Bank makes full use of all reasonable and supportable information, including forward-looking information, to reflect the significant changes in its credit risk when it conducts the classification of losses of financial instruments. Criteria include regulation and operation environment, internal and external credit ratings, solvency, ability to continue as a going concern, provisions of loan contract, and repayment activities etc. Based on a single financial instrument or a combination of financial instruments with similar credit risk characteristics, the Bank compares the risk of default of financial instruments on the date of statement of financial position to determine the change in default risk during the expected duration of financial instruments. The Bank judges whether the credit risk of a financial instrument has significantly increased since initial confirmation from the risk classification, risk overdue days, internal and external ratings, probability of default, and market price etc.

Definition of “default” and “credit-impaired assets”

When a financial asset is impaired, the Bank identifies the financial asset as a default. Generally speaking, if the financial asset is overdue for more than 90 days, it is considered as a default.

At each date of the statement of financial position, the Bank assesses whether financial assets carried at amortised cost and debt instruments at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- for economic or contractual reasons relating to the borrower’s financial difficulty, the Bank having granted to the borrower a concession that would not otherwise consider;

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures (Continued)

Impairment and provisioning policies (Continued)

Definition of "default" and "credit-impaired assets" *(Continued)*

- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- purchase or source a financial asset at significant discount, which reflects that the financial asset is credit-impaired; or
- overdue more than 90 days.

The above criteria apply to all financial assets of the Bank and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of expected credit losses ("ECL")

The Bank adopts ECL model to measure provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Bank should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Bank. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures (Continued)

Impairment and provisioning policies (Continued)

Measurement of expected credit losses ("ECL") *(Continued)*

The Bank determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Bank multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). For the purpose of calculating the lifetime ECL, the Bank calculated the ECL of each period, and the results of calculation are then discounted to the date of statement of financial position and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Bank determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the date of statement of financial position by the credit conversion factor (CCF).
- The Bank determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.
- As to financial assets classified as guarantees, the Bank determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Bank usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures (Continued)

Impairment and provisioning policies (Continued)

Measurement of expected credit losses ("ECL") *(Continued)*

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Bank quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Forward-looking information included in the expected credit loss model is as follows:

The calculation of expected credit losses involves forward-looking information. After the historical analysis, the Bank identified the key economic indicators related to expected credit loss, such as gross domestic product (GDP), consumer price index(CPI), Purchasing Managers' index (PMI), Broad money (M2), Industrial Added Value, and Real Estate Climate Index. The Bank carried out regression analysis to determine the relationship between these economic indicators and PD, so as to ascertain the impact of historical changes in these indicators on PD. The Bank forecasts these economic indicators at least annually and provides the best estimates of the economic conditions for the coming year.

The important macroeconomic assumptions used by the Bank in various macroeconomic scenarios include M2, consumer price index, and fixed asset investment completion.

The Bank established measurement models to identify the three risk weights, i.e. positivity, neutrality and negativity. During the years ended 31 December 2020, the Bank's positivity scenario weight is 20%, neutrality scenario weight is 30%, and negativity scenario weight is 50%. The Bank measures allowance for credit losses for the first stage based on the weighted average of the credit losses in the three cases in the next 12 months; and measures allowance for credit losses for the second and third stages based on the weighted average of credit losses in the three cases within the lifetime.

During the years ended 31 December 2020, the Bank has fully considered the impact of the COVID-19 pandemic on the macro economy and banking industry when evaluating the forward-looking information used in the expected credit loss measurement model.

Management Overlay

Taking into account inherent limitations of ECL model and temporary systematic risk factors, the Bank has additionally accrued loss allowance in response to potential risk and improved its risk compensation capability.

During the years ended 31 December 2020, the COVID-19 pandemic have a greater impact on the macro economy. The Bank has considered the relevant impact in the expected credit loss model and additionally increase the loss provision, which further enhances the ability to offset risks.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(i) Maximum credit risk exposure

	31 December	
	2020	2019
Credit risk exposures relating to on-balance sheet items:		
Deposits with the central bank	96,115,373	92,583,747
Deposits with banks and other financial institutions	27,805,363	14,051,627
Placements with banks and other financial institutions	6,063,668	4,410,809
Derivative financial assets	232,498	158,709
Financial assets purchased under resale agreements	–	1,850,258
Loans and advances to customers	867,120,217	687,279,098
Financial investments		
– Financial investments at fair value through profit or loss	72,597,497	36,238,313
– Financial investments at fair value through other comprehensive income	61,813,595	64,967,327
– Financial investments at amortised cost	241,515,654	199,101,251
Other assets	2,190,030	659,912
Sub-total	1,375,453,895	1,101,301,051
Credit risk exposures relating to off-balance items:		
Acceptances	194,625,498	167,506,456
Letters of credit	59,117,237	67,528,818
Letters of guarantees	20,647,128	21,315,136
Credit card commitment	7,491,816	5,069,857
Sub-total	281,881,679	261,420,267
Total	1,657,335,574	1,362,721,318

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows:

	31 December 2020				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (*)	Others (**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	5,741,794	–	–	283,930	–
– Neither overdue nor credit-impaired	840,315,383	33,729,361	–	280,694,822	2,190,030
Sub-total	846,057,177	33,729,361	–	280,978,752	2,190,030
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	4,558,274	–	–	12,296,288	–
– Neither overdue nor credit-impaired	21,134,255	–	–	2,587,535	–
Sub-total	25,692,529	–	–	14,883,823	–
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	15,713,779	357,747	–	11,963,317	–
Sub-total	15,713,779	357,747	–	11,963,317	–
Interests accrued	4,408,520	54,260	–	5,422,606	–
Balance of financial assets at fair value through profit or loss	74,060	–	–	72,597,497	–
Less: Provision for impairment losses	(24,825,848)	(272,337)	–	(9,919,249)	–
Net value	867,120,217	33,869,031	–	375,926,746	2,190,030

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

	31 December 2019				
	Loans and advances	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (*)	Others (**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	5,764,608	–	–	–	–
– Neither overdue nor credit-impaired	668,178,959	18,431,790	1,850,000	258,242,268	659,912
Sub-total	673,943,567	18,431,790	1,850,000	258,242,268	659,912
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	4,360,617	–	–	–	–
– Neither overdue nor credit-impaired	16,403,232	157,747	–	2,207,851	–
Sub-total	20,763,849	157,747	–	2,207,851	–
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	12,591,449	–	–	3,203,960	–
Sub-total	12,591,449	–	–	3,203,960	–
Interests accrued	2,822,439	62,392	664	3,618,807	–
Balance of financial assets at fair value through profit or loss	758,665	–	–	36,238,313	–
Less: Provision for impairment losses	(23,600,871)	(189,493)	(406)	(3,204,308)	–
Net value	687,279,098	18,462,436	1,850,258	300,306,891	659,912

* Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

** Other comprise interests receivable and other receivables in other assets.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

Financial assets (excluded interests accrued) analysed by credit quality

	31 December 2020							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	96,517,891	-	-	96,517,891	-	-	-	-
Deposits with banks and other financial institutions	27,836,406	-	157,747	27,994,153	(40,471)	-	(157,747)	(198,218)
Placements with banks and other financial institutions	5,892,955	-	200,000	6,092,955	(14,119)	-	(60,000)	(74,119)
Loans and advances to customers	815,010,509	25,692,529	15,713,779	856,416,817	(9,664,387)	(7,228,243)	(7,933,218)	(24,825,848)
Financial investments	220,023,815	14,883,823	11,963,317	246,870,955	(1,247,621)	(3,725,889)	(4,945,739)	(9,919,249)
Other assets*	2,190,030	-	-	2,190,030	-	-	-	-
Total	1,167,471,606	40,576,352	28,034,843	1,236,082,801	(10,966,598)	(10,954,132)	(13,096,704)	(35,017,434)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	31,046,668	-	-	31,046,668	(127,184)	-	-	(127,184)
Financial investments	60,954,937	-	-	60,954,937	(42,501)	-	(30,000)	(72,501)
Total	92,001,605	-	-	92,001,605	(169,685)	-	(30,000)	(199,685)
Credit commitments	280,872,410	1,005,999	3,270	281,881,679	(861,465)	(144,264)	(658)	(1,006,387)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

Financial assets (excluded interests accrued) analysed by credit quality *(Continued)*

	31 December 2019							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	92,980,538	-	-	92,980,538	-	-	-	-
Deposits with banks and other financial institutions	14,031,065	157,747	-	14,188,812	(150,274)	(30,351)	-	(180,625)
Placements with banks and other financial institutions	4,400,725	-	-	4,400,725	(8,868)	-	-	(8,868)
Financial assets held under resale agreements	1,850,000	-	-	1,850,000	(406)	-	-	(406)
Loans and advances to customers	664,530,049	20,763,849	12,591,449	697,885,347	(9,281,200)	(6,213,635)	(8,106,036)	(23,600,871)
Financial investments	194,201,266	2,207,851	3,190,327	199,599,444	(1,313,800)	(406,945)	(1,483,563)	(3,204,308)
Other assets*	659,912	-	-	659,912	-	-	-	-
Total	972,653,555	23,129,447	15,781,776	1,011,564,778	(10,754,548)	(6,650,931)	(9,589,599)	(26,995,078)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	9,413,518	-	-	9,413,518	(37,215)	-	-	(37,215)
Financial investments	64,041,002	-	13,633	64,054,635	(809,442)	-	(13,371)	(822,813)
Total	73,454,520	-	13,633	73,468,153	(846,657)	-	(13,371)	(860,028)
Credit commitments	260,916,685	496,700	6,882	261,420,267	(730,049)	(36,935)	(1,396)	(768,380)

* Other comprise interests receivable and other receivables in other assets.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)***(a) Credit risk** *(Continued)*(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.94%	27.00%	46.72%	2.83%
Financial assets at fair value through other comprehensive income	0.18%	N/A	100.00%	0.22%
Credit commitments	0.31%	14.34%	20.12%	0.36%

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	1.11%	28.76%	60.76%	2.67%
Financial assets at fair value through other comprehensive income	1.16%	N/A	44.57%	1.18%
Credit commitments	0.28%	7.44%	20.28%	0.29%

As at 31 December 2020 and 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB12,424 million and RMB3,030 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB8,168 million and RMB5,435 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

Restructured loans refer to those loans that the financial status of the relevant borrowers deteriorate, or that borrowers are not capable of repaying and therefore certain clauses on the loan contract are adjusted. As at 31 December 2020 and 2019, the Bank's restructured loans amounted to RMB4,928 million and RMB6,511 million.

(iv) Credit rating

The Bank adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at 31 December 2020 and 2019 are as follows:

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(iv) Credit rating *(Continued)*

	31 December	
	2020	2019
Neither overdue nor impaired		
<i>Ratings</i>		
– AAA	194,224,076	160,913,737
– AA- to AA+	8,105,742	6,276,793
Sub-total	202,329,818	167,190,530
Overdue and credit-impaired		
<i>Ratings</i>		
– C	–	13,633
Unrated	715,619	183,410
Total	203,045,437	167,387,573

(b) Market risk (including the interest rate risk in the banking book)

Market risk refers to the risk of losses to the Bank's on-balance sheet and off-balance sheet activities arising from unfavorable changes in market prices, mainly including interest rates and exchange rates, commodity risk and equity risks. The interest rate risk in the banking book refers to the risk of losses on the economic value and the overall income of the banking book resulted from unfavorable changes in interest rate levels and the maturity structure. The Bank is exposed to market risks in its trading book and banking book. Financial instruments and commodity position recorded in the trading book are those held by the Bank for the purpose of trading or avoiding risks in other items of trading book and which can be traded freely. The assets and liabilities of long-term positions held for the purpose of managing the liquidity of the Bank, regulatory reserve or profit maximization are included in the banking book. Generally, the assets and liabilities recorded in the banking book are mainly held-to-maturity.

The Board is responsible for approving management strategies of market risk (including interest rate risks in the banking book, similarly hereinafter), policy and procedure, determining the level of market risk tolerance, urging senior management to undertake necessary measures to identify, measure, monitor and control market risk, obtaining periodic reports associated with nature and level of market risk, monitoring and evaluating the comprehensiveness, effectiveness of market risk management, and performance of senior management under market risk management. The Bank's senior management has set up the Asset and Liability Management Committee which is in charge of formulating, reviewing and supervising market risk policy and procedure, and process execution. The committee sets market risk limit according to the Board's risk appetite.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

The Bank sets up the market risk management team under the Asset and Liability Management Department. The team is independent of trading department, and responsible for market risk identification, measurement, monitoring, and control, ensuring that the market risk of the Bank is in compliance with the requirements of internal limits and external supervision according to Bank's market risk management policies and procedures.

Trading book market risk

Limits management

In order to control trading book market risk, the Bank sets Value-at-Risk limits, Basis Point Value limits and stop loss limits.

Stress testing

Stress testing is used to assess the loss sustainability under extremely adverse conditions when significant market changes take place, including the extreme fluctuations of market risk elements, such as interest rates and exchange rates, unexpected political or economic events, or a combination of the above situations. The market risk of the Bank goes through stress testing on a regular basis.

Assessment of fair value

Assessment of the fair value of financial instruments is based on the quantitative analysis of the financial products that takes into consideration the specific characteristics of the financial products, market situation of trading strategy, risk factors and the quality and qualification of counterparties. The Bank assesses the fair value of its financial instruments on a regular basis.

Interest rate risk of banking book

Interest rate risk of the banking book are measured and managed mainly through gap management, sensitivity analysis and duration analysis to ensure the interest rate risk of the banking book are controlled within the scope set by the risk appetite.

The Bank calculates the interest rate sensitivity gap based on repricing cash flow of the interest-earning assets and interest-bearing liabilities, and conducts scenario analysis, to assess the impact on the Bank of changes in interest rates. The impact on the market value of assets or liabilities of one basis point movement in interest rate was assessed through calculation of Basic Point Value.

Interest rate risk of the Bank's banking book goes through stress testing on a regular basis. In such stress testing, basic interest rate and market rate is treated as a prime factor, and other factors such as political and economic contingency or several contingencies happened at the same time are included.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Interest rate risk

The Bank operates its business predominantly in Mainland China under the interest rate scheme regulated by PBOC.

The Bank manages its interest rate risks through gap analysis, duration analysis and sensitivity analysis of its assets and liabilities. The Bank has set limits to the rate gap, duration and interest rate sensitivity, and monitors regularly to ensure that the exposures are within the Bank's limit.

(i) The table below summarizes the Bank's exposures to interest rate risks. It presents the Bank's assets and liabilities on the statement of financial position at carrying amounts, by the earlier of the contractual re-pricing date or the maturity date.

	31 December 2020					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	96,548,417	463,570	96,084,847	-	-	-
Deposits with banks and other financial institutions	27,805,363	9,428	27,246,391	549,544	-	-
Placements with banks and other financial institutions	6,063,668	44,832	4,711,098	1,307,738	-	-
Derivative financial assets	232,498	232,498	-	-	-	-
Loans and advances to customers (Note (i))	867,120,217	4,415,017	415,846,854	323,592,494	107,513,563	15,752,289
Financial investments (Note (ii))	375,926,746	21,576,223	85,776,203	44,683,725	192,303,761	31,586,834
Other	19,826,216	19,826,216	-	-	-	-
Total assets	1,393,523,125	46,567,784	629,665,393	370,133,501	299,817,324	47,339,123
Liabilities						
Borrowing from the central bank	71,592,485	992,485	14,100,000	56,500,000	-	-
Deposits from banks and other financial institutions	130,273,359	611,070	59,711,269	69,951,020	-	-
Placements from banks and other financial institutions	31,920,614	188,728	15,540,982	16,190,904	-	-
Derivative financial liabilities	533,164	533,164	-	-	-	-
Financial assets sold under repurchase agreements	52,406,083	68,396	51,621,739	715,948	-	-
Deposits from customers	758,235,794	11,664,700	348,839,868	160,388,452	233,895,774	3,447,000
Debt securities issued	225,154,090	915,021	76,559,617	118,759,098	28,920,354	-
Other	20,161,706	16,025,392	217,904	685,867	2,553,276	679,267
Total liabilities	1,290,277,295	30,998,956	566,591,379	423,191,289	265,369,404	4,126,267
Asset-liability gap	103,245,830	15,568,828	63,074,014	(53,057,788)	34,447,920	43,212,856

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (including the interest rate risk in the banking book) (Continued)

Interest rate risk (Continued)

(i) (Continued)

	31 December 2019					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	93,013,699	463,113	92,550,586	-	-	-
Deposits with banks and other financial institutions	14,051,627	43,440	13,396,250	611,937	-	-
Placements with banks and other financial institutions	4,410,809	18,952	992,840	3,399,017	-	-
Derivative financial assets	158,709	158,709	-	-	-	-
Financial assets held under resale agreements	1,850,258	664	1,849,594	-	-	-
Loans and advances to customers (Note (i))	687,279,098	2,822,439	348,310,422	261,183,421	71,190,885	3,771,931
Financial investments (Note (ii))	300,306,891	16,285,810	44,817,935	63,062,043	154,003,340	22,137,763
Other	15,858,934	15,858,934	-	-	-	-
Total assets	1,116,930,025	35,652,061	501,917,627	328,256,418	225,194,225	25,909,694
Liabilities						
Borrowing from the central bank	46,905,557	605,557	5,000,000	41,300,000	-	-
Deposits from banks and other financial institutions	78,547,430	608,842	42,009,283	35,929,305	-	-
Placements from banks and other financial institutions	21,500,177	279,980	7,358,081	13,862,116	-	-
Derivative financial liabilities	171,758	171,758	-	-	-	-
Financial assets sold under repurchase agreements	23,069,093	22,513	22,179,072	867,508	-	-
Deposits from customers	647,764,551	9,885,750	298,670,078	177,863,197	155,121,526	6,224,000
Debt securities issued	196,603,843	703,767	70,741,274	94,254,960	30,903,842	-
Other	19,729,019	19,729,019	-	-	-	-
Total liabilities	1,034,291,428	32,007,186	445,957,788	364,077,086	186,025,368	6,224,000
Asset-liability gap	82,638,597	3,644,875	55,959,839	(35,820,668)	39,168,857	19,685,694

Notes:

- (i) As at 31 December 2020 and 2019, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB16,393 million and RMB12,471 million, respectively.
- (ii) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book)

(Continued)

Interest rate risk *(Continued)*

(ii) Interest rate sensitivity analysis

The Bank uses sensitivity analysis to measure the potential impact of changes in interest rate on the Bank's net profit or loss and equity. The following table sets forth the results of the Bank's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	31 December	
	2020 (Decrease)/ Increase	2019 Increase/ (Decrease)
Change in net profit		
Up 100 bps parallel shift in yield curves	(139,458)	29,170
Down 100 bps parallel shift in yield curves	139,458	(29,170)

	31 December	
	2020 Increase/ (Decrease)	2019 Increase/ (Decrease)
Change in equity		
Up 100 bps parallel shift in yield curves	232,807	290,943
Down 100 bps parallel shift in yield curves	(232,807)	(290,943)

The sensitivity analysis above is based on a static interest rate risk profile of the Bank's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Bank's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at 31 December 2020 and 2019 apply to non-derivative financial instruments of the Bank;
- At 31 December 2020 and 2019, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next full year from the end of the period;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Bank's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Foreign currency risk

Foreign exchange risk refers to the risk of losses arising from the negative changes in the rate of exchange. The Bank conducts the majority of its business in RMB, with certain foreign transactions in United States dollars ("USD"), Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies.

The Bank's principle in controlling foreign exchange risk is to match its assets and liabilities by currency and to maintain foreign exchange risk within established limits. The Bank has set foreign exchange risk limits which are consistent with the guidelines established by the Asset and Liability Management Committee of the Bank and are in accordance with relevant regulatory requirements, and reflect management's assessment of current circumstances. The Bank also manages its sources and uses of foreign currencies to minimize potential mismatches.

The Bank monitors its foreign exchange risk. The Bank mainly uses the foreign exchange exposure analysis, scenario analysis and stress testing to measure and analyze the foreign exchange risk. Besides, the Bank monitors and controls the foreign exchange risk through the limit management. The Asset and Liability Management Department's market risk team performs independent monitoring, reporting, and management for the entire bank's foreign exchange risk. Meanwhile, the Bank managed the on-balance sheet foreign exchange risk exposures through derivative financial instruments such as foreign exchange swaps and foreign exchange futures, and kept the Bank's total exposures of on-balance sheet and off-balance sheet to a low level. Therefore, the foreign exchange exposure at the end of the period is not sensitive to exchange rate fluctuations, and the potential impact on the Bank's net profit and shareholders' equity is not significant.

The following table summarizes the Bank's exchange risk of assets and liabilities at reporting date. Included in the table are the carrying value of assets and liabilities, and the off-balance sheet credit commitments in RMB equivalent, categorized by the original currency.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book)

(Continued)

Foreign currency risk (Continued)

The Bank's currency exposures as at 31 December 2020 and 2019 are as follows:

	31 December 2020			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	91,572,545	4,097,350	878,522	96,548,417
Deposits with banks and other financial institutions	10,435,710	15,019,529	2,350,124	27,805,363
Placements with banks and other financial institutions	3,123,130	2,940,538	–	6,063,668
Derivative financial assets	232,498	–	–	232,498
Loans and advances to customers	820,669,192	45,069,757	1,381,268	867,120,217
Financial investments (Note (i))	360,736,839	14,714,781	475,126	375,926,746
Other assets	19,766,818	47,427	11,971	19,826,216
Total assets	1,306,536,732	81,889,382	5,097,011	1,393,523,125
Liabilities				
Borrowing from the central bank	71,592,485	–	–	71,592,485
Deposits from banks and other financial Institutions	130,273,129	1	229	130,273,359
Placements from banks and other financial institutions	4,473,750	24,325,431	3,121,433	31,920,614
Derivative financial liabilities	528,552	4,612	–	533,164
Financial assets sold under repurchase agreements	52,406,083	–	–	52,406,083
Deposits from customers	674,607,125	82,860,830	767,839	758,235,794
Debt securities issued	225,154,090	–	–	225,154,090
Other liabilities	16,013,812	138,632	4,009,262	20,161,706
Total liabilities	1,175,049,026	107,329,506	7,898,763	1,290,277,295
Net position	131,487,706	(25,440,124)	(2,801,752)	103,245,830
Credit commitments	261,730,605	18,045,145	2,105,929	281,881,679

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(b) Market risk (including the interest rate risk in the banking book)

(Continued)

Foreign currency risk (Continued)

	31 December 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	90,799,927	2,202,896	10,876	93,013,699
Deposits with banks and other financial institutions	5,121,261	7,800,023	1,130,343	14,051,627
Placements with banks and other financial institutions	3,052,200	1,358,609	–	4,410,809
Derivative financial assets	158,709	–	–	158,709
Financial assets held under resale agreements	1,850,258	–	–	1,850,258
Loans and advances to customers	660,182,784	26,012,154	1,084,160	687,279,098
Financial investments (Note (i))	293,876,406	6,311,027	119,458	300,306,891
Other assets	15,833,164	25,716	54	15,858,934
Total assets	1,070,874,709	43,710,425	2,344,891	1,116,930,025
Liabilities				
Borrowing from the central bank	46,905,557	–	–	46,905,557
Deposits from banks and other financial Institutions	78,547,199	1	230	78,547,430
Placements from banks and other financial institutions	4,129,413	17,370,764	–	21,500,177
Derivative financial liabilities	171,758	–	–	171,758
Financial assets sold under repurchase agreements	23,069,093	–	–	23,069,093
Deposits from customers	607,404,401	39,550,897	809,253	647,764,551
Debt securities issued	196,603,843	–	–	196,603,843
Other liabilities	18,094,517	134,161	1,500,341	19,729,019
Total liabilities	974,925,781	57,055,823	2,309,824	1,034,291,428
Net position	95,948,928	(13,345,398)	35,067	82,638,597
Credit commitments	247,232,602	11,469,456	2,718,209	261,420,267

- (i) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(c) Liquidity risk

The Bank adopts a centralized approach with respect to its liquidity risk management, in which the head office centrally manages overall liquidity risk across the Bank under the policies and guidance of the Board of Directors. Liquidity risk is managed on three levels from the Board of Directors, to senior management and down to individual departments, so that all the Bank is involved in the liquidity risk management. The Asset and Liability Management Department is the leading department in managing the liquidity risk, and is responsible for formulating liquidity risk management strategies, policies and procedures, and identifying, measuring, monitoring and controlling liquidity risk, and ensuring the Bank's overall liquidity risk is controlled within the Bank's risk tolerance based on cash flow gap analysis, with the help of intraday position management, early-warning indicators and limit control, among other means and methods, and by conducting stress testing and crisis response exercises, strengthening market prejudgement and implementing dynamic liquidity risk management when appropriate. The Bank reviews the above practices and means and methods at least once a year. The Corporate Banking Department, Retail Banking Department and Financial Market Department, among others at the head office, and the subsidiaries engage in their business activities in compliance with the liquidity risk management policies, appetite, processes, limits and other requirements as set down by the Board of Directors and senior management.

In addition to effectively managing intraday positions, the Bank managed cash flow, balancing liquidity and profitability and ensuring safety payment of the Bank and implementing integration management of local and foreign currency. For medium and long term liquidity risk management, the Bank strengthened management measures on regulatory ratios and internal limit, and timely monitored early warning indicators, implemented initiative supplementing of liabilities, stabilized the source of capital and improved future maturity structure of assets and liabilities. Regulatory indicators mainly including liquidity proportion, liquidity coverage ratio, net stable funding ratio and liquidity matching rate are set to guide business development. Internal limits, primarily on treasury loans, debt securities pledged as security and asset-liability maturity gap, are monitored to manage and adjust mismatches between the duration of assets and liabilities. Enforcing the establishment and analysis of customer behavior models, leveraging liquidity management models that use prudent assumptions on the Bank's cash inflows and outflows from its assets and liabilities, and by monitoring, analyzing and managing its compliance with regulatory indicators and internal limits, the Bank has been able to maintain a sound liquidity position.

In order to cope with its liquidity risks arising from fluctuation of capital market and changes of macro-economic environment, the Bank sticks to the practice of stress testing of them, including the test of cash flow gaps in the future 7 days, 30 days and 90 days and implementation of shortest lifetime management of the Bank by introducing the results of customer behaviors analysis to test the Bank's tolerance of liquidity risks under different stress scenarios through stimulation of decline in the price of marketable securities and outflow of deposits. Also, in consideration of its business size, complexity, level of risk and organizational structure, the Bank has emergency plans in place and explicit internal labor division and emergency procedures to ensure its liquidity under a crisis situation.

To bolster the Bank's liquidity, the Bank formulates investment guidelines and regularly assesses and adjusts its investment strategies for debt securities in light of actual risk management needs, clearly defines the ceiling for collateral bonds through internal limits. This ensures the availability of sufficient quality liquid assets which are readily realizable, and structurally ensure the potential liquidity needs of the Bank are well taken care of. The bank focuses on the adjustment and optimization of asset structure, establishes a portfolio of liquidity reserve assets, and implements asset planning management, and pay attention to the stable return of funds when business is due. In addition, the Bank continues to expand its various debt channels, actively strengthens the degree of participation in the issuance of financial bonds, inter-bank customer relationship management and open market operations of the PBoC, attempts to expand the Bank's medium and long-term stable sources of liabilities, so as to improve the Bank's financing ability under high liquidity pressure.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

Maturity analysis

The following tables provide an analysis of non-derivative assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at 31 December 2020 and 2019:

	31 December 2020							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	63,018,716	33,529,701	-	-	-	-	-	96,548,417
Deposit with banks and other financial institutions	-	27,250,767	-	-	554,596	-	-	27,805,363
Placements with banks and other financial institutions	-	2,629,311	1,914,133	205,989	1,314,235	-	-	6,063,668
Loans and advances to customers	11,090,114	5,658,777	64,713,005	82,859,214	278,962,810	267,715,556	156,120,741	867,120,217
Financial investments (ii)	18,711,973	29,172,970	11,219,097	11,672,396	68,616,635	204,477,627	32,056,048	375,926,746
Other	19,826,216	-	-	-	-	-	-	19,826,216
Total assets	112,647,019	98,241,526	77,846,235	94,737,599	349,448,276	472,193,183	188,176,789	1,393,290,627
Liabilities								
Borrowing from the central bank	-	-	11,134,811	3,387,701	57,069,973	-	-	71,592,485
Deposits from banks and other financial institutions	-	27,060,708	11,502,265	20,897,166	70,813,220	-	-	130,273,359
Placements from banks and other financial institutions	-	2,009,666	6,339,951	7,327,414	16,243,583	-	-	31,920,614
Financial assets sold under repurchase agreements	-	15,167,964	29,492,628	7,026,533	718,958	-	-	52,406,083
Deposit from customers	119,108	207,698,503	55,322,139	88,731,884	162,122,294	240,761,577	3,480,289	758,235,794
Debt securities issued	-	-	12,946,723	64,171,119	119,115,894	28,920,354	-	225,154,090
Other	16,025,392	-	72,030	145,874	685,867	2,553,276	679,267	20,161,706
Total liabilities	16,144,500	251,936,841	126,810,547	191,687,691	426,769,789	272,235,207	4,159,556	1,289,744,131
Net position	96,502,519	(153,695,315)	(48,964,312)	(96,950,092)	(77,321,513)	199,957,976	184,017,233	103,546,496

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

Maturity analysis (Continued)

	31 December 2019							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	64,534,750	28,478,949	-	-	-	-	-	93,013,699
Deposit with banks and other financial institutions	-	12,357,476	506,246	555,290	632,615	-	-	14,051,627
Placements with banks and other financial institutions	-	-	-	1,002,573	3,408,236	-	-	4,410,809
Financial assets held under resale agreements	-	-	1,850,258	-	-	-	-	1,850,258
Loans and advances to customers	7,718,389	2,517,674	50,460,530	54,213,485	230,715,509	224,557,388	117,096,123	687,279,098
Financial investments (ii)	4,782,757	16,790,675	9,856,670	10,588,916	66,970,562	166,993,333	24,323,978	300,306,891
Other	15,858,934	-	-	-	-	-	-	15,858,934
Total assets	92,894,830	60,144,774	62,673,704	66,360,264	301,726,922	391,550,721	141,420,101	1,116,771,316
Liabilities								
Borrowing from the central bank	-	-	5,150,063	-	41,755,494	-	-	46,905,557
Deposits from banks and other financial institutions	-	18,477	24,164,236	18,151,387	35,761,330	452,000	-	78,547,430
Placements from banks and other financial institutions	-	-	4,074,591	3,524,298	13,901,288	-	-	21,500,177
Financial assets sold under repurchase agreements	-	-	22,025,336	173,467	870,290	-	-	23,069,093
Deposit from customers	258,777	185,303,287	62,388,941	52,474,341	181,369,406	159,719,112	6,250,687	647,764,551
Debt securities issued	-	-	9,028,586	61,912,497	85,768,448	30,903,842	8,990,470	196,603,843
Other	19,729,019	-	-	-	-	-	-	19,729,019
Total liabilities	19,987,796	185,321,764	126,831,753	136,235,990	359,426,256	191,074,954	15,241,157	1,034,119,670
Net position	72,907,034	(125,176,990)	(64,158,049)	(69,875,726)	(57,699,334)	200,475,767	126,178,944	82,651,646

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans and advances, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.
- (ii) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Bank at 31 December 2020 and 2019:

	31 December 2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	71,592,485	71,592,485	-	11,134,811	3,387,701	57,069,973	-	-
Deposits from banks and other financial institutions	130,273,359	131,711,713	27,060,708	11,518,444	21,033,236	72,099,325	-	-
Placements from banks and other financial institutions	31,920,614	32,053,310	2,009,667	6,343,579	7,341,607	16,358,457	-	-
Financial assets sold under repurchase agreements	52,406,083	52,435,611	15,167,964	29,494,055	7,049,670	723,922	-	-
Deposits from customers	758,235,794	783,206,434	207,817,609	55,356,965	89,135,555	163,361,464	263,031,814	4,503,027
Debt securities issued	225,154,090	230,482,753	-	12,966,164	64,502,918	121,509,282	31,146,537	357,852
Other financial liabilities	20,161,706	20,525,450	16,025,392	73,803	149,421	701,827	2,761,307	813,700
- Lease liabilities	4,136,314	4,500,058	-	73,803	149,421	701,827	2,761,307	813,700
- Other	16,025,392	16,025,392	16,025,392	-	-	-	-	-
Total non-derivative financial liabilities	1,289,744,131	1,322,007,756	268,081,340	126,887,821	192,600,108	431,824,250	296,939,658	5,674,579
Credit commitments	281,881,679	281,881,679	9,763,231	29,058,670	75,137,793	161,443,707	5,798,278	680,000

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flows of non-derivative financial liabilities (Continued)

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	46,905,557	46,905,557	-	5,150,063	-	41,755,494	-	-
Deposits from banks and other financial institutions	78,547,430	78,613,281	18,476	24,176,963	18,168,889	35,796,953	452,000	-
Placements from banks and other financial institutions	21,500,177	21,773,652	-	4,092,753	3,604,688	14,076,211	-	-
Financial assets sold under repurchase agreements	23,069,093	23,085,395	-	22,034,038	174,039	877,318	-	-
Deposits from customers	647,764,551	672,176,102	185,362,064	62,440,450	52,706,101	184,776,187	178,826,161	7,865,139
Debt securities issued	196,603,843	203,764,241	-	9,052,273	62,265,633	87,282,517	33,186,076	11,977,742
Other financial liabilities	19,729,019	20,499,347	15,772,723	225,721	88,135	604,528	2,912,996	895,244
- Lease liabilities	3,956,296	4,726,624	-	225,721	88,135	604,528	2,912,996	895,244
- Other	15,772,723	15,772,723	15,772,723	-	-	-	-	-
Total non-derivative financial liabilities	1,034,119,670	1,066,817,575	201,353,263	127,172,261	137,007,485	365,169,208	215,377,233	20,738,125
Credit commitments	261,420,267	261,420,267	6,065,520	31,607,383	53,270,981	163,850,036	5,946,347	680,000

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management (Continued)

(c) Liquidity risk (Continued)

Analysis on contractual undiscounted cash flow of derivative financial instruments

The Bank's derivative financial instruments that will be settled on a net basis include interest rate swaps and precious metals derivatives. The Bank's derivative financial instruments that will be settled on a gross basis are exchange rate swaps and exchange rate forwards.

The following table analyses the contractual undiscounted cash flow of financial derivatives that will be settled on net amounts and gross amounts basis held by the Bank at the year end. The amounts disclosed are the contractual undiscounted cash flows.

	31 December 2020				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	913	88	598	11,343	12,942
Precious metal swaps	-	-	(113,527)	-	(113,527)
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
- Cash inflow	11,122,357	11,758,953	1,314,644	154,386	24,350,340
- Cash outflow	(11,151,098)	(11,947,989)	(1,330,065)	(160,678)	(24,589,830)
Exchange rate forwards					
- Cash inflow	-	-	862,430	-	862,430
- Cash outflow	-	-	(843,600)	-	(843,600)
Total cash inflow	11,122,357	11,758,953	2,177,074	154,386	25,212,770
Total cash outflow	(11,151,098)	(11,947,989)	(2,173,665)	(160,678)	(25,433,430)

	31 December 2019				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	(113)	77	305	12,661	12,930
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
- Cash inflow	6,278,166	1,301,781	4,873,750	164,362	12,618,059
- Cash outflow	(6,307,286)	(1,306,058)	(4,926,405)	(156,168)	(12,695,917)
Exchange rate forwards					
- Cash inflow	-	-	115,856	-	115,856
- Cash outflow	-	-	(117,210)	-	(117,210)
Total cash inflow	6,278,166	1,301,781	4,989,606	164,362	12,733,915
Total cash outflow	(6,307,286)	(1,306,058)	(5,043,615)	(156,168)	(12,813,127)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(d) Operational risk

Operational risk is the risk of losses due to inadequate or flawed internal processes, staff and IT systems, and external events. It includes legal risk but excludes strategic risk and reputational risk.

The Bank minimizes losses from operational risk through a sound risk management system in internal controls that identifies, assesses, monitors, controls, mitigates and reports operational risk. The system covers all business lines-finance, credit, accounting, settlement, saving, treasury, intermediary business, application and management of IT systems, asset preservation and legal affairs. Key internal control measures include:

- Strengthening the operational risk management mechanism consisting of three lines of defence, complying with regulatory requirements, implementing related management policies to further standardise the methods and processes of operational risk management for effective risk management.
- Raising the control quality of the operational risk management tool and improving dynamic updates of Key Control Standards (KCS) and Key Control Self Assessment (KCSA); Monitoring Key Risk Indicators (KRI) with enhanced risk warning; continuously strengthening the development and application of internal control compliance management information platform, and improving its analysis and application, in order to strengthen the quality and effect of monitoring, early warning and supporting. Establish the database of operational risk cases, continue to carry out a series of trainings, and actively create a good operational risk management culture.
- Emphasise the combination of inspection and defence, enhance case risk investigation and major operational risk prevention and control management and investigation, and joint operation between head office and branches, implement special inspection targets; implementing the "Guidelines for the Management of Practitioners in Banking and Financial Institutions", Formulate the "Guidelines for the Investigation of Abnormal Behaviours" to strengthening the behaviour management of practitioners; strictly implementing the policy and regulation requirements of anti-money laundering, implementing the Policy No. 3 and the Guidelines for the Money Laundering and Terrorism Financing Risks Management for Legal Financial Institutions (Trial), improving the functions of the anti-money laundering system, continue to optimize indicators and model design, implementing investigation and rectification on customer identification, and prevent and control money laundering risks at the source.
- Organising call drills, improving emergency plans, and conducting on-site inspections on the preparations for resumption of outlets during the prevention and control of coronavirus outbreak, and strengthening business sustainability management.

In addition, the Bank continued to improve its operational risk management system to improve system operation efficiency and data quality, and provide informatisation support for effective identification, assessment, monitoring, control and reporting of operational risks. The operational management system has the functions of recording and storing operational risk event information, supporting operational risks self-assessment, monitoring key risk indicators and other functions.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value

(a) Methods and assumptions for measurement of fair value

The Bank adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, such as discounted cash flows model.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of reporting period.

(iv) Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and the Garman Kohlhagen model extended from Black Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(b) Fair value measurement

(i) Financial assets

The Bank's financial assets mainly consist of cash and deposits with the central bank, deposit with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, and investments.

Deposits with the central bank, deposit with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(b) Fair value measurement *(Continued)*

(i) *Financial assets (Continued)*

Derivative financial assets, financial investments measured at fair value through other comprehensive income ("FVOCI") and financial assets measured at fair value through profit or loss ("FVTPL") are stated at fair value. Financial investments measured at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) *Financial liabilities*

The Bank's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, derivative financial liabilities, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Derivative financial liabilities is stated at fair value. The book value and fair value of debt securities issued is presented in Note 33. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments that measured at fair value, the fair value of which is based on quoted market prices. When quoted prices on open market are not available, the Banks will determine the fair value of financial instruments by using appropriate valuation model, enquiry or by reference to the valuation results of third-party valuation institution. The Bank selects appropriate models based on the risk characteristics, liquidity, counterparty risk and pricing basis of specific financial instruments or trading strategies to ensure that their fair value are truly and effectively reflected. The Bank selects the quoted prices or refers to the valuation results of third-party valuation agencies for evaluation of the fair value of a financial instrument, and when referring to the valuation results of third-party valuation agencies, the authority, independence and professionalism of the agencies should be assessed.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	232,498	–	232,498
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	74,060	–	74,060
Loans and advances to customers measured at fair value through other comprehensive income				
– Discounted bills	–	31,046,668	–	31,046,668
Financial investments measured at fair value through profit or loss				
– Debt securities	–	7,869,297	567,229	8,436,526
– Investment funds	–	44,178,765	–	44,178,765
– Trust plans and asset management plans	–	16,175,017	1,676,276	17,851,293
– Equity investments	298,175	–	1,832,738	2,130,913
Financial investments measured at fair value through other comprehensive income				
– Debt securities (exclusive interests accrued)	–	59,791,966	–	59,791,966
– Equity investments	–	–	200,000	200,000
– Trust plans and asset management plans (exclusive interests accrued)	–	962,971	–	962,971
Total	298,175	160,331,242	4,276,243	164,905,660
Liabilities				
Derivative financial liabilities	–	(533,164)	–	(533,164)
Total	–	(533,164)	–	(533,164)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	158,709	–	158,709
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	758,665	–	758,665
Loans and advances to customers measured at fair value through other comprehensive income				
– Discounted bills	–	9,413,518	–	9,413,518
Financial investments measured at fair value through profit or loss				
– Debt securities	–	804,971	–	804,971
– Investment funds	–	25,480,840	–	25,480,840
– Trust plans and asset management plans	–	6,263,005	1,848,206	8,111,211
– Equity investments	145,274	–	1,696,017	1,841,291
Financial investments measured at fair value through other comprehensive income				
– Debt securities (exclusive interests accrued)	–	54,874,916	–	54,874,916
– Equity investments	–	–	200,000	200,000
– Trust plans and asset management plans (exclusive interests accrued)	–	8,979,719	–	8,979,719
Total	145,274	106,734,343	3,744,223	110,623,840
Liabilities				
Derivative financial liabilities	–	(171,758)	–	(171,758)
Total	–	(171,758)	–	(171,758)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(c) Fair value hierarchy (Continued)

The movement during the year ended 31 December 2020 in the balance of Level 3 fair value measurements is as follows:

	1 January 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses of the year	Additions, issues, sales and settlements	31 December 2020	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year		
				Recorded in other comprehensive income or loss	Additions	Issues	Sales	Settlements	
Assets									
Financial assets measured at fair value through profit or loss									
- Debt securities	-	-	-	-	567,229	-	-	-	567,229
- Trust plans and asset management plans	1,848,206	-	-	(161,296)	-	-	-	(10,634)	1,676,276
- Equity investments	1,696,017	-	(104,625)	-	241,346	-	-	-	1,832,738
Sub-total	3,544,223	-	(104,625)	(161,296)	808,575	-	-	(10,634)	4,076,243
Financial assets measured at fair value through other comprehensive income									
- Equity investments	200,000	-	-	-	-	-	-	-	200,000
Total	3,744,223	-	(104,625)	(161,296)	808,575	-	-	(10,634)	4,276,243

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued) (c) Fair value hierarchy (Continued)

The movement during the year ended 31 December 2019 in the balance of Level 3 fair value measurements is as follows:

	1 January 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses of the year	Recorded in other comprehensive income	Recorded in profit or loss	Additions	Issues	Sales	Settlements	31 December 2019	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year
Assets												
Financial assets at fair value through profit or loss												
– Trust plans and asset management plans	–	–	–	–	–	–	1,848,206	–	–	–	1,848,206	–
– Equity investments	322,369	–	–	–	–	–	1,373,648	–	–	–	1,696,017	–
Sub-total	322,369	–	–	–	–	–	3,221,854	–	–	–	3,544,223	–
Financial assets at fair value through other comprehensive income												
– Equity investments	200,000	–	–	–	–	–	–	–	–	–	200,000	–
Total	522,369	–	–	–	–	–	3,221,854	–	–	–	3,744,223	–

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(c) Fair value hierarchy (Continued)

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 31 December 2020	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– Debt securities	567,229	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Trust plans and asset management plans	1,676,276	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Equity investments	1,832,738	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– Equity investments	200,000	Discounted cash flow	Risk-adjusted discount rate, cash flow
<hr/>			
	Fair value as at 31 December 2019	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– Trust plans and asset management plans	1,848,206	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Equity investments	1,696,017	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– Equity investments	200,000	Discounted cash flow	Risk-adjusted discount rate, cash flow

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

During the reporting period, there were no significant change in the valuation techniques.

As at 31 December 2020 and 2019, significant unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets measured at fair value classified as Level 3, which were mainly equity investments. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs. An increases (decreases) in risk-adjusted discount rate in isolation would result in a lower (higher) fair value measurement, and increases (decreases) in cash flow in isolation would result in a higher (lower) fair value measurement. There are no interrelationships between those inputs

The sensitivity of the fair value on changes in significant unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data.

The following table shows the sensitivity of fair value due to 1% movement (100bps) of risk-adjusted discount rate change to reasonably possible alternative assumptions.

	31 December 2020			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Debt securities	21,288	(20,110)	–	–
– Trust plans and asset management plans	71,284	(67,259)	–	–
– Equity investments	68,309	(64,533)	–	–
Financial investments measured at fair value through other comprehensive income				
– Equity investments	–	–	4,668	(4,429)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	31 December 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Trust plans and asset management plans	73,045	(68,969)	–	–
– Equity investments	64,035	(60,477)	–	–
Financial investments measured at fair value through other comprehensive income				
– Equity investments	–	–	5,016	(4,755)

The following table shows the sensitivity of fair value due to 10% movement of cash flow change to reasonably possible alternative assumptions.

	31 December 2020			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Debt securities	23,199	(23,199)	–	–
– Trust plans and asset management plans	76,284	(76,284)	–	–
– Equity investments	74,585	(74,585)	–	–
Financial investments measured at fair value through other comprehensive income				
– Equity investments	–	–	5,624	(5,624)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	31 December 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Trust plans and asset management plans	65,809	(65,809)	–	–
– Equity investments	58,142	(58,142)	–	–
Financial investments at fair value through other comprehensive income				
– Equity investments	–	–	4,945	(4,945)

Base on above sensitivity analysis, changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would not result in a significant change in the fair value of relevant financial instruments.

47 Entrusted lending business

The Bank provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Bank does not take any credit risk in relation to these transactions. The Bank acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Bank and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	31 December	
	2020	2019
Entrusted loans	36,175,510	68,800,182
Entrusted funds	36,175,510	68,800,182

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Commitments and contingent liabilities

(a) Credit commitments

The Bank's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December	
	2020	2019
Acceptances	194,625,498	167,506,456
Letters of credit	59,117,237	67,528,818
Letters of guarantees	20,647,128	21,315,136
Credit card commitments	7,491,816	5,069,857
Total	281,881,679	261,420,267

The Bank may be exposed to credit risk in all the above credit businesses. Bank Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows. As at 31 December 2020 and 2019, provisions for credit commitments were RMB1,006 million and RMB768 million.

(b) Credit risk-weighted amount for credit commitments

	31 December	
	2020	2019
Credit risk-weighted amounts	60,787,483	61,677,273

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Commitments and contingent liabilities *(Continued)*

(c) Capital commitments

As at 31 December 2020 and 2019, the Bank's authorised capital commitments are as follows:

	31 December	
	2020	2019
Contracted but not paid for	244,073	93,799
Authorised but not contracted for	147,024	48,659
Total	391,097	142,458

(d) Outstanding litigations and disputes

As at 31 December 2020 and 31 December 2019, the Bank has been involved in certain claims and acting as the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMB81.30 million and RMB79.32 million, respectively. The Bank has assessed the impact of the above outstanding litigations and disputes that may lead to an outflow of economic benefits. According to the opinion of the Bank's internal department and external lawyers, as at 31 December 2020, the Bank has made provisions of RMB42.24 million regarding such pending litigations and claims arising from normal course of business.

(e) Pledged assets

(i) *Assets pledged as collateral*

	31 December	
	2020	2019
Debt securities	113,770,120	47,619,652
Discounted bills	11,311,854	2,269,220
Total	125,081,974	49,888,872

Some of the Bank's assets are pledged as collateral under repurchase agreements, and borrowings from central bank.

The Bank's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2020 and 2019, the Bank did not have these discounted bills under resale agreements. As at 31 December 2020 and 2019, the Bank did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Commitments and contingent liabilities *(Continued)*

(e) Pledged assets *(Continued)*

(ii) *Pledged assets received*

The Bank conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Bank's balance of financial assets held under resale agreements were included in Note 21. The fair value of such collateral accepted by the Bank was nil and RMB1,850 million as at 31 December 2020 and 2019. These transactions were conducted under standard terms in the normal course of business.

49 Subsequent events

Tier-two capital bonds issued

In January 2021, the Bank issued ten-year tier-two capital bonds with face value of RMB9 billion. The fixed coupon interest rate per annum is 4.40%.

Except for the above, the Bank had no other material events for disclosure subsequent to 31 December 2020 and up to the date of this financial statements.

50 Comparative figures

For financial statements disclosure purpose, the Bank made reclassification adjustments to some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary financial information as follows:

1 Liquidity coverage ratio and leverage ratio

(a) Liquidity coverage ratio

	31 December 2020	Average for the year ended 31 December 2020
Liquidity coverage ratio (RMB and foreign currency)	109.68%	125.31%

	31 December 2019	Average for the year ended 31 December 2019
Liquidity coverage ratio (RMB and foreign currency)	139.86%	129.91%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100%.

(b) Leverage ratio

	31 December	
	2020	2019
Leverage Ratio	6.32%	6.22%

Pursuant to the Leverage Ratio Management of Commercial Banks (Revision) issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Liquidity coverage ratio and leverage ratio *(Continued)*

(c) Net stable funding ratio

	31 December	
	2020	2019
Available stable funding	829,018,653	708,950,035
Required stable funding	802,268,848	627,425,565
Net Stable Funding Ratio	103.33%	112.99%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio 100% is required.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2 Currency concentrations

	31 December 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	81,889,382	2,415,387	2,681,624	86,986,393
Spot liabilities	(107,329,506)	(2,469,775)	(5,428,988)	(115,228,269)
Net position	(25,440,124)	(54,388)	(2,747,364)	(28,241,876)

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	43,710,425	180,217	2,164,674	46,055,316
Spot liabilities	(57,055,823)	(126,944)	(2,182,880)	(59,365,647)
Net position	(13,345,398)	53,273	(18,206)	(13,310,331)

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 International claims

The Bank is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

31 December 2020			
	Banks	Non-bank financial institutions	Total
Asia Pacific (excluding North and South America)	4,213,004	8,968,565	13,181,569
Europe	484,378	–	484,378
North and South America	14,009,872	–	14,009,872
Others	6,796	–	6,796
Total	18,714,050	8,968,565	27,682,615

31 December 2019			
	Banks	Non-bank financial institutions	Total
Asia Pacific (excluding North and South America)	1,007,467	3,949,098	4,956,565
Europe	725,210	–	725,210
North and South America	1,518,246	–	1,518,246
Others	6,535	–	6,535
Total	3,257,458	3,949,098	7,206,556

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances

	31 December	
	2020	2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,565,957	1,030,593
– between 6 months and 1 year (inclusive)	6,704,712	1,784,811
– between 1 year and 3 years (inclusive)	4,069,444	4,645,943
– over 3 years	1,703,509	3,562,961
Total	14,043,622	11,024,308
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.18%	0.15%
– between 6 months and 1 year (inclusive)	0.75%	0.25%
– between 1 year and 3 years (inclusive)	0.46%	0.66%
– over 3 years	0.19%	0.50%
Total	1.58%	1.56%

Organizational Structure Chart

As of the end of the Reporting Period, the principal organizational and management structure of the Bank are as follows:

