中国光大银行
CHINA EVERBRIGHT BANK

Building a First-class Wealth Management Bank

Stock Code: 6818

2020年度報告
ANNUAL REPORT

中國光大銀行股份有限公司

China Everbright Bank Company Limited

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

Important Notice

The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management of the Bank hereby warrant the authenticity, accuracy and completeness of the contents of this Report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume full responsibility for the information in this Report.

The 24th Meeting of the Eighth Session of the Board of Directors of the Bank was convened in Beijing on 26 March 2021, at which the 2020 Annual Report of the Bank was considered and approved. 14 out of 14 Directors attended the meeting in person. Director Liu Chong and Independent Non-executive Director Wang Liguo were authorized in writing by Director Yu Chunling and Independent Non-executive Director Feng Lun respectively, who were unable to attend the meeting due to other arrangements, to attend the meeting and exercise the voting right on their behalf. 6 Supervisors were present at the meeting as non-voting attendees.

The financial statements of the Bank for the year 2020 were prepared in accordance with the PRC Generally Accepted Accounting Principles ("PRC GAAP") and the International Financial Reporting Standards ("IFRS") and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with the China Standards on Auditing and the International Standards on Auditing. Both auditors issued standard unqualified auditor's reports.

Mr. Li Xiaopeng, Chairman of the Board of Directors, Mr. Yao Zhongyou, Executive Vice President who is in charge of finance, and Mr. Sun Xinhong, General Manager of Finance and Accounting Department, hereby warrant the authenticity, accuracy and completeness of the financial report in this Report.

Unless otherwise stated, all monetary sums stated in this Report are expressed in Renminbi/RMB.

As proposed by the Board of Directors of the Bank: Based on the Bank's issued shares of 54,031.909 million as at the end of 2020, an ordinary share dividend of RMB2.10 (before tax) for every 10 shares will be paid, with the total cash dividends amounting to RMB11,346.7009 million. As the convertible bonds issued by the Bank are in the conversion period, if the total share capital changes before the equity distribution registration date, the Bank will keep the total amount of cash dividends to be distributed unchanged and accordingly adjust the dividends to be distributed per share. Please refer to "Section Seven Significant Events" for details.

Forward-looking statements such as future plans of the Bank mentioned in this Report do not constitute actual commitments of the Bank to the investors. The investors and related parties should be fully aware of the risks, and should understand the difference between plans, predictions and commitments.

In this Report, "We/we", "the Bank", "whole Bank" and "China Everbright Bank" all refer to China Everbright Bank Company Limited, and "the Group" refers to China Everbright Bank Company Limited and its subsidiaries.

The Board of Directors of
China Everbright Bank Company Limited
26 March 2021

Contents

Definitions and Significant Risk Warning

I. DEFINITIONS

i. In this Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

MOF	:	Ministry of Finance of the People's Republic of China
PBOC	:	The People's Bank of China
CBIRC	:	China Banking and Insurance Regulatory Commission
Former CBRC	:	former China Banking Regulatory Commission
CSRC	:	China Securities Regulatory Commission
CHI	:	Central Huijin Investment Ltd.
China Everbright Group	:	China Everbright Group Ltd.
SSE	:	Shanghai Stock Exchange
HKEX	:	Hong Kong Exchanges and Clearing Limited
EY Hua Ming	:	Ernst & Young Hua Ming LLP
EY	:	Ernst & Young

ii. The following glossary contains explanations of certain terms used in connection with products of the Bank to facilitate the understanding of investors:

Sunshine Inclusive Finance Cloud: A cloud-based service platform providing "online financing + fintech" services for inclusive finance customers through fintech such as cloud computing and big data, by applying scenario-based and data-based operation modes that are combined with diversified and variable SaaS service modules.

Sunshine Wages: Integrated payroll services designed for migrant workers and their employers, which integrate both corporate businesses such as salary payment guarantee, special account and payroll agency services, and retail businesses such as payment settlement, savings and wealth management of migrant workers.

Sunshine E-guarantee Express: Integrated online financial solutions targeted at customers engaged in public resource transactions, which cover the whole process of guarantee business, cash management and supply chain financing through electronic means such as online platform, platform connection and bank-enterprise direct link.

II. SIGNIFICANT RISK WARNING

The Bank has disclosed herein the major risks involved in its operations and proposed risk management measures accordingly. Please refer to "Section Six Discussion and Analysis of Operations" for details.

Company Profile

I. BASIC INFORMATION

i. Name of the Bank

Registered Chinese Company Name: 中國光大銀行股份有限公司 (Abbreviation: 中國光大銀行 or 光大銀行)
Registered English Company Name: CHINA EVERBRIGHT BANK COMPANY LIMITED (Abbreviation: CEB BANK)

ii. Relevant Persons

Legal Representative: Li Xiaopeng
Authorized Representatives: Yao Zhongyou, Li Jiayan
Secretary to the Board of Directors and Company Secretary: Li Jiayan
Securities Affairs Representative: Li Jiayan
Assistant to Company Secretary: Lee Mei Yi

iii. Contacts

Contact Address: China Everbright Center, No. 25 Taipingqiao Avenue, Xicheng District, Beijing
Postal Code: 100033
Tel.: 86-10-63636363
Facsimile: 86-10-63636713
E-mail: IR@cebbank.com
Investor Hotline: 86-10-63636388
Customer Service/Complaint Hotline: 95595

iv. Corporate Information

Registered and Office Address: China Everbright Center, No. 25 and No. 25 A Taipingqiao Avenue, Xicheng District, Beijing
Uniform Social Credit Code: 91110000100011743X
Code of Financial Authority: B0007H111000001
Scope of Business: Taking deposits from the public; granting short-term, medium-term and long-term loans; handling domestic and overseas settlement; handling bill acceptance and discount; issuing financial bonds; issuing, honoring and underwriting government bonds as an agent; trading of government bonds and financial bonds; interbank borrowing and lending; trading and agency trading of foreign exchange; bank card business; providing L/C services and guarantee; agency collection and payment and insurance services; safe deposit box services; other businesses approved by CBIRC.

v. Principal Place of Business in Hong Kong

CEB Hong Kong Branch: 23/F, Everbright Center, 108 Gloucester Road, Wan Chai, Hong Kong

vi. Websites and Newspapers Designated for Information Disclosure

Websites designated for publication of A share annual report:
SSE's website: www.sse.com.cn
The Bank's website: www.cebbank.com
Newspapers: *China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily*
Websites designated for publication of H share annual report:
HKEX's website: www.hkex.com.hk
The Bank's website: www.cebbank.com
Copies of annual report are available at: Office of the Board of Directors of the Bank, Shanghai Stock Exchange

Company Profile

vii. Stock Exchange for Listing of Shares

A Shares: Shanghai Stock Exchange (SSE)
Abbreviated Name of Ordinary Shares: Everbright Bank; Code: 601818
Abbreviated Name of Preference Shares: Everbright P1, Everbright P2, Everbright P3; Code: 360013, 360022, 360034 (SSE Comprehensive Business Platform)
Abbreviated Name of Bond: Everbright Convertible Bonds; Code: 113011
H Shares: Hong Kong Exchanges and Clearing Limited (HKEX)
Abbreviated Name: CEB Bank; Code: 6818

viii. Auditors during the Reporting Period

Domestic Auditor: Ernst & Young Hua Ming LLP
Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing
Certified Public Accountants for Signature: Xu Xuming, Leung Shing Kit
Overseas Auditor: Ernst & Young
Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
Certified Public Accountant for Signature: Kam Cheong Geoffrey

ix. Legal Advisors to the Board of Directors during the Reporting Period

A Share Legal Advisor: Jun He Law Offices
H Share Legal Advisor: Clifford Chance LLP

x. Share Depository

A Share Ordinary Shares, Preference Shares and Convertible Bond Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited
Office Address: 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai
H Share Registrar: Computershare Hong Kong Investor Services Limited
Office Address: Rooms 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wan Chai, Hong Kong

II. INTRODUCTION

China Everbright Bank, established in August 1992 and headquartered in Beijing, is a national joint-stock commercial bank approved by the State Council of China and PBOC. The Bank was listed on the SSE in August 2010 (stock code 601818) and the HKEX in December 2013 (stock code 6818).

Focusing on the strategic vision of building a first-class wealth management bank, the Bank pushed ahead with the transformation towards "agility, technology and ecosphere". Through integrated, characteristic, light-asset and digital development, the Bank has stepped up efforts to optimize its product design, channel development and service models. The Bank has not only forged a strong competitive edge in wealth management and fintech, but also built up a social image of first-class wealth management bank, with balanced growth of all businesses, improved risk management and enhanced innovation capabilities.

As at the end of the reporting period, the Bank had established 1,296 branches and outlets nationwide, covering all provincial administrative regions and extending its business reach to 149 economic center cities across the country. Centering on wealth management strategy, Beijing Sunshine Consumer Finance Co., Ltd. was opened for business in the specialized consumer market following the establishment of Everbright Wealth Management Co., Ltd. Closely following up with the Belt and Road Initiative and expanding its international presence at a faster pace, the Bank put Hong Kong Branch, CEB International Investment Corporation Limited, Seoul Branch, China Everbright Bank (Europe) S.A., Luxembourg Branch and Sydney Branch into operation successively. CEB Tokyo Representative Office was officially established, and the application for establishing CEB Macao Branch was approved by CBIRC. At the same time, the Bank's long-term sponsorship for "Water Cellar for Mothers", a public charity program, demonstrated CEB's ever-growing commitment to its social responsibilities, which was well recognized by the Chinese society. "Cloud Fee Payment", an online convenient inclusive finance service launched by the Bank, served hundreds of millions of customers. The Bank was ranked 25th in the 2021 Brand Finance Banking 500, up 3 places over the previous year.

Over the years, along with the evolution of Chinese economy and the growth of Chinese financial sector, the Bank managed to improve its brand image and market value continuously. While rendering quality financial services to its customers and the public, it also secured good business performance. Now the Bank is a listed bank with sound compliance and wide influence.

Honors and Awards

1. The Bank's "Cloud Fee Payment Government Service Plan" was selected as the Winning Case in the "Smart Government Services" category at the WeChat Payment Industry Product Application Competition on 10 April 2020.

2. The Bank was recognized as the "Trustworthy Wealth Management Bank" at the 2019-2020 "Gaining Customers' Trust" Assets Management Summit organized by the newspaper *The Economic Observer* on 24 June 2020.

3. The Bank was awarded the "Outstanding Responsible Enterprise of the Year" at the 12th Annual Meeting on Chinese Corporate Social Responsibilities organized by the magazine *Southern Weekly* on 31 July 2020.

4. At the 2020 China Asset Management Annual Meeting organized by the newspaper *21st Century Business Herald* on 9 August 2020, the Bank's subsidiary Everbright Wealth Management Co., Ltd. was selected as the "2020 Outstanding Wealth Management Subsidiary with Excellent Growth", and its product "Sunshine Gold Daily Profit No.1" was awarded the "2020 Most Popular Wealth Management Product".

5. The Bank was awarded the "Best Supply Chain Financial Innovation Bank" at the 4th Annual Meeting of China Supply Chain Finance co-organized by *Trade Finance* magazine, *scfvip.com* (Supply Chain Finance) and *sinotf.com* (Trade Finance) on 12 August 2020.

6. At the 2020 China Financial Innovation Forum organized by *The Chinese Banker* magazine, Financial Product Center of the Institute of Finance & Banking under Chinese Academy of Social Sciences, China Center for Internet Economy Research under Central University of Finance and Economics, and the Chinese Banker Research Center on September 6, 2020, the Bank was conferred the "Top Ten Supply Chain Finance Innovation Award" for its Sunshine Supply Chain Cloud Platform, the "Top 10 Family Trust Management Innovation Award" for its private banking, the "Top 10 Wealth Management Innovation Award" for its New-generation Distributed Technology-based Wealth Management Platform, and the "Top 10 Fintech Innovation Award" for its "Smart Financial Brain".

7. PBOC announced the "Annual Banking Technology Development Award" on 24 September 2020, and the Bank won six awards for its technology projects, the sole national joint-stock commercial bank winning the first, second and third prizes. Among them, the "Smart Cloud Life Ecosystem Construction Project" won the first prize; the "Highly-secured Multi-modal Biometric Identification Platform", the "Machine Learning-based Intelligent Capacity Management Platform" and the "Quantitative Management Research and Practice of Technology Outsourcing of Commercial Banks" won the second prize; and the "Full-stack Distributed Architecture-based New-generation Wealth Management Platform" and the "Knowledge Graph-based Big Data Mining Platform for Auditing" won the third prize.

8. The Bank's private banking was granted the "Golden Amber Award --- 2020 Private Banking Award for Excellent Customer Experience" at the 2020 Chinese Wealth Summit Forum organized by the newspaper *China Business Journal* on 27 September 2020.

9. The Bank was conferred the "2020 Gamma Awards --- Annual Fintech Service Bank, Fintech Innovation Project and Bank Wealth Management Brand" under the Chinese Banking Industry category on 28 September 2020 by the newspaper *Securities Times*.

10. The Bank, the Bank's Credit Card Center, and Everbright Wealth (the Bank's wealth management subsidiary) were conferred the "Annual Fintech Progress Award", the "Annual Excellence Credit Card Award" and the "Annual Excellent Professional Wealth Management Company" respectively, at the China Finance Summit Forum organized by *National Business Daily* on 15 October 2020.

11. The Bank was selected as "2020 Excellent Commercial Bank in Asia" and "2020 Brand Building Bank" at the 15th 21st Century Asian Finance Annual Conference organized by the newspaper *21st Century Business Herald* on 11 November 2020.

12. The Bank won the award of "2020 Excellent Enterprise with Well-acclaimed Information Disclosure" at the 5th Golden Sail Award jointly hosted by China Media Group and Southern Finance Omnimedia Corporation on 28 November 2020.

13. The Bank won the "2020 Corporate Social Responsibility Report Award" at the 13th (2020) PICC China Economic Media Summit jointly organized by the Economic Media Association of China and the newspaper *China Times* under the guidance of China Disabled Persons' Federation, China Foundation for Disabled Persons and China Poverty Alleviation Foundation on 4 December 2020.

14. The Bank was honored as the "2020 Smart Bank" at the Yicai New Financial Summit 2020 organized by the media company CBN on 6 December 2020.

15. The Bank was awarded the "2020 Best Brand Building Bank" and its Cloud Fee Payment platform was awarded the "2020 Most Influential Life Service Platform" at the Gold Medal Award Ceremony of Chinese Financial Institutions – Gold Dragon Award 2020 organized by the newspaper *Financial News* on 9 December 2020.

16. The Bank was selected as the "2020 Most Socially Responsible Bank" at the Smart Finance (Beijing) Summit of the 2020 Development Forum of the Chinese Banking Industry & the 8th Comprehensive Appraisal of Banks and Awarding Ceremony organized by Sina Finance on 11 December 2020.

17. The Bank won the "2020 Poverty Alleviation Award" at the 2020 Summit Forum on Corporate Social Responsibilities organized by the website *people.cn* on 12 December 2020.

18. The Bank's "Wonderful E-Shopping" E-commerce Poverty Alleviation Case was selected as the Excellent Poverty Alleviation Case in China by the State Council Leading Group Office of Poverty Alleviation and Development and *People's Daily* on 25 December 2020.

LI Xiaopeng
Chairman

Message from the Chairman

2020 was an extraordinary year. In face of the COVID-19 outbreak and confronted with complicated and challenging business environment, China Everbright Bank (CEB) maintained its strategic focus, committed itself to the strategic goal of “building a first-class wealth management bank”, and completed phased tasks successfully, with core performance indicators rising to a new height and overall competitiveness witnessing a remarkable enhancement.

Reflection on 2020: Adversity makes CEB stronger, just as polishing makes jade finer.

– We took swift actions to fight against the pandemic. In response to the COVID-19 outbreak, CEB standing out as a socially responsible state-owned enterprise, not only made solid efforts in pandemic containment at full strength, but also supported resumption of work and production with great endeavor. With all resources gathered, the Bank raced against the clock to donate funds and supplies to the affected area in Hubei Province, allocated special credit lines for anti-pandemic industries, launched a fast-track process to increase funding support. United as one, CEB temporarily closed the hardest-hit remote banking sub-center in Wuhan to protect employees’ health and safety, and transferred relevant work to the sub-centers in Beijing and Tianjin to ensure financial service continuity. All CEB employees joined hands together to shoulder responsibilities, and out of them emerged a number of role models who are willing to contribute and not afraid of sacrifice. The new culture of Everbright has thus been nurtured and refined during the pandemic. Giving full play to the advantages in fintech, CEB served hundreds of millions of people with its online “Cloud Fee Payment” service, contributing to the national call for “less travels and gatherings” in the fight against the pandemic.

– We obtained fruitful results in performance improvement. Insisting on promoting high-quality development, CEB constantly consolidated its business foundations, and achieved a leapfrogging growth in core performance indicators, thus continuously improving our value creation capabilities. We realized steady growth in scale. As at the end of 2020, the total assets of the Bank reached RMB5,368,110 million, up 13.41% over the end of the previous year, with the total amount of loans surpassing RMB3 trillion and deposits up 15.33%. The profitability was further improved, as demonstrated by an operating income of RMB142,705 million, a year-on-year increase of 7.35%. The asset quality maintained a good momentum of steady growth, and the risk resistance capabilities were intensified, with both non-performing loans and non-performing loan ratio reduced by RMB546 million and 0.18 percentage point respectively over the previous year. CEB expanded capital replenishment channels and strengthened capital position by issuing perpetual bonds totaling RMB40 billion, and deferred redemption of preference shares of RMB20 billion at low cost.

– We served the real economy in a targeted and efficient manner. Responding to the decisions and deployments of the CPC Central Committee and the State Council of China, CEB took various measures to serve the real economy, and took the lead in realizing “credit increase, cost cut and convenient services”, so as to fulfill the responsibilities as a “financial national team”. The Bank went all out to serve the high-quality development of Chinese economy, realizing double increases in manufacturing loans and medium and long-term loans to manufacturing enterprises. With the mission to support private enterprises firmly in mind, we adhered to the principle of “4 equal treatments” on credit policy, service efficiency, incentives and constraints, and product innovation. As a result, the growth of loans to private enterprises was higher than that of all loans of the Bank. We helped enterprises overcome difficulties, placed intensive focus on inclusive finance, and realized the goals of “Two Increases and Two Controls” as required by the regulators. The interest rate of newly issued loans was reduced by 90bps year on year.

Message from the Chairman

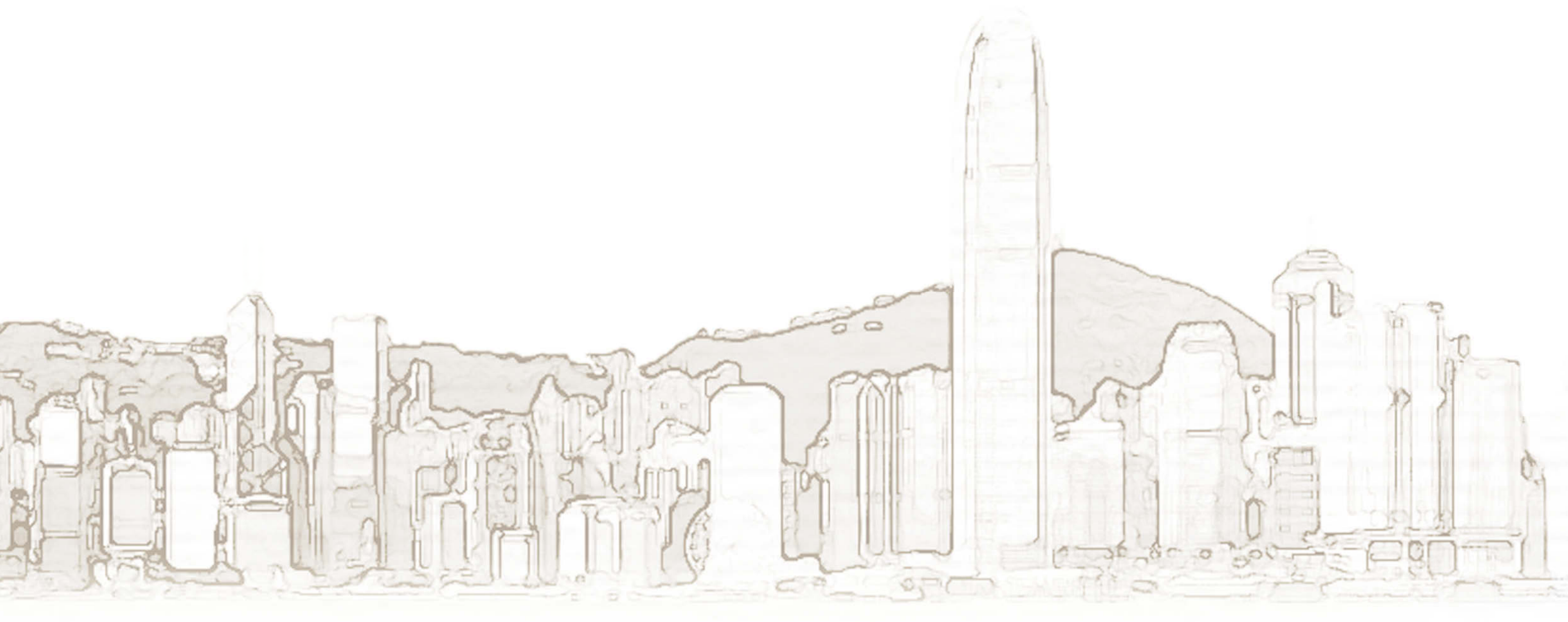
– We promoted compliant and efficient corporate governance. CEB has always regarded sound corporate governance as the cornerstone of long-term growth, and actively integrated the leadership of the Communist Party of China into all aspects of corporate governance. Aiming at high-quality development, the Bank not only constantly complied with regulatory requirements, but also benchmarked international best practice to ensure efficient operation of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors, and the Senior Management. Hence, CEB won the awards of "Best Board of Directors" and "Excellent Information Disclosure". Upon the approvals of Ministry of Finance and China Banking and Insurance Regulatory Commission, CHI transferred all its CEB shares to China Everbright Group (CEG) to optimize the ownership structure and achieve win-win outcomes while fulfilling the requirements of reform and development. After the completion of equity change, RMB5.8 billion of convertible bonds held by CEG were converted ahead of schedule, which greatly enhanced CEB's capital position and demonstrated CEG's responsibility of the controlling shareholder.

– We deepened strategic transformation significant progress. Guided by the strategic goal of "building a first-class wealth management bank", CEB enhanced its overall market competitiveness and achieved milestone targets in the past three years. The Bank optimized the KPI system with a focus on developing featured wealth management. An array of hit products showed their advantages: The "Cloud Fee Payment" provided customers with over 10,000 service items, with transaction amount exceeding RMB400 billion; CEB won all the 32 custodian bids for occupational annuity program consecutively, making CEB the only joint-stock commercial bank in China with such an achievement. The construction of Wealth E-SBU achieved prominent results with business scale, operating income and fee-based business income all striking new highs. CEB's internationalization broke new ground as CEB Tokyo Representative Office was officially established and the application for establishing CEB Macao Branch was approved by CBIRC. CEB established the "123+N" digital banking development system featuring "one smart brain, two technological platforms, three service capabilities and numerous digital hit products", with over 85% of businesses going online. By implementing the "Tech Input Multiplication" program, CEB expanded investment in technology with unprecedented efforts to empower digital development. The funds for technology R&D amounted to RMB5.15 billion, up 51% over the previous year. The number of technology personnel totaled 1,965, up 27.43% over the previous year. And the "Fintech Innovation Fund" of RMB500 million was set up.

– We boosted the Bank's soft power to a new level. CEB strove to gather new momentum to stimulate new vitality by selecting and promoting capable and suitable talents to invigorate human resources. For instance, the Bank selected candidates for Chief Business Supervisors of the Head Office via democratic recommendations from across the whole bank, and conducted social recruitment to fill key positions such as heads of headquarter departments and subsidiaries. Some outstanding talents were dispatched to less-developed areas for work exchanges. We managed to broaden the scope of talent selection and appointment and inspire our staff through the "CEB Talent Selection" campaign. To care for our employees, CEB rolled out a new annuity scheme, upgraded supplementary medical insurance, optimized the mechanisms of Sunshine Care Fund, and launched the "Employee Care Plan". With all these efforts, a stronger sense of cohesion and belonging was fostered in creating a caring "Everbright Home". We promoted high-quality development with our brand image value improved, as we received top regulatory ratings and a stable outlook from external rating institutions. CEB was ranked 25th in the "Brand Finance Banking 500" in 2021, up 3 places over the previous year.

Outlook into 2021: We will ride on the momentum to make new strides.

2021 is a year of special significance in the course of China's modernization. It marks the centenary celebration of the founding of the Communist Party of China, the beginning year of the 14th Five-Year Plan, and also the starting point for CEB to make new strides toward a higher stage. With Sunshine culture leading the way forward, the whole Bank is highly motivated with a brand-new mindset and fresh outlook, especially after the successful three-year strategy implementation. As all the employees continuously unleash their enthusiasm, initiative and creativity, their sense of honor, pride and mission has risen to an unprecedented level, turning into a strong momentum for future advancement. In 2021, constantly adhering to the strategic goal of "building a first-class wealth management bank", we will launch the "Leap Development Plan" to break new ground in profitability, operation scale, wealth management, customer base and risk control, holding steadfast to our goal while writing a new chapter on our journey. Though the journey ahead is long and arduous, only hard work can lead us out of the woods. Entering into a new development era, we will fully apply the new development philosophy to build a new development pattern. In pursuit of both progress and stability, we will strengthen strategy orientations and innovations, place more focus on wealth management and fintech, and take new strides towards high-quality development, to celebrate the 100th anniversary of the founding of the Communist Party of China with outstanding accomplishments.



Summary of Accounting Data and Financial Indicators

I. KEY FINANCIAL DATA AND INDICATORS

Item	2020	2019	Change in 2020 over 2019 (%)	2018	2017	2016
Operating performance (RMB million)						
Net interest income	110,697	101,918	8.61	78,164	60,950	65,288
Net fee and commission income	24,323	23,169	4.98	19,773	30,774	28,112
Operating income	142,705	132,939	7.35	110,386	92,018	94,365
Operating expenses	(40,271)	(38,429)	4.79	(33,706)	(30,802)	(30,254)
Impairment losses on assets	(56,932)	(49,347)	15.37	(35,828)	(20,570)	(23,931)
Profit before tax	45,497	45,163	0.74	40,852	40,646	40,180
Net profit	37,905	37,441	1.24	33,721	31,611	30,388
Net profit attributable to equity shareholders of the Bank	37,824	37,354	1.26	33,659	31,545	30,329
Per share (in RMB)						
Net assets per share attributable to ordinary shareholders of the Bank[1]	6.45	6.10	5.74	5.55	5.24	4.72
Basic earnings per share[2]	0.68	0.68	–	0.61	0.64	0.63
Diluted earnings per share[3]	0.61	0.62	(1.61)	0.55	0.59	0.63
Scale indicators (RMB million)						
Total assets	5,368,110	4,733,431	13.41	4,357,332	4,088,243	4,020,042
Total loans and advances to customers	3,009,482	2,712,204	10.96	2,421,329	2,032,056	1,795,278
Provision for impairment of loans[4]	75,533	76,228	(0.91)	67,209	51,238	43,634
Total liabilities	4,913,112	4,347,377	13.01	4,034,859	3,782,807	3,768,974
Deposits from customers	3,480,667	3,017,888	15.33	2,571,961	2,272,665	2,120,887
Total equity	454,998	386,054	17.86	322,473	305,436	251,068
Total equity attributable to equity shareholders of the Bank	453,449	384,982	17.78	321,488	304,760	250,455
Share capital	54,032	52,489	2.94	52,489	52,489	46,679
Profitability indicators (%)						
Return on average total assets	0.75	0.82	-0.07 percentage point	0.80	0.78	0.85
Return on weighted average net assets[5]	10.71	11.77	-1.06 percentage points	11.55	12.75	13.80
Net interest spread	2.20	2.18	+0.02 percentage point	1.91	1.32	1.59
Net interest margin	2.29	2.31	-0.02 percentage point	1.97	1.52	1.78
Proportion of fee and commission income in operating income	17.04	17.43	-0.39 percentage point	17.91	33.44	29.79
Cost-to-income ratio	27.18	27.85	-0.67 percentage point	29.48	32.36	29.00
Asset quality indicators (%)						
NPL ratio	1.38	1.56	-0.18 percentage point	1.59	1.59	1.60
Provision coverage ratio[6]	182.71	181.62	+1.09 percentage points	176.16	158.18	152.02
Provision-to-loan ratio[7]	2.53	2.83	-0.30 percentage point	2.80	2.52	2.43

Notes:

1. Net assets per share attributable to ordinary shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – preference shares related portion of other equity instruments)/total number of ordinary shares at the end of the period.

2. Basic earnings per share = net profit attributable to ordinary shareholders of the Bank/weighted average number of ordinary shares outstanding; net profit attributable to ordinary shareholders of the Bank = net profit attributable to shareholders of the Bank – dividends of the preference shares declared during the period. The Bank declared to distribute total dividends of the preference shares of RMB2.21866 billion (before tax) for the year of 2020.

3. Diluted earnings per share = (net profit attributable to ordinary shareholders of the Bank + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the Bank)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares).

4. It only includes provision for impairment of loans measured at amortized cost.

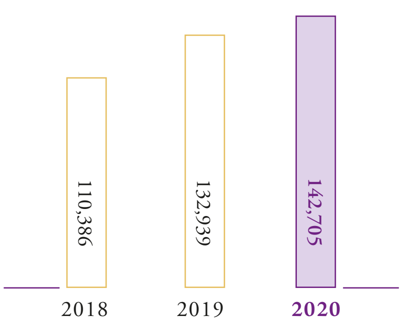
5. Return on weighted average net assets = net profit attributable to ordinary shareholders of the Bank/weighted average net assets attributable to ordinary shareholders of the Bank.

6. Provision coverage ratio = (provision for impairment of loans measured at amortized cost + provision for impairment of loans at fair value through other comprehensive income)/balance of non-performing loans (NPLs).

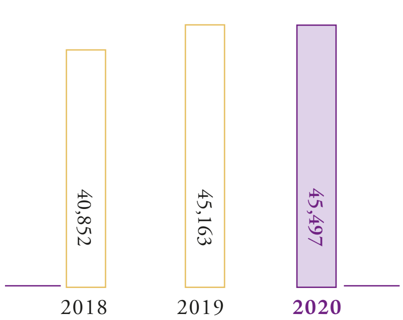
7. Provision-to-loan ratio = (provision for impairment of loans measured at amortized cost + provision for impairment of loans at fair value through other comprehensive income)/total loans and advances to customers.

The above figures with notes 1, 2, 3 and 5 were calculated according 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)* issued by the CSRC.

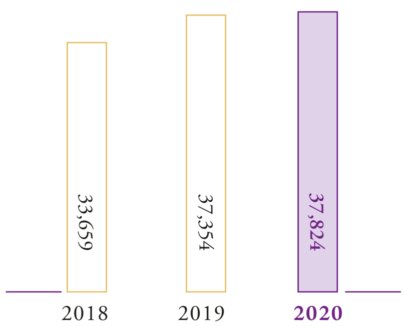
Operating income
Unit: RMB million



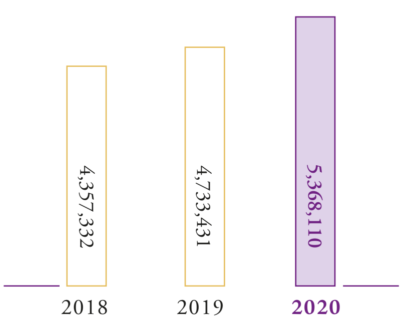
Profit before tax
Unit: RMB million



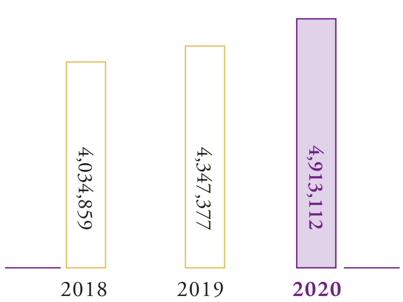
Net profit attributable to equity shareholders of the Bank
Unit: RMB million



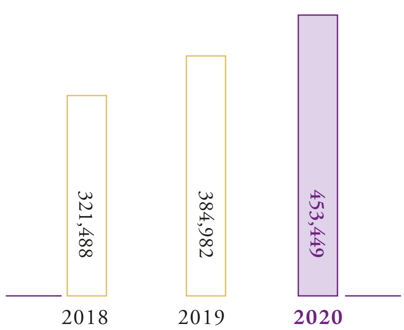
Total assets
Unit: RMB million



Total liabilities
Unit: RMB million



Equity attributable to equity shareholders of the Bank
Unit: RMB million



Summary of Accounting Data and Financial Indicators

II. QUARTERLY OPERATING INDICATORS OF THE YEAR

Unit: RMB million

Item	Q1	Q2	Q3	Q4
Operating income	37,324	34,833	34,799	35,749
Net profit attributable to equity shareholders of the Bank	10,831	7,532	11,242	8,219
Net cash flows from operating activities	226,462	(38,858)	(79,860)	9,413

III. SUPPLEMENTARY FINANCIAL INDICATORS

Unit: %

Item		Standard value	31 December 2020	31 December 2019	31 December 2018
Liquidity ratio	RMB	≥25	66.07	72.63	64.26
	Foreign currency	≥25	127.90	93.29	62.15
Loan exposure to largest single customer ratio		≤10	2.08	1.86	2.12
Loan exposure to top ten customers ratio		≤50	8.77	10.91	11.88

Note: The above indicators were calculated on non-consolidation basis.

IV. CAPITAL COMPOSITION AND CHANGES

The capital adequacy ratio (CAR) indicators calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* (Decree No.1 of CBRC in 2012) are as follows:

Unit: RMB million, %

Item		31 December 2020		31 December 2019		31 December 2018	
		Consolidated[1]	Non- consolidated	Consolidated[1]	Non- consolidated	Consolidated[1]	Non- consolidated
1.	Net capital base[2]	533,530	510,723	465,505	447,133	412,012	400,663
1.1	Common equity tier-1 capital	349,479	343,403	320,793	316,396	292,093	288,903
1.2	Common equity tier-1 capital deductions	(3,457)	(16,407)	(2,930)	(15,299)	(2,455)	(9,827)
1.3	Net common equity tier-1 capital[2]	346,022	326,996	317,863	301,097	289,638	279,076
1.4	Additional tier-1 capital	105,023	104,899	65,002	64,906	30,021	29,947
1.5	Additional tier-1 capital deductions	–	–	–	–	–	–
1.6	Net tier-1 capital[2]	451,045	431,895	382,865	366,003	319,659	309,023
1.7	Tier-2 capital	82,485	78,828	82,640	81,130	92,353	91,640
1.8	Tier-2 capital deductions	–	–	–	–	–	–
2.	Credit risk-weighted assets	3,557,272	3,443,491	3,208,191	3,112,086	2,936,448	2,864,946
3.	Market risk-weighted assets	39,705	38,193	38,523	36,770	44,913	44,358
4.	Operational risk-weighted assets	240,512	235,050	209,340	205,952	185,307	182,654
5.	Total risk-weighted assets	3,837,489	3,716,734	3,456,054	3,354,808	3,166,668	3,091,958
6.	Common equity tier-1 CAR	9.02	8.80	9.20	8.98	9.15	9.03
7.	Tier-1 CAR	11.75	11.62	11.08	10.91	10.09	9.99
8.	CAR	13.90	13.74	13.47	13.33	13.01	12.96

Notes:

1. All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the *Capital Rules for Commercial Banks (Provisional)*, shall be included in the calculation of the consolidated CARs. Among these, the invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Everbright Wealth Management Co., Ltd., Beijing Sunshine Consumer Finance Co., Ltd., CEB International Investment Corporation Limited, China Everbright Bank (Europe) S.A., Shaoshan Everbright Rural Bank Co., Ltd., Jiangsu Huai'an Everbright Rural Bank Co., Ltd., and Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

2. Net common equity tier-1 capital = common equity tier-1 capital – common equity tier-1 capital deductions; net tier-1 capital = net common equity tier-1 capital + additional tier-1 capital – additional tier-1 capital deductions; net capital base = net tier-1 capital + tier-2 capital – tier-2 capital deductions.

3. The Bank has disclosed the full text of the *2020 Capital Adequacy Ratio Report*. Please refer to the websites of SSE, HKEX and the Bank for details.

V. LEVERAGE RATIO

The leverage ratios calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* (Decree No.1 of CBRC in 2015) are as follows:

Unit: RMB million, %

Item	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Leverage ratio	7.03	6.89	5.99	6.29
Net tier-1 capital	451,045	437,111	388,275	395,121
Adjusted balance of on- and off-balance-sheet assets	6,416,774	6,339,937	6,482,856	6,283,331

Please refer to "Unaudited Supplementary Financial Information" for more details on leverage ratio.

VI. LIQUIDITY COVERAGE RATIO

The liquidity coverage ratio indicators calculated in accordance with the *Measures for the Administration of Liquidity Risk of Commercial Banks* (Decree No.3 of CBIRC in 2018) are as follows:

Unit: RMB million, %

Item	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Liquidity coverage ratio	150.47	134.70	171.87	172.83
Eligible high quality liquid assets	704,706	761,440	833,515	756,158
Net cash outflow in the next 30 days	468,333	565,283	484,964	437,516

VII. NET STABLE FUNDING RATIO

The net stable funding ratios calculated in accordance with the *Measures for the Information Disclosure Regarding Net Stable Funding Ratios of Commercial Banks* (CBIRC [2019] No.11) are as follows:

Unit: RMB million, %

Item	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Net stable funding ratio	107.29	107.08	109.19	107.87
Available stable funding	3,111,968	3,025,959	3,001,492	2,943,886
Required stable funding	2,900,616	2,825,925	2,748,866	2,729,074

Please refer to "Unaudited Supplementary Financial Information" for more details on net stable funding ratio.

Business Overview of the Bank

I. ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENT DURING THE REPORTING PERIOD

The year 2020 witnessed the rapid spread of COVID-19 pandemic that took a great toll on global economy amid complex international environment. Coronavirus lockdowns brought the world's economies to a standstill with surging unemployment rates. The global growth entered the negative territory facing the trend of economic de-globalization. In response to the COVID-19 crisis, central banks around the world adopted easy monetary policies and fiscal relief measures. However, the economic recovery remained weak with growing financial vulnerabilities, putting global economy under downward pressure.

Chinese government coordinated pandemic containment with economic growth in a strong effort to resume production and restore livelihood. Industrial and service sectors kept recovering, investment and consumption were improved continuously, and the national economy regained growth momentum steadily, demonstrating an overall V-shaped recovery. The annual GDP exceeded RMB100 trillion, up 2.3% from the previous year. China's economy remained resilient, showing no change in the fundamentals underpinning its long-term high-quality growth.

PBOC stepped up its efforts in macro policy response by making its prudent monetary policies more flexible, appropriate and targeted, providing strong support for pandemic control and economic recovery to suit the needs of different periods. Market interest rates were guided to move steadily around the policy rate, thus keeping liquidity reasonably sufficient. The lending rate benchmark reform was deepened to remove the implicit floor of lending rates. The structural monetary policy instrument system was improved to ensure direct and well-targeted funding for the real economy. Cross-border capitals flowed in an orderly manner, and supply and demand were kept in a good balance. Strong prevention and control measures were carried out to effectively fend off systemic risks in the financial sector.

CBIRC vigorously encouraged financial institutions to serve the real economy at full capacity, implemented the tasks aimed to ensure stability on six fronts (including employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations) and maintain security in six areas (including 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), and serve private enterprises and provide inclusive finance for small and micro businesses with better quality and efficiency, with both RMB loans and insurance funds growing reasonably. CBIRC took strong actions to forestall and defuse financial risks, continued to improve regulatory policies, stuck to the risk control bottom line, removed obstacles for the conduction mechanism of monetary policy to facilitate credit market, adopted policies specific to different risk types so as to gradually defuse existing risks.

II. INDUSTRY LANDSCAPE AND STATUS OF THE BANK

In 2020, China's banking industry embraced a new stage of development, responding to new changes. On one hand, Chinese banks provided strong support for key fields and troubled industries, and made further reasonable concessions to the real economy. On the other hand, they deepened their reforms and transformation, and secured sound operating conditions in general, steady expansion in assets and liabilities and gradual recovery of profits. The corporate governance mechanism was improved, with risk-specific policies implemented to gradually defuse existing risks. Finance and technology became highly integrated to enhance the capability of online services.

The Bank remained committed to making progress amid stability, seeking opportunities amongst changes and pursuing innovation during progress. In response to the COVID-19 outbreak, the Bank coordinated pandemic containment with business development, and took a variety of measures to ensure business stability. It fulfilled its responsibilities as a member of "financial national team" by taking actions to ensure stability on six fronts (including employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations) and maintain security in six areas (including 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), fully supporting both COVID-19 response and business resumption, and actively serving the real economy. It furthered its implementation of strategies, stepped up its wealth management bank construction endeavors, advanced its structural adjustments, and strengthened its fintech-driven development. It strictly forestalled various risks, further reformed systems and mechanisms on all fronts and enhanced the capability of high-quality development.

III. DEVELOPMENT STRATEGY OF THE BANK

i. Development Vision

Committed to creating greater value for shareholders, customers, employees and the society, the Bank regards "building itself into a first-class wealth management bank" as its strategic vision.

ii. Strategy Connotations

Keeping itself aligned with the national strategies, the Bank focuses on serving the real economy, and leverages on China Everbright Group's advantages in full range of financial licenses, collaboration between finance and industry, and between Hong Kong SAR and Chinese mainland, to strengthen intra-group coordination and develop the Wealth E-SBU.

The Bank's strategy of building a first-class wealth management bank is characteristic of extensive, authentic and new-type wealth management. "Extensive" refers to serving a wider range of customer base with the provision of product offerings that meet customers' increasingly diversified demands. "Authentic" means adapting to the trends of wealth management development by combining enterprise business operations and residents' consumption scenarios, in order to better serve real economy and people's livelihood. "New" refers to promoting product innovation and developing business model driven by fintech, so as to provide customers with better-quality services and experience.

iii. Development Strategy

Focused on the strategic vision of building a first-class wealth management bank, the Bank resolutely pursues transformation of wealth management. By carrying out the "Leap Development Plan", the Bank endeavors to make breakthroughs in five aspects including profitability, operation scale, wealth management, customer base and risk control, achieving high-quality development in the next two years.

Corporate banking sector aims to comprehensively improve development quality and promote integration of traditional credit business and other businesses such as asset management, investment banking, fund transaction, transaction banking and financial leasing, in order to build the Bank into a leading comprehensive financial service provider.

Retail banking sector focuses on three strategic businesses including wealth management, retail credit and credit card businesses, emphasizing on wealth management characteristics, intensifying efforts in transformation, and continuously improving both operation efficiency and operating income proportion of retail businesses.

Financial market sector increases efforts to enlarge scale, adjust structure and raise efficiency, in order to comprehensively improve competitive capabilities. Specifically, the Bank not only moderately increases business scale, but also effectively optimizes asset allocation structure by selecting more high-yield assets than low-yield assets.

The Bank strengthens assets and liabilities management and overall finance management, promoted refined management, and improved management efficiency. It enhances risk control, makes its overall risk management system more prudent and efficient, and strictly sticks to the bottom line of risk control. It focuses on the power of innovation by giving full play to tech empowerment. It insists on building the "123+N" digital banking system, making business, marketing and service online, mobile and open. It optimizes its organizational system, establishes a market-oriented employee recruitment and selection system, and cultivates a highly competent talent team, which forms a reasonable echelon structure.

iv. Strategy Implementation

1. The strategic management system was gradually refined

The Bank formulated the *Plan for Optimization of the Strategic Management System* and proposed the "1+6" optimization framework. "1" refers to optimizing the strategic indicators system, setting relatively more proactive targets in line with the budget targets and balanced scorecard assessment, and aligning the Bank's management activities more closely with its strategic vision; "6" refers to optimizing the six management systems of customers, products, channels, innovation, investor relations and international business, adjusting organizational structure and management functions with more focus placed on positioning itself as a wealth management bank.

2. Wealth management transformation achieved progress

As at the end of the reporting period, the operating income of retail banking reached RMB58,678 million, accounting for 41.12% of the Bank's total operating income. The customer base had a better structure and higher quality. The Bank had 123 million retail customers, including 950,000 wealth management customers, up 22.57% from the previous year. The number of private banking customers exceeded 40,000, an increase of 24.54% from the previous year. The assets under management (AUM) of retail customers of the Bank reached RMB1.92 trillion, up 12.42% from the previous year. The Bank signed Head Office-to-headquarters contracts with 52 companies, increasing the number of corporate customers to 782,900, up 15.35% from the previous year.

3. A diverse development pattern of fee-based business began to take shape

In 2020, the Bank recorded RMB24.323 billion of net income from fee-based business, a year-on-year increase of 4.98%, accounting for 17.04% of operating income. The fee-based income became more diverse, with a surge in income from wealth management, Cloud Fee Payment, transaction banking, retail agency, custody and investment banking. The fee-based income structure was improved, with fee-based income excluding credit card business accounted for 54.66% of total fee-based income, up 9.18 percentage points from the previous year.

4. Hit wealth management products gained competitive edges

The Cloud Fee Payment platform maintained the leading edge as China's largest open-ended platform for fee payment, covering over 10,000 fee payment items, up 39.39% from the previous year. The "Colorful Sunshine" net-asset-value (NAV) product system was continuously diversified and improved, while Sunshine Gold and Sunshine Orange products delivered remarkable results. The Sunshine Supply Chain platform handled 71,000 transfers totaling RMB11.2 billion. The Forfaiting Blockchain platform had a transaction volume of nearly RMB300 billion. "Anxinxi", a collaborative hit product of private banking, generated RMB1,354 million of initial premiums and served 28,000 customers, with the banker-insurer collaborative premiums exceeding RMB2 billion in total. The Bank became the occupational annuity custodian in 32 provinces and autonomous regions in China, the only joint-stock bank bidder awarded contracts for all these projects, and had over RMB100 billion of occupational annuities under its custody. The "Auto Full Pass" product served 3,707 auto dealers. The "Sunshine Exchange Gain" product registered RMB122.5 billion in agency derivatives trading, up 14.00% from the previous year.

5. Wealth E-SBU construction made breakthroughs

The Bank reviewed the *Wealth E-SBU Development Plan* and devised new objectives, strategies and mechanisms. The coordination scale, operating income and fee-based income reached all-time highs, with the total value of collaborative business standing at RMB1.66 trillion, up 34.20% year on year. Cross-selling exceeded RMB67.5 billion. The coordination operating income reached RMB8.25 billion, up 69.60% year on year. The coordination fee-based income totaled RMB2.53 billion, up 57.20% year on year. Among the customers introduced through collaboration efforts, there were 3,100 corporate customers and 1.45 million retail customers (including 1,176 high-net-worth individuals), contributing RMB17.42 billion of AUM.

IV. ANALYSIS ON CORE COMPETITIVENESS OF THE BANK

First, the Bank has distinguished background of shareholders engaged in diversified operation and coordinated development of both finance and industry with a full range of financial licenses. China Everbright Group is a large financial holding group directly under the administration of the central government of China, and also one of the Fortune Global 500 companies. Its business scope encompasses financial services and non-financial industries including environment, tourism, health and high-tech. With a global presence, especially in Hong Kong SAR and Chinese mainland, relying on the platform of China Everbright Group, the Bank could provide a full package of financial services and promote the coordinated development of finance and industry.

Second, the Bank has advantages in its unified Sunshine brand. Upholding the business philosophy of "Sharing Sunshine, Innovating Life", the Bank has stepped up its efforts to build the "Sunshine" brand series and develop hit products, leveraging on modern technologies and digital means. It has boasted more than 30 hit products including Sunshine Wealth Management, Cloud Fee Payment, Sunshine Inclusive Finance, Auto Full Pass, Forfaiting Blockchain and Sunshine E-loan.

Third, the Bank has an outstanding innovative gene. The Bank was established in the trends of competitive financial market in China, and grew stronger through exploration and innovation. Inspired by innovation awareness, it became the first bank that launched the RMB wealth management products, the first to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks obtaining dual qualifications as both enterprise annuity fund custodian and account manager in China. Besides that, it has forged China's largest open-ended payment platform, Cloud Fee Payment, endeavored to build Wealth E-SBU, and achieved remarkable innovation results.

Fourth, the Bank has some business advantages. Devoting itself to building a first-class wealth management bank, the Bank has obtained comparative advantages in wealth management business. Its investment banking business as the pioneer in the industry is able to provide corporate customers with comprehensive investment banking services. Its digital banking business has focused on building an open service system by opening its platforms, which has developed into an industry-leading business model. In addition, the Bank keeps improving its capabilities for value creation and high-quality development in retail business, which makes positive contributions to the stable and sustainable development of the Bank.

Fifth, the Bank operates in a prudent and steady manner. The Bank has always upheld the prudent risk management philosophy, insisted in stable business development strategies and taken compliant operating measures. The comprehensive risk management methods and techniques are increasingly diversified to ensure effective control of asset quality. The management system is continuously improved to make risk management more proactive, forward-looking and predictable.

Sixth, the Bank promotes development driven by technological innovation. The Bank continues to build the "123+N" digital Everbright development system, which namely includes "one smart brain, two technological platforms, three service capabilities and N digital hit products". In the future, the Bank will keep investing more in technologies, improve technological governance, and enhance basic technological capabilities to empower business development.

V. REVIEW OF MAIN WORK OF THE BANK

i. Gaining market competitive advantages with much stronger influence

Unswervingly implementing the strategic plan of "building a first-class wealth management bank", the Bank achieved leapfrogging growth in core business indicators, with both deposits and loans exceeding RMB3 trillion. In recent years, the Bank ranked among the top in terms of compound annual growth rate of total assets, deposits, loans, operating income, net profit, provisions, as well as proportion of fee-based income to the total, ROE and ROA. Artificial intelligence, cloud computing, big data and blockchain have been leveraged to develop a series of hit products with unique advantages. Based on China Everbright Group's comprehensive platform, the Bank promoted the wealth E-SBU development, pursued industry-finance integration, promoted hit products, added scenarios to the ecosphere and accelerated service innovation. The Bank was ranked 25th in the "Top 500 Most Valuable Banking Brands", up 3 places compared with the previous year, with its brand value breaking the mark of USD10,000 million, reaching USD10,325 million, up 6.60% from the previous year. The Bank delivered the best ever performance in the selection of Technological Development Awards by PBOC, standing out as the only joint-stock bank that won the first, second and third prizes.

ii. Serving real economy effectively as a responsible central enterprise

The Bank strengthened financial support for key sectors of real economy, including manufacturing, private enterprises, as well as small and micro businesses. The Bank held the "Cloud Conference and Signing Ceremony on Serving Manufacturers, Private Enterprises and Inclusive Finance Development", and rolled out ten measures to enhance services and reduce costs. The Bank also organized online signing ceremonies themed "Shouldering Financial Mission, Supporting Private Enterprises" and "Focusing on New Technologies, Boosting New Growth Drivers". The Bank signed partnership agreements with a large number of private enterprises and advanced manufacturers. Loans to private enterprises grew faster than total loans. Manufacturing loans registered record highs in both size and rate of growth, either for all terms or for medium-and long-term loans. The Bank fulfilled the regulatory requirement of "Two Increases and Two Controls" for inclusive finance, making substantial concessions to the real economy in accordance with the requirement of providing customers with cheaper and convenient access to more financing. In supporting the fight against COVID-19, the Bank provided credit facilities to enterprises related to the supply of medical, hygiene and subsistence products.

iii. Exercising stronger and more effective risk control

Both the ratio and balance of non-performing loans (NPLs) were reduced. In particular, the NPL ratio reached the lowest level in recent years. Systems and mechanisms were reformed on all fronts to promote unified credit granting. The risk limit management covers both on- and off-balance-sheet activities, both domestic and overseas operations, and both parent companies and subsidiaries. Differentiated approvals and authorizations were implemented, with over half of the approvals directly processed by the Head Office, and nearly 70% of branch approvals reviewed by the Head Office. The "Look Back" market irregularities crackdown campaign and risk screening were carried out to strengthen risk monitoring and precautions. Audit-based supervision and evaluation were carried out to enforce strict credit discipline, regulate operating activities, strengthen regulation authority, and enhance risk control effectiveness.

iv. Achieving fruitful results on Party building, and making joint efforts to build an "Everbright Home"

The Bank implemented the work requirements on Party building on every respect, improved the Party member training and management system, so as to reinforce the results of Party-themed training programs. Routine and special inspections were conducted over ten branches and three rural banks. The Bank made every effort to improve employees' well-being, including adjusting the annuity plan, upgrading the supplementary medical insurance scheme, facilitated employees' application for the points-based household registration of Beijing Municipality and offered bonuses to employees through "Summer/Winter Bonus" programs. Furthermore, the Bank showed concerns for the voice of employees, improved the Sunshine Care Fund and cared for the staff deployed in rural areas for poverty alleviation tasks. The "Employee Care Initiative" was launched for the benefit of employees' physical and mental health.

Discussion and Analysis of Operations

I. OVERALL OPERATIONS OF THE BANK

i. Business scale realized steady growth, and liability cost kept improving

As at the end of the reporting period, total assets of the Group posted RMB5,368,110 million, representing an increase of RMB634,679 million or 13.41% as compared with the end of the previous year. Total loans and advances to customers stood at RMB3,009,482 million, representing an increase of RMB297,278 million or 10.96% as compared with the end of the previous year. The balance of deposits reached RMB3,480,667 million, representing an increase of RMB462,779 million or 15.33% as compared with the end of the previous year.

During the reporting period, the Group optimized liability structure and strengthened cost control. As a result, the average cost ratio of interest-bearing liabilities was 2.39%, down 19 bps year on year. Both quality and quantity of liabilities were improved, effectively increasing the size and reducing the costs of asset investment, as well as enhancing the ability to serve the real economy.

ii. Operating income continued to increase, and profitability improved step by step

The Group earnestly implemented the decisions on reasonable fee deductions and interest concessions in the banking industry made by the CPC Central Committee and the State Council. Fully performing its social responsibilities as a state-owned financial institution, the Group offered a series of preferential policies including lowering interest rates, reducing or exempting fees, and postponing repayment of loan principal and interest. During the reporting period, operating income of the Group registered RMB142,705 million, a year-on-year increase of 7.35%. Specifically, net interest income posted RMB110,697 million, up 8.61% year on year; net fee and commission income posted RMB24,323 million, up 4.98% year on year.

Taking into account the continuous and lagging impact of the COVID-19 pandemic and following the requirements of "making risk responses ahead of the market curve", the Group further pursued a prudent provisioning policy and adopted a forward-looking approach to increase its provision in response to external environmental changes. During the reporting period, the Group sustained impairment losses on assets totaling RMB56,932 million and realized net profit of RMB37,905 million, a year-on-year increase of 1.24%, indicating improved profitability.

iii. Both NPL balance and ratio decreased, and risk indicators improved

As at the end of the reporting period, the balance of the Group's non-performing loans (NPLs) amounted to RMB41,666 million, a decrease of RMB546 million as compared with the end of the previous year. The NPL ratio reported 1.38%, down 0.18 percentage point as compared with the end of the previous year. The ratio of special mention loans was 2.15%, a decrease of 0.06 percentage point as compared with the end of the previous year. The ratio of overdue loans stood at 2.15%, a decrease of 0.12 percentage point as compared with the end of the previous year. Provision coverage ratio reached 182.71%, up 1.09 percentage points over the end of the previous year.

iv. Capital foundation was remarkably consolidated, meeting regulatory requirements continuously

As at the end of the reporting period, the Group's net capital registered RMB533,530 million, an increase of RMB68,025 million as compared with the end of the previous year. The CAR, tier-1 CAR and common equity tier-1 CAR was 13.90%, 11.75% and 9.02% respectively, all of which met the regulatory requirements.

II. INCOME STATEMENT ANALYSIS

i. Changes in items of income statement

Unit: RMB million

Item	2020	2019	Change
Net interest income	110,697	101,918	8,779
Net fee and commission income	24,323	23,169	1,154
Net trading gains	484	585	(101)
Dividend income	15	42	(27)
Net gains arising from investment securities	5,203	4,878	325
Net gains on derecognition of financial assets measured at amortized cost	591	22	569
Net foreign exchange gains	310	1,339	(1,029)
Other net operating gains	1,082	986	96
Operating expenses	40,271	38,429	1,842
Impairment losses on credit assets	56,733	48,965	7,768
Impairment losses on other assets	199	382	(183)
Losses on investments of joint ventures	5	–	5
Profit before tax	45,497	45,163	334
Income tax	7,592	7,722	(130)
Net profit	37,905	37,441	464
Net profit attributable to equity shareholders of the Bank	**37,824**	**37,354**	**470**

ii. Operating income

During the reporting period, the Group incurred an operating income of RMB142,705 million, a year-on-year increase of RMB9,766 million or 7.35%. Net interest income accounted for 77.57%, up 0.90 percentage point year on year. Net fee and commission income accounted for 17.04%, down 0.39 percentage point year on year.

Unit: %

Item	2020	2019
Proportion of net interest income	77.57	76.67
Proportion of net fee and commission income	17.04	17.43
Proportion of other income	5.39	5.90
Total operating income	**100.00**	**100.00**

Discussion and Analysis of Operations

iii. Net interest income

During the reporting period, the Group realized net interest income of RMB110,697 million, a year-on-year increase of RMB8,779 million or 8.61%.

The Group's net interest spread reported 2.20%, a year-on-year increase of 2 bps. Its net interest margin was 2.29%, down 2 bps year on year, mainly due to the improvement of asset and liability structure and the decline in debt-to-cost ratio.

Unit: RMB million, %

Item	2020 Average balance	2020 Interest income/ expense	2020 Average yield/ cost	2019 Average balance	2019 Interest income/ expense	2019 Average yield/ cost
Interest-earning assets						
Loans and advances to customers	2,906,910	155,986	5.37	2,577,493	145,452	5.64
Finance lease receivables	93,822	5,524	5.89	76,927	4,444	5.78
Investments	1,304,175	52,229	4.00	1,128,832	48,073	4.26
Deposits with the central bank	352,519	5,073	1.44	344,856	5,020	1.46
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	170,286	2,663	1.56	287,289	7,055	2.46
Total interest-earning assets	4,827,712	221,475	4.59	4,415,397	210,044	4.76
Interest income		**221,475**			**210,044**	
Interest-bearing liabilities						
Deposits from customers	3,383,830	77,688	2.30	2,809,308	63,954	2.28
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	862,436	21,421	2.48	967,362	28,951	2.99
Debt securities issued	383,875	11,669	3.04	412,023	15,221	3.69
Total interest-bearing liabilities	4,630,141	110,778	2.39	4,188,693	108,126	2.58
Interest expenses		**110,778**			**108,126**	
Net interest income		**110,697**			**101,918**	
Net interest spread[1]			**2.20**			**2.18**
Net interest margin[2]			**2.29**			**2.31**

Notes:

1. Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

2. Net interest margin is the net interest income divided by the average balance of total interest-earning assets.

The following table sets forth the changes in interest income and interest expenses of the Group due to changes in business scale and interest rate:

Unit: RMB million

Item	Scale factor	Interest rate factor	Change in interest
Loans and advances to customers	18,590	(8,056)	10,534
Finance lease receivables	976	104	1,080
Investments	7,467	(3,311)	4,156
Deposits with the central bank	112	(59)	53
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	(2,873)	(1,519)	(4,392)
Changes in interest income	**24,272**	**(12,841)**	**11,431**
Deposits from customers	13,079	655	13,734
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	(3,140)	(4,390)	(7,530)
Debt securities issued	(1,040)	(2,512)	(3,552)
Changes in interest expenses	**8,899**	**(6,247)**	**2,652**
Net interest income	**15,373**	**(6,594)**	**8,779**

iv. Interest income

During the reporting period, the Group yielded an interest income of RMB221,475 million, a year-on-year increase of RMB11,431 million or 5.44%. Such increase was mainly attributed to the expanding interest income from loans and advances to customers.

1. Interest income from loans and advances to customers

During the reporting period, the Group's interest income from loans and advances to customers amounted to RMB155,986 million, a year-on-year increase of RMB10,534 million or 7.24%. Such increase was mainly due to the expanding loan scale.

Unit: RMB million, %

	2020			2019		
Item	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,626,436	76,214	4.69	1,424,390	70,854	4.97
Personal loans	1,199,467	77,477	6.46	1,097,074	72,578	6.62
Discounted bills	81,007	2,295	2.83	56,029	2,020	3.61
Loans and advances to customers	**2,906,910**	**155,986**	**5.37**	**2,577,493**	**145,452**	**5.64**

Discussion and Analysis of Operations

2. Interest income from investments

During the reporting period, the Group's interest income from investments amounted to RMB52,229 million, a year-on-year increase of RMB4,156 million or 8.65%. Such increase was mainly due to the expanding investment scale.

3. Interest income from placements and deposits with banks and other financial institutions, and financial assets held under resale agreements

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements was RMB2,663 million, a year-on-year decrease of RMB4,392 million or 62.25%. The drop was mainly attributed to the decrease of both the scale and yield of the above-mentioned assets.

v. Interest expenses

During the reporting period, the Group's interest expenses amounted to RMB110,778 million, representing a year-on-year increase of RMB2,652 million or 2.45%. Such increase was mainly due to the growing interest expenses arising from deposits from customers.

1. Interest expenses on deposits from customers

During the reporting period, the Group's interest expenses on deposits from customers amounted to RMB77,688 million, a year-on-year increase of RMB13,734 million or 21.47%. Such increase was mainly due to the expanding scale of deposits from customers.

Unit: RMB million, %

Item	2020			2019		
	Average balance	Interest expenses	Average cost ratio	Average balance	Interest expenses	Average cost ratio
Corporate deposits	2,613,811	58,045	2.22	2,150,995	47,074	2.19
Demand deposits	824,883	6,715	0.81	755,700	5,738	0.76
Time deposits	1,788,928	51,330	2.87	1,395,295	41,336	2.96
Personal deposits	770,019	19,643	2.55	658,313	16,880	2.56
Demand deposits	226,701	939	0.41	194,337	811	0.42
Time deposits	543,318	18,704	3.44	463,976	16,069	3.46
Total deposits from customers	**3,383,830**	**77,688**	**2.30**	**2,809,308**	**63,954**	**2.28**

2. Interest expenses on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements

During the reporting period, the Group's interest expenses on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements registered RMB21,421 million, representing a decrease of RMB7,530 million or 26.01% year on year. Such decrease was mainly due to the declining scale and inter-bank interest rates.

3. Interest expenses on debt securities issued

During the reporting period, the Group's interest expenses on debt securities issued totaled RMB11,669 million, a year-on-year decrease of RMB3,552 million or 23.34%. Such decrease was mainly due to the decrease of the scale and interest rates of debt securities issued.

vi. Net fee and commission income

During the reporting period, net fee and commission income of the Group was RMB24,323 million, a year-on-year increase of RMB1,154 million or 4.98%. Such rise was mainly due to the increase in wealth management service fees, which grew by RMB1,884 million or 297.16% year on year.

Unit: RMB million

Item	2020	2019
Fee and commission income	**27,005**	**25,977**
Underwriting and advisory fees	1,626	1,909
Bank card service fees	12,245	14,163
Settlement and clearing fees	1,701	1,538
Wealth management service fees	2,518	634
Acceptance and guarantee fees	1,529	1,360
Agency services fees	3,288	2,744
Custody and other fiduciary business fees	1,614	1,446
Others	2,484	2,183
Fee and commission expenses	**(2,682)**	**(2,808)**
Net fee and commission income	**24,323**	**23,169**

vii. Other income

During the reporting period, the Group's other income stood at RMB7,685 million, representing a year-on-year decrease of RMB167 million. The decrease was mainly due to the decrease of net foreign exchange gains.

Unit: RMB million

Item	2020	2019
Net trading gains	484	585
Dividend income	15	42
Net gains arising from investment securities	5,203	4,878
Net gains on derecognition of financial assets measured at amortized cost	591	22
Net foreign exchange gains	310	1,339
Other operating income	1,082	986
Total	**7,685**	**7,852**

Discussion and Analysis of Operations

viii. Operating expenses

During the reporting period, the Group incurred operating expenses of RMB40,271 million, an increase of RMB1,842 million or 4.79% year on year. Cost-to-income ratio stood at 27.18%, down 0.67 percentage point year on year.

Unit: RMB million

Item	2020	2019
Staff costs	19,243	18,401
Premises and equipment expenses	6,143	5,718
Tax and surcharges	1,483	1,400
Others	13,402	12,910
Total operating expenses	**40,271**	**38,429**

ix. Impairment losses on assets

During the reporting period, the Group pursued an objective and prudent provisioning policy, continued to consolidate the provision foundation and increased risk resistance. It sustained impairment losses on assets totaling RMB56,932 million, representing a year-on-year increase of RMB7,585 million or 15.37%.

Unit: RMB million

Item	2020	2019
Impairment losses on loans and advances to customers	53,353	47,786
Loans and advances to customers measured at amortized cost	53,197	47,821
Loans and advances to customers at fair value through other comprehensive income	156	(35)
Debt instruments at fair value through other comprehensive income	(334)	439
Financial investments measured at amortized cost	772	(314)
Impairment losses on finance lease receivables	973	752
Others	2,168	684
Total impairment losses on assets	**56,932**	**49,347**

x. Income tax

During the reporting period, the Group incurred an income tax of RMB7,592 million, a decrease of RMB130 million or 1.68% year on year, mainly due to the decrease in taxable income caused by the increase in non-taxable income.

III. BALANCE SHEET ANALYSIS

i. Assets

As at the end of the reporting period, the Group's total assets reached RMB5,368,110 million, an increase of RMB634,679 million or 13.41% as compared with the end of the previous year, mainly due to the increase in loans and advances to customers.

Unit: RMB million, %

Item	31 December 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Total loans and advances to customers	3,009,482		2,712,204	
Loan accrued interest	8,486		8,160	
Provision for impairment of loans[Note]	(75,533)		(76,228)	
Net loans and advances to customers	2,942,435	54.81	2,644,136	55.86
Finance lease receivables	100,788	1.88	83,723	1.77
Deposits with banks and other financial institutions	46,059	0.86	31,358	0.66
Cash and deposits with the central bank	360,287	6.71	364,340	7.70
Investment in securities and other financial assets	1,695,679	31.59	1,447,351	30.57
Precious metals	9,353	0.17	10,826	0.23
Placements with banks and other financial institutions, and financial assets held under resale agreements	112,882	2.10	67,105	1.42
Long-term equity investment	257	0.00	–	–
Fixed assets	23,301	0.43	19,342	0.41
Right-of-use assets	11,137	0.21	11,684	0.25
Goodwill	1,281	0.03	1,281	0.03
Deferred tax assets	19,587	0.37	16,306	0.34
Other assets	45,064	0.84	35,979	0.76
Total assets	**5,368,110**	**100.00**	**4,733,431**	**100.00**

Note: It only includes provision for impairment of loans measured at amortized cost.

Discussion and Analysis of Operations

1. Loans and advances to customers

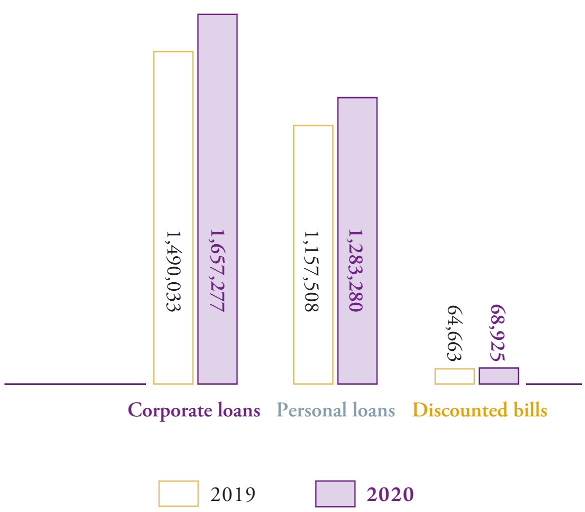
As at the end of the reporting period, the Group's total loans and advances to customers were RMB3,009,482 million, an increase of RMB297,278 million or 10.96% as compared with the end of the previous year. The proportion of net loans and advances to customers in total assets was 54.81%, a decrease of 1.05 percentage points as compared with the end of the previous year.

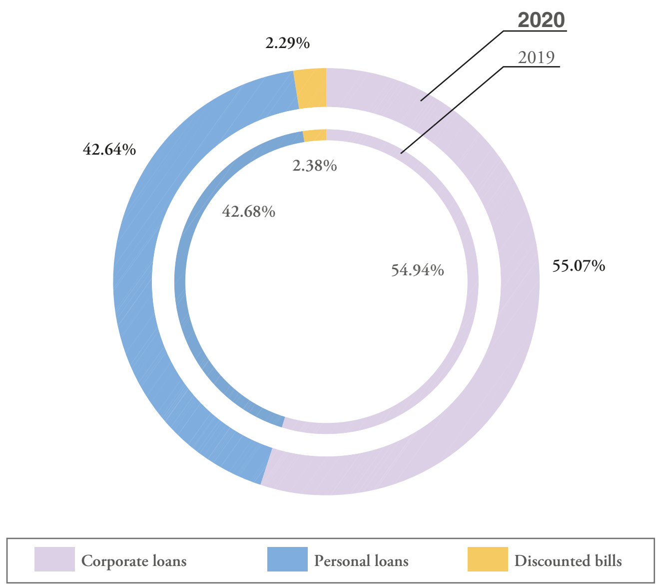
Unit: RMB million, %

Item	31 December 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Corporate loans	1,657,277	55.07	1,490,033	54.94
Personal loans	1,283,280	42.64	1,157,508	42.68
Discounted bills	68,925	2.29	64,663	2.38
Total loans and advances to customers	**3,009,482**	**100.00**	**2,712,204**	**100.00**

As of the end of the reporting period, the major components of the Group's loans and advances

Unit: RMB million





2. Investment in securities and other financial assets

As at the end of the reporting period, the Group's investments in securities and other financial assets totaled RMB1,695,679 million, an increase of RMB248,328 million as compared with the end of the previous year, accounting for 31.59% of total assets, up 1.02 percentage points as compared with the end of the previous year.

Unit: RMB million, %

Item	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Debt securities at fair value through profit or loss	304,908	17.98	211,406	14.61
Derivative financial assets	25,264	1.49	13,805	0.95
Debt instruments at fair value through other comprehensive income	222,807	13.14	180,005	12.44
Financial investments measured at amortized cost	1,141,825	67.34	1,041,512	71.96
Equity instruments at fair value through other comprehensive income	875	0.05	623	0.04
Total investments in securities and other financial assets	**1,695,679**	**100.00**	**1,447,351**	**100.00**

3. Types and amounts of financial bonds held

As at the end of the reporting period, the financial bonds held by the Group amounted to RMB475,428 million, up RMB173,908 million over the end of the previous year. Of these, the financial bonds measured at amortized cost occupied a proportion of 75.05% in the total.

Unit: RMB million, %

Item	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Financial assets at fair value through profit or loss	30,562	6.43	8,792	2.91
Financial investments measured at amortized cost	356,838	75.05	233,514	77.45
Debt instruments at fair value through other comprehensive income	88,028	18.52	59,214	19.64
Total financial bonds held	**475,428**	**100.00**	**301,520**	**100.00**

Discussion and Analysis of Operations

4. Top 10 financial bonds held in scale

Unit: RMB million, %

Name of bond	Nominal value	Annual interest rate	Maturity date	Allowance for impairment losses
Bond 1	17,740	4.04	10 April 2027	–
Bond 2	15,850	4.98	12 January 2025	–
Bond 3	13,220	4.39	8 September 2027	–
Bond 4	13,120	4.24	24 August 2027	–
Bond 5	12,690	3.05	25 August 2026	–
Bond 6	11,600	3.18	5 April 2026	–
Bond 7	11,550	4.73	2 April 2025	–
Bond 8	11,330	3.74	10 September 2025	–
Bond 9	10,210	3.86	20 May 2029	–
Bond 10	9,340	3.63	19 July 2026	–

5. Goodwill

The cost of the Group's goodwill stood at RMB6,019 million. As at the end of the reporting period, the allowance for impairment losses on goodwill reported RMB4,738 million, and the book value of goodwill registered RMB1,281 million, the same as that at the end of the previous year.

6. As at the end of the reporting period, there was no seizure, attachment, freezing, mortgage or pledge of the Bank's principal assets.

ii. Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB4,913,112 million, an increase of RMB565,735 million or 13.01% as compared with the end of the previous year, mainly due to the increase in deposits from customers.

Unit: RMB million, %

Item	31 December 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Due to the central bank	241,110	4.91	224,838	5.17
Deposits from customers	3,480,667	70.84	3,017,888	69.42
Deposits from banks and other financial institutions	469,345	9.55	444,320	10.23
Placement from banks and other financial institutions and financial assets sold under repurchase agreements	176,061	3.58	191,828	4.41
Financial liabilities at fair value through other comprehensive income	4	0.00	100	0.00
Derivative financial liabilities	25,778	0.52	13,893	0.32
Accrued staff costs	15,169	0.31	13,667	0.31
Taxes payable	8,772	0.18	9,322	0.21
Lease liabilities	10,762	0.22	11,069	0.25
Debt securities issued	440,870	8.98	371,904	8.56
Other liabilities	44,574	0.91	48,548	1.12
Total liabilities	**4,913,112**	**100.00**	**4,347,377**	**100.00**

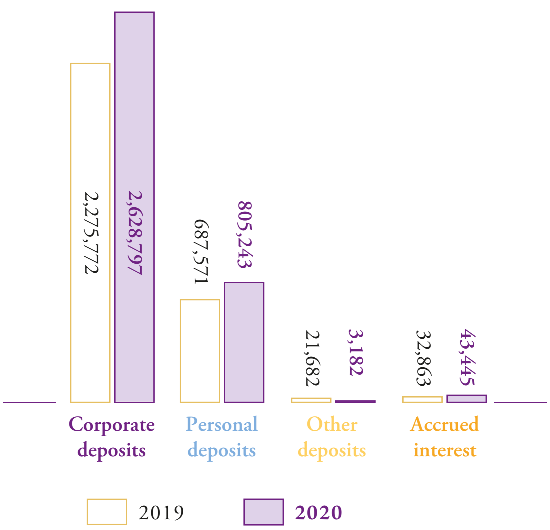
As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB3,480,667 million, representing an increase of RMB462,779 million or 15.33%, as compared with the end of the previous year.

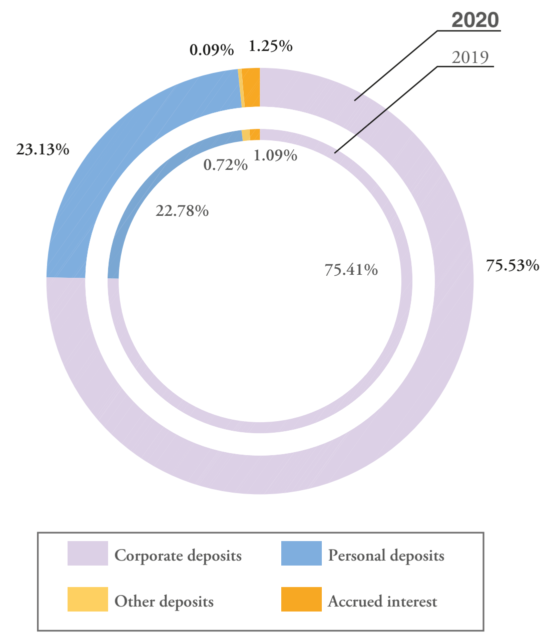
Unit: RMB million, %

Item	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Corporate deposits	2,628,797	75.53	2,275,772	75.41
Demand deposits	850,381	24.43	783,859	25.97
Time deposits	1,778,416	51.10	1,491,913	49.44
Personal deposits	805,243	23.13	687,571	22.78
Demand deposits	278,518	8.00	221,158	7.33
Time deposits	526,725	15.13	466,413	15.45
Other deposits	3,182	0.09	21,682	0.72
Accrued interest	43,445	1.25	32,863	1.09
Total deposits from customers	**3,480,667**	**100.00**	**3,017,888**	**100.00**

As at end of the reporting period, the components of the Group's deposits

Unit: RMB million





Discussion and Analysis of Operations

iii. Equity of shareholders

As at the end of the reporting period, the Group's equity attributable to shareholders of the Bank amounted to RMB454,998 million, representing a net increase of RMB68,944 million as compared with the end of the previous year. The increase was mainly due to the issuance of non-fixed-term capital bonds and the increase in profit realized in the current period.

Unit: RMB million

Item	31 December 2020	31 December 2019
Share capital	54,032	52,489
Other equity instruments	109,062	70,067
Capital reserve	58,434	53,533
Other comprehensive income	1,393	2,737
Surplus reserve	26,245	26,245
General risk reserve	67,702	59,417
Retained earnings	136,581	120,494
Total equity attributable to shareholders of the Bank	453,449	384,982
Non-controlling interests	1,549	1,072
Total equity	**454,998**	**386,054**

iv. Off-balance-sheet items

The Group's off-balance-sheet items are mainly credit commitments, including loan and credit card commitments, bank's acceptance bills, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB1,476,546 million, an increase of RMB189,050 million as compared with the end of the previous year.

Unit: RMB million

Item	31 December 2020	31 December 2019
Loan and credit card commitments	351,996	323,743
Bank's acceptance bills	769,458	609,169
Letters of guarantee	130,425	128,746
Letters of credit	224,482	225,653
Guarantees	185	185
Total credit commitments	**1,476,546**	**1,287,496**

IV. CASH FLOW ANALYSIS

The Group's net cash inflows from operating activities amounted to RMB117,157 million. Specifically, cash inflows generated from operating activities reported RMB61,003 million, cash outflows arising from changes in operating assets stood at RMB418,227 million, and cash inflows arising from changes in operating liabilities totaled RMB474,381 million.

The Group's net cash outflows from investing activities amounted to RMB173,560 million, of which cash inflows generated from disposal and redemption of investments reported RMB702,616 million and cash outflows arising from acquisition of investments amounted to RMB924,959 million.

The Group's net cash inflows from financing activities were RMB86,758 million, of which cash inflows generated from payment of debt securities principal registered RMB439,051 million.

V. ANALYSIS OF LOAN QUALITY

i. Distribution of loans by industry

Unit: RMB million, %

Industry	31 December 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Manufacturing	313,427	18.91	270,177	18.14
Water, environment and public utility management	294,595	17.78	261,465	17.55
Real estate	224,450	13.54	211,918	14.22
Leasing and commercial services	189,785	11.46	170,068	11.42
Wholesale and retail trade	127,522	7.69	113,140	7.59
Construction	107,987	6.52	94,793	6.36
Finance	97,132	5.86	76,907	5.16
Transportation, storage and postal service	88,535	5.34	87,226	5.85
Agriculture, forestry, animal husbandry and fishery	54,100	3.26	41,459	2.78
Production and supply of power, gas and water	45,532	2.75	45,948	3.08
Others[Note]	114,212	6.89	116,932	7.85
Subtotal of corporate loans	**1,657,277**	**100.00**	**1,490,033**	**100.00**
Personal loans	**1,283,280**		**1,157,508**	
Discounted bills	**68,925**		**64,663**	
Total loans and advances to customers	**3,009,482**		**2,712,204**	

Note: "Others" includes mining; accommodation and catering; public administration and social organizations; information transmission, computer services and software; health, social security and social welfare; resident services and other services; scientific research, technical services and geological prospecting; culture, sports and recreation; education.

Discussion and Analysis of Operations

ii. Distribution of loans by region

Unit: RMB million, %

Region	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Yangtze River Delta	652,565	21.69	556,102	20.49
Central China	532,348	17.69	447,249	16.49
Pearl River Delta	396,086	13.16	341,541	12.59
Bohai Rim	387,332	12.87	349,559	12.89
Western China	373,595	12.41	348,706	12.86
Northeastern China	117,580	3.91	121,928	4.50
Head Office	451,157	14.99	450,945	16.63
Overseas	98,819	3.28	96,174	3.55
Total loans and advances to customers	**3,009,482**	**100.00**	**2,712,204**	**100.00**

iii. Types of loans by collateral and their proportions

Unit: RMB million, %

Type	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Unsecured loans	941,130	31.27	852,885	31.45
Guaranteed loans	710,746	23.62	637,315	23.50
Mortgage loans	1,017,960	33.83	862,021	31.78
Pledged loans	339,646	11.28	359,983	13.27
Total loans and advances to customers	**3,009,482**	**100.00**	**2,712,204**	**100.00**

iv. Top ten loan customers

Unit: RMB million, %

Name	Industry	Balance of principal of loans and advances as at 31 December 2020	Proportion in total loans and advances	Proportion in net capital[1]
Borrower 1	Manufacturing	11,124	0.37	2.08
Borrower 2[2]	Leasing and commercial services	6,300	0.21	1.18
Borrower 3	Mining	5,500	0.18	1.03
Borrower 4	Information transmission, computer services and software	3,877	0.13	0.73
Borrower 5	Manufacturing	3,685	0.12	0.69
Borrower 6	Manufacturing	3,500	0.12	0.66
Borrower 7	Water, environment and public utility management	3,367	0.11	0.63
Borrower 8	Transportation, storage and postal services	3,216	0.11	0.60
Borrower 9	Real estate	3,200	0.11	0.60
Borrower 10	Transportation, storage and postal services	3,042	0.10	0.57
Total		**46,811**	**1.56**	**8.77**

Notes:

1. The proportion of the balance of loans in net capital is calculated according to the requirements of the CBIRC.

2. Borrower 2 is a related party of the Bank and has conducted a related party transaction with the Bank.

v. Five-category loan classification

Unit: RMB million, %

Type	31 December 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Normal	2,903,043	96.47	2,609,993	96.23
Special mention	64,773	2.15	59,999	2.21
Substandard	19,795	0.66	23,466	0.87
Doubtful	11,604	0.38	12,049	0.44
Loss	10,267	0.34	6,697	0.25
Total loans and advances to customers	**3,009,482**	**100.00**	**2,712,204**	**100.00**
Performing loans	2,967,816	98.62	2,669,992	98.44
Non-performing loans	41,666	1.38	42,212	1.56

Discussion and Analysis of Operations

vi. Loan migration ratio

Unit: %

Item	2020	2019	Change from 2019 to 2020	2018
Migration ratio of normal loans	3.35	2.57	+0.78 percentage point	1.94
Migration ratio of special mention loans	43.43	42.83	+0.60 percentage point	38.48
Migration ratio of substandard loans	83.11	86.04	-2.93 percentage points	68.71
Migration ratio of doubtful loans	67.65	66.74	+0.91 percentage point	32.80

vii. Restructured loans and overdue loans

1. Restructured loans

Unit: RMB million, %

Type	31 December 2020		31 December 2019	
	Balance	Proportion of loans and advances in total principal	Balance	Proportion of loans and advances in total principal
Restructured loans and advances to customers	7,659	0.25	11,888	0.44
Of which: Restructured loans and advances to customers overdue for more than 90 days	245	0.01	898	0.03

2. Overdue loans

Unit: RMB million, %

Type	31 December 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Overdue for less than 3 months	31,349	48.53	27,637	44.91
Overdue for between 3 months and 1 year	21,773	33.71	22,493	36.55
Overdue for between 1 year and 3 years	9,475	14.67	9,307	15.12
Overdue for more than 3 years	1,999	3.09	2,107	3.42
Total principal of overdue loans	**64,596**	**100.00**	**61,544**	**100.00**

viii. NPLs by business type

Unit: RMB million, %

Type	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Corporate loans	26,354	63.25	26,223	62.12
Personal loans	15,312	36.75	15,989	37.88
Discounted bills	–	–	–	–
Total NPLs	**41,666**	**100.00**	**42,212**	**100.00**

ix. Distribution of NPLs by region

Unit: RMB million, %

Region	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Northeastern China	7,396	17.75	4,912	11.64
Bohai Rim	6,160	14.78	5,797	13.73
Yangtze River Delta	5,383	12.92	6,831	16.18
Central China	5,225	12.54	5,031	11.92
Pearl River Delta	4,699	11.28	4,155	9.84
Western China	3,365	8.08	4,951	11.73
Head Office	9,430	22.63	10,527	24.94
Overseas	8	0.02	8	0.02
Total NPLs	**41,666**	**100.00**	**42,212**	**100.00**

x. Distribution of NPLs by industry

Unit: RMB million, %

Industry	31 December 2020 Balance	31 December 2020 Percentage	31 December 2019 Balance	31 December 2019 Percentage
Manufacturing	13,608	32.66	12,605	29.86
Wholesale and retail trade	3,897	9.35	5,141	12.18
Accommodation and catering	1,724	4.14	2,280	5.40
Real estate	1,629	3.91	951	2.25
Leasing and commercial services	1,554	3.73	926	2.19
Construction	1,039	2.49	741	1.76
Mining	864	2.07	1,155	2.74
Production and supply of power, gas and water	561	1.35	640	1.52
Transportation, storage and postal service	377	0.90	979	2.32
Information transmission, computer services and software	133	0.32	192	0.45
Others[Note]	968	2.33	613	1.45
Subtotal of corporate loans	**26,354**	**63.25**	**26,223**	**62.12**
Personal loans	**15,312**	**36.75**	**15,989**	**37.88**
Discounted bills	–	–	–	–
Total NPLs	**41,666**	**100.00**	**42,212**	**100.00**

Note: "Others" includes health, social security and social welfare; scientific research, technical services and geological prospecting; finance; public administration and social organization; water, environment and public utility management; agriculture, forestry, animal husbandry and fishery; education, etc.

Discussion and Analysis of Operations

xi. Distribution of NPLs by collateral type

Unit: RMB million, %

Type	31 December 2020		31 December 2019	
	Balance	Percentage	Balance	Percentage
Unsecured loans	15,140	36.34	13,339	31.60
Guaranteed loans	10,425	25.01	12,444	29.47
Mortgage loans	14,852	35.65	13,396	31.74
Pledged loans	1,249	3.00	3,033	7.19
Total NPLs	**41,666**	**100.00**	**42,212**	**100.00**

xii. Repossessed assets and provision for impairment

Unit: RMB million

Item	31 December 2020	31 December 2019
Repossessed assets	581	517
Of which: Land, buildings and structures	581	517
Less: Provision for impairment	(191)	(39)
Net value of repossessed assets	390	478

xiii. Provision for loan impairment losses and write-off

After conducting credit risk test on financial instruments on the balance sheet date, the Group made provision for the estimated credit loss for loans of varied risk levels according to their potential risk based on the expected credit loss model and such quantitative risk parameters as PD (probability of default) and LGD (loss given default) of customers. The provision for impairment losses was recognized through profit or loss for the current period.

Unit: RMB million

Item	As at 31 December 2020	As at 31 December 2019
Balance at the beginning of the year[1]	76,228	67,209
Charge for the year[2]	59,127	53,396
Release for the year	(5,930)	(5,575)
Recoveries due to written-off loans and advances for the year	3,202	2,428
Unwinding of discount[3]	(767)	(828)
Write-offs and transfer-outs during the year	(36,013)	(26,576)
Disposal in the year	(20,310)	(13,826)
Others	(4)	–
Balance at the end of the year[1]	75,533	76,228

Notes:

1. It excludes provision for impairment of discounted bills and domestic forfaiting at fair value through other comprehensive income.

2. It includes provision for impairment of loans made due to change of stage and change in cash flow resulting in loan contract being not derecognized.

3. It refers to cumulative interest income of impaired loans due to the subsequent increase in present value over time.

xiv. Disposal of non-performing assets and write-off policies for bad debts

To maximize the value of non-performing assets, the Bank continued to strengthen the disposal of non-performing assets, by optimizing the disposal process, broadening disposal channels, improving disposal efficiency, and disposing non-performing assets as much as possible. Taking advantages of technological means, the Bank developed and launched the Special Asset Resolution and Management Platform to improve the refined and intelligent management of asset collection. It increased provisions, intensified the write-off of bad debts, and focused on improving prosecution rate, judgment rate, execution rate and executive procedure closure rate to ensure maximum write-off. Insisting on the principle of keeping record of the asset write-downs and exercising creditor's rights for asset recovery, the Bank reinforced the collection management of written-off debts to maximize the recovery value.

During the reporting period, the Bank disposed NPLs amounting to RMB60,722 million, an increase of RMB15,917 million over the previous year. Specifically, the Bank wrote off bad debts of RMB34,051 million and completed the transfer of creditor's rights valuing RMB12,316 million, the conversion of bonds to shares valuing RMB3,117 million and the asset securitization of RMB11,238 million. Besides that, the Bank recovered NPLs in cash amounting to RMB11,650 million.

VI. CAR ANALYSIS

Please refer to "Section Five Key Accounting Data and Financial Indicators" and *Capital Adequacy Ratio Report 2020* issued by the Bank for details.

VII. SEGMENT PERFORMANCE

i. Performance by regional segment

Unit: RMB million

Region	2020 Operating income	2020 Profit before tax	2019 Operating income	2019 Profit before tax
Yangtze River Delta	27,558	13,277	23,837	10,369
Central China	24,855	7,917	22,031	7,285
Bohai Rim	23,186	9,246	20,936	2,885
Pearl River Delta	19,917	4,603	18,419	4,805
Western China	17,214	3,178	15,912	3,294
Northeastern China	6,042	(4,473)	6,638	19
Head Office	21,384	10,119	22,908	15,014
Overseas	2,549	1,630	2,258	1,492
Total	**142,705**	**45,497**	**132,939**	**45,163**

ii. Performance by business segment

Unit: RMB million

Type	2020 Operating income	2020 Profit before tax	2019 Operating income	2019 Profit before tax
Corporate banking	59,633	20,619	53,275	16,670
Retail banking	58,678	2,957	54,683	5,897
Financial market business	24,225	21,925	24,765	22,532
Other business	169	(4)	216	64
Total	**142,705**	**45,497**	**132,939**	**45,163**

Please refer to "Notes to the Consolidated Financial Statements" for details of performance by business segment.

VIII. OTHERS

i. Changes in major financial indicators and reasons

Unit: RMB million, %

Item	31 December 2020	31 December 2019	Increase/ (Decrease)	Major reasons for change
Deposits with banks and other financial institutions	46,059	31,358	46.88	Increase in deposits with domestic deposit-taking financial institutions
Derivative financial assets	25,264	13,805	83.01	Increase in exchange rate derivative financial assets
Financial assets held under resale agreements	43,592	6,835	537.78	Increase in securities held under resale agreements
Financial assets at fair value through profit or loss	304,908	211,406	44.23	Increase in mutual fund investment
Derivative financial liabilities	25,778	13,893	85.55	Increase in exchange rate derivative financial liabilities
Financial assets sold under repurchase agreements	14,182	25,603	-44.61	Decrease in bonds sold under repurchase agreements
Other equity instruments	109,062	70,067	55.65	Issuance of non-fixed-term capital bonds
Other comprehensive income	1,393	2,737	-49.10	Decrease in fair value revaluation or increase in impairment on securities assets at fair value through other comprehensive income

Item	2020	2019	Increase/ (Decrease)	Major reasons for change
Net foreign exchange gains	310	1,339	-76.85	Decrease in net foreign exchange gains

ii. Overdue and outstanding debts

During the reporting period, the Bank did not incur any overdue or outstanding debts.

iii. Provisioning for interest receivables and allowance for related bad debts

1. Change in on-balance-sheet interest receivable

Unit: RMB million

Item	Balance at the beginning of the year	Increase during the period	Decrease during the period	Balance at the end of the period
On-balance-sheet interest receivable	32,014	248,856	244,806	36,064

Note: It includes accrued interest and interest receivable that has not been collected.

2. Provisioning of allowance for bad debts of interest receivable

Unit: RMB million

Item	31 December 2020	31 December 2019	Increase
Balance of allowance for bad debts of interest receivable	3	10	(7)

iv. Other receivables and provisioning of allowance for bad debts related

1. Change in other receivables

Unit: RMB million

Item	31 December 2020	31 December 2019	Increase
Other receivables	31,597	26,187	5,410

2. Provisioning of allowance for bad debts of other receivables

Unit: RMB million

Item	31 December 2020	31 December 2019	Increase
Balance of allowance for bad debts of other receivables	694	573	121

IX. PERFORMANCE OF BUSINESS SEGMENTS

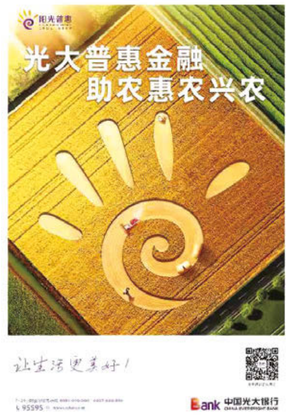
i. Corporate banking

The corporate banking line of the Bank not only fully supported the prevention and control of the COVID-19 pandemic, but also fueled the growth of the real economy. Specifically, loans to the manufacturing sector and private enterprises kept growing rapidly, and inclusive finance of the Bank fulfilled the target of "Two Increases and Two Controls". The plan of "Customer Multiplication" was vigorously pushed forward, with more efforts put in the operation towards tiered customer groups to build a customer system with characteristics of a wealth management bank, leading to the result that both the number and quality of active corporate customers increased. The transformation to light capital and light assets was accelerated, technology empowerment was enhanced around the industrial chain, and online products were created and upgraded, thus raising the business value of corporate banking. As at the end of the reporting period, the Bank's corporate banking registered an operating income of RMB59,633 million, an increase of RMB6,358 million or 11.93% compared with the prior year, accounting for 41.79% of the Bank's total operating income. The number of corporate customers reached 782,900, an increase of 104,200 or 15.35% over the end of the previous year, where the number of active corporate customers was 325,100, up 82,100 or 33.79% over the end of the previous year.

1. Corporate deposits and loans

Following the requirement of "increasing loan granting, cutting cost and providing convenience", the Bank served the economic and social development. It scaled up its credit support to key areas including advanced manufacturing, new infrastructure and new urbanization initiatives and major transportation and water conservancy projects, medicine and health, with the loans growing at a record high speed in recent years and interest rates decreasing prominently. The Bank also expedited the integration between online and offline businesses, addressed the importance of acquiring batch customers online and propelled precipitation of settlement funds of customers by its product strengths and service capabilities. It continued to optimize its deposit structure with high-cost deposits reduced and core deposits accounting for a higher percentage. Besides that, it stuck to the risk bottom lines and enhanced risk awareness across the Bank, thus maintaining the stable quality of loans. As at the end of the reporting period, the balance of corporate deposits (including the corporate business-related portion in other deposits) amounted to RMB2,631,729 million, representing an increase of RMB353,785 million or 15.53% over the end of the previous year. Among the above, core corporate deposits increased by RMB500,766 million or 29.11%; the balance of corporate loans was RMB1,657,277 million, an increase of RMB167,244 million or 11.22% over the end of the previous year.

2. Inclusive finance



While actively implementing the decisions and plans on beating coronavirus, the Bank increased credit granting and introduced innovative products and services, and earnestly carried out the policy of temporarily postponing principal and interest repayment on loans, to maximize the financial support for the work and production resumption of small and micro enterprises. The Bank continuously stepped up the support for poverty alleviation in rural areas, and carried out credit granting for poverty alleviation through authorization delegation of pricing, preferential pricing and due diligence-based liability exemption, leading to stable growth of loans for targeted poverty alleviation. In an innovation-driven manner, the Bank made iterative updates to "Sunshine Inclusive Finance Cloud" platform, and drew up the "Chain Plan", achieving progress in "Sunshine Inclusive Finance" ecological chain business. The Bank strengthened channel building by deepening the strategic cooperation with National Financing Guarantee Fund and National Agricultural Credit Guarantee Alliance. It actively took part in E-SBU initiative of the Group, drawing on the strengths of each member of the Group. As at the end of the reporting period, the Bank achieved compliance with regulatory indicators of "Two Increases and Two Controls". Specifically, the balance of inclusive finance loans stood at RMB201,206 million, up RMB45,810 million or 29.48% from the end of the previous year, which was higher than the average growth of all loans of the Bank. The number of customers was 376,100, an increase of 3,570 from the end of the previous year. The weighted average interest rate of new loans fell by 90 bps on a yearly basis to 4.96%, and the NPL ratio was 0.71%.

3. Investment banking

In line with the philosophy of "combining commercial banking, investment banking and wealth management", the Bank placed emphasis upon diversified needs of customers, integrated resources from the perspective of broader investment banking based on the market-oriented business to increase the support for real economy. It made progress in the development of investment banking systems, launching an asset-based securitization system of personal residential mortgage loan, personal consumption loan and online loan. During the reporting period, the Bank led the underwriting of RMB521,816 million of bonds, the sixth largest in the market, representing a year-on-year increase of 75.18%. It issued 27 anti-pandemic bonds with the underwriting amount of RMB21,680 million, and actively promoted credit assets securitization business with issuance of RMB12,043 million of securitization projects.

4. Transaction banking

During the reporting period, the Bank set up Transaction Banking Department, providing customers with comprehensive transaction banking services covering international settlement, trade finance, supply chain finance and cash management. Taking the opportunity of digitalizing the whole-process of public resource transaction, the Bank launched the comprehensive financial solution of "Sunshine E-guarantee Express" in collaboration with Public Resource Transaction Center, upgraded the "Sunshine E-financing Chain" and "Sunshine Supply Chain Cloud Platform", fully leveraging on whole-process online business and thus innovating customer service with technology support. It officially launched the "Sunshine Wages" financial service brand, which covers such services as wage payment guarantee for migrant workers, corporate agency payroll payment account and retail agency payroll payment. Besides that, the Bank actively implemented policies to facilitate trade and investment and financing in free trade zones, properly supporting the development of real economy.

Discussion and Analysis of Operations

Column 1: Supporting real economy in serving national strategies

As a member of "financial national team", the Bank intensified its support for key fields such as pandemic prevention and control, manufacturing, private economy, inclusive finance and domestic demand expansion.

I. Supporting enterprises related to the anti-pandemic battle and helping resume work and production

The Bank took multiple measures to cope with COVID-19, including allocating special limits, delegating approval and pricing authority, opening green channels for approval and improving assessment. Moreover, it adopted list-based management of enterprises fighting against COVID-19 and added more than 1,900 enterprises to the list. In 2020, it extended on- and off-balance-sheet funds of more than RMB150 billion to key fields such as health care and daily necessities. Additionally, the Bank issued guidelines on serving industries severely impacted by the pandemic such as wholesale and retail, accommodation and catering, logistics and transport, and culture and tourism, and made a white list of priority enterprises from these industries. In 2020, it invested on- and off-balance-sheet funds of more than RMB260 billion in the four hardest-hit industries.

II. Supporting manufacturers and boosting high-quality development of China's economy

The Bank launched the campaign of the "Year of Financial Services Enhancement for Manufacturers". Specifically, it rolled out ten initiatives to support the real economy, such as green channels for access and fast track for approval, preferential offers, fee cutting and benefits sharing, and product innovation. To ensure implementation, the Bank included the "assessment of support for manufacturers" in the Balanced Score Card (BSC) of branches. Additionally, it signed strategic cooperation agreements with leading manufacturers, prepared a white list of advanced manufacturers, held signing ceremonies with such manufactures and provided special supporting policies for each program. Moreover, it optimized the allocation of incremental credit resources, and proactively transferred resources to ensure abundant credit granting to manufacturers. By doing so, the Bank registered growth of both loans and medium and long-term loans to the manufacturing sector. As at the end of the reporting period, it over-fulfilled the goals of these loans ahead of schedule.

III. Providing financial services for private enterprises and treating them equally in four aspects

Upholding the philosophy of "growing together with private enterprises", the Bank treated private enterprises equally in terms of credit policy, service efficiency, incentive and constraint and product innovation. It included the "assessment of services for private enterprises" in the balanced score cards of branches to guide them to invest more in private enterprises. Moreover, the Bank formulated measures to ensure that those who had fulfilled their duties were exempted from liability, and established a long-term mechanism for rendering branches the courage, willingness and capability to grant loans to private enterprises. Following the principles of "one policy for one account" and "modifying policies according to the conditions of different enterprises", the Bank formulated comprehensive financial service solutions for different types of private enterprises. As at the end of the reporting period, the Bank's on- and off-balance-sheet outstanding facilities to private enterprises recorded nearly RMB1.1 trillion.

IV. Developing inclusive finance to ease financial pressure and cost of micro and small enterprises

The Bank earnestly implemented the policy on postponing principal and interest repayment, and took multiple measures to finance small and micro businesses to the largest possible extent. It bolstered credit support for rural residents, agriculture and rural areas, and continuously increased agriculture-related loans. Moreover, the Bank vigorously developed more unsecured products that are not tied to deposits and completely contact-free, boosted flexible, intelligent and platform-based credit services, optimized the “Sunshine Inclusive Finance Cloud” system and applied technologies such as cloud authentication and cloud contract signing to sign contracts online. Additionally, the Bank developed an intelligent operation platform to build a new-generation multi-layered approval procedure management system. As at the end of the reporting period, the growth of inclusive finance loans was faster than the average growth of all loans of the Bank, and the weighted interest rate of newly granted loans decreased year on year.

V. Integrating industries into domestic and overseas chains to support the development of the “dual circulation” system

The Bank shored up financial services for domestic sales of export-oriented commodities, determined a white list of priority customers and favored them in terms of credit approval and rates. The Bank vigorously built a “finance ecosystem along the industrial chain”, and upgraded its online supply chain platform to offer one-stop online business covering supply chain finance, cross-border finance and electronic letter of guarantee (L/G). Moreover, it guided overseas institutions to provide cross-border financial services for domestic enterprises, and meet the financial demands of domestic enterprises through overseas bond issuance, trade finance and cross-border financing. Specifically, the cross-border financing in 2020 was approximately RMB17.6 billion.

ii. Retail banking

Focusing on building the digital retail banking and following the guideline of “connecting to scenarios externally, developing platforms internally, adopting data-driven approaches and pursuing integrated operations”, the Bank promoted the digital transformation covering all customers, all channels and all products, and built a full digital service link of customer acquisition, marketing, exploring and access. It innovated the model of retail customer acquisition and tiered operation, which increased the total number and improved the quality of retail customers. It also intensified efforts in the structural adjustment on the liability side, resulting in the increase in retail deposits and optimization of the retail deposit structure. To deepen the transformation of wealth management, the Bank reinforced the formation of the individual customer ecosphere of Wealth E-SBU and saw an increase in wealth management capability and value of retail channels. It advanced the transformation of retail loan business and created hit Sunshine retail loans to support the development of inclusive finance, and continuously improved the asset quality. During the reporting period, operating income from retail banking business stood at RMB58,678 million, up RMB3,995 million or 7.31% over last year, accounting for 41.12% of the total operating income of the Bank. Specifically, net interest income from retail banking was RMB42,186 million, up 9.77% from the same period of last year, accounting for 38.11% of the total net interest income of the Bank. Net non-interest income from retail banking reached RMB16,492 million, up 1.48% from the same period of previous year, accounting for 51.53% of the total net non-interest income of the Bank.

Discussion and Analysis of Operations

1. Retail customers and AUM

The Bank worked hard to expand the base of new customers and tap the value of existing customers towards the core objective of "a bigger, better-structured customer base". The Bank strengthened the coordinative operation of online and offline businesses through customer life-cycle management, backed by data mining models. Conducting precision marketing across different tiers and customer groups, a market-oriented and customer-centered operation system was formed, which was tiered, centralized and professionalized. As at the end of the reporting period, the Bank had 123 million retail customers (including holders of both credit and debit cards). Medium and high-end customers who hold at least RMB500,000 of daily average assets per month grew by 22.57% from the end of the previous year, indicating further improvement in customer structure and quality. There were 132 million users of CEB Mobile Banking, "Sunshine Life" and "Cloud Fee Payment" in total, up 63.37% from the end of the previous year. Among these users, the number of monthly active users (MAU) was 38,473,100, up 78.50% from the end of the previous year. The balance of retail AUM totaled RMB1,917,642 million, up 12.42% from the end of the previous year.

2. Retail deposit business

Adhering to the operating philosophy of "developing based on deposit business", the Bank implemented the regulatory requirements on standardizing and reducing structural deposits, deepened customer-oriented integrated operations and promoted the structural improvement and the growth of personal deposits. It developed its batch payroll agency business by improving "Payroll Manager", a payroll-based integrated financial service platform. The Bank gave full play to the role of projects in acquiring customers in batch through deep involvement in channels and scenarios including health and medical care, social security and people's livelihood, business district management, community property, transportation, culture and education tourism, consumer payment and internet innovation platform, and launched targeted marketing to increase customers' comprehensive contribution. As at the end of the reporting period, the balance of retail deposits (including the portion of retail deposits in other deposits) of the Bank amounted to RMB805,493 million, representing an increase of RMB98,412 million or 13.92% over the end of the previous year.

3. Wealth management

The Bank continued to speed up the transformation of wealth management, improved its management system, built a professional wealth manager team, and strengthened the tiered customer group operation, facilitating the continuous increase of scale and income of wealth management business. It actively implemented the new rules on asset management, steadily furthered the transformation of personal wealth management and perfected the "Colorful Sunshine" series wealth management product system. As at the end of the reporting period, the size of transformative wealth management products grew by 40.30% over the end of the previous year. The Bank energetically promoted the development of the individual customer ecosphere of Wealth E-SBU focusing on five scenarios of "Charming Travel", "Health and Elderly Care", "One-stop Wealth Management Services", "Private Banking & Investment Banking +" and "Benefit Cloud Life", stepped up customer migration, cross selling, product innovation and integrated services based on the coordination advantages of China Everbright Group, and provided individuals with a full package of financial solutions. During the reporting period, net fee income from personal wealth management stood at RMB6,367 million, up 65.59% year on year. Specifically, income from agency trust grew by 111.92% year on year, income from agency insurance by 23.56% and income from agency funds by 66.28%.

4. Private banking

During the reporting period, as an important measure to build a first-class wealth management bank, the Bank set up Private Banking Department to focus on high-net-worth customer segmentation and value exploration. It created an operation model of private banking customer groups featured with data-based customer attraction, scenario-based customer acquisition and whole-process company (DSC), upgraded the layered operation system, thus forming a "1+N" integrated service system. With the endeavor to advance the net value-based transformation of agency products with an accelerated pace the Bank realized a year-on-year increase of 219.52% in agency sales of mutual funds, and a year-on-year increase of 50.07% in agency installment premium throughout the year. Meanwhile, the Bank strengthened its vertical management by optimizing private banking organization system consisting of three levels including the Head Office, branches and sub-branches, built up a private banking team with wealth management managers, investment consultants at the core, and established a new team working model that is systematic, professional and standardized. It also promoted the intelligent risk control system building of private banking, launched new agency system, video and audio recording system and Wealth AI+ project, and set up the AI-enabled intelligent video verification function of mobile banking, the second one in the industry. Moreover, the Bank collaborated with China Everbright Group fully in banking, securities, trust, insurance and fund businesses, and made solid efforts in scenario-based marketing and customer migration, thus further enhancing its comprehensive service capabilities. As at the end of the reporting period, the Bank owned 40,112 private banking customers, an increase of 7,905 or 24.54% over the end of last year. The annual increment was 1.86 times that of last year. The AUM amounted to RMB437,176 million, representing an increase of RMB63,487 million or 16.99% over the end of the previous year.

5. Retail loans

The Bank pursued digital transformation of retail loans, and continued to improve the financing experience of customers through tech empowerment and innovation in products and services and to develop Sunshine hit products of personal loans. Adhering to the business development principle of "increasing loan granting, reducing costs and providing convenience", the Bank kept lowering the financing costs of customers to support micro and small enterprises in resumption of work and production, and to boost the development of inclusive finance. It strictly implemented the real estate macro-regulation policy of the government to support the demands of housing ownership for both self-occupation and improvement. Meanwhile, the Bank put more efforts in scenario-based customer attraction and acquisition, met the reasonable needs of customers for consumer financing and facilitated the development of consumer finance. Through the accelerated upgrading and iteration of IT systems, the Bank applied technologies to enable retail loans conducted online in an intensive, standardized, intelligent, online, and agile manner, and made marketing and risk control more efficient, in a bid to achieve high-quality sustainable development. As at the end of the reporting period, the balance of personal loans (excluding credit card business) amounted to RMB837,345 million, representing an increase of 17.34% from the end of the previous year.

Discussion and Analysis of Operations

6. Credit card business

The Bank accelerated online and digital transformation, and ensured delivery of financial services during the pandemic. It delayed repayment and reduced or exempted fees for affected customers, and launched the "Angel Program" to repay medical workers, helping its partners resume work and production. The Bank pushed forward the development of hit products. Specifically, it issued the "Filial Piety Card" to improve the layout of high-end products; focusing on young customer groups, it deepened the operation of TikTok Card, launched the "Cool Number Card", developed the "Online Shopping Pal", and upgraded the "RMB10" series marketing activities. The Bank developed diversified modes to acquire customers through digital channels, scenarios, Head Office-branch coordination and corporate-private collaboration, in which, the proportion of customers acquired through digital channels increased by 8.5% year on year. The Bank upgraded the Sunshine Life APP to Version 5.0, and had 12,668,500 monthly active users, an increase of 2,215,300 or 21.19% year on year. By virtue of the synergy advantages of China Everbright Group, the Bank deeply integrated the Tourism E-SBU, leading to an increase of 650,000 users of Everbright-CYTS Co-branded Card and a transaction volume of more than RMB200 billion of the "Charming China" series products. The Health E-SBU kicked off, and the "Sunshine TCM · Qihuang" credit card was launched, attracting nearly 400,000 customers in the half year after its launch. The Bank improved its management efficiency and service experience in a technology-driven and digital way, developed the enterprise-level distributed PaaS platform and a new IT framework, and launched Robotic Process Automation (RPA) to support the automation of multiple business processes. In addition, it accelerated the building of an intelligent risk control system, deepened the application of machine learning algorithm models, and pushed forward the digital transformation of risk control. During the reporting period, about 8.3771 million new credit cards were issued by the Bank, with a transaction volume of RMB2,724,137 million, up 2.46% year on year. The overdraft balance at the end of the reporting period (excluding the payment adjustment to transitional account) amounted to RMB447,086 million, up 0.51% over the end of last year. The Bank generated an income of RMB45,382 million during the reporting period.

Column 2: Improving capabilities to transform wealth management

The Bank aims to transform its wealth management business and build itself into a first-class wealth management bank by improving its marketing, asset allocation, investment advisory and risk control capabilities.

Marketing capability

The Bank vigorously promoted tiered customer management, and endeavored to build a customer-centered and market-oriented customer management system and marketing strategy which was tiered, centralized and professionalized. Through marketing events exclusively for five characteristic customer groups, namely base customers, wealth management customers, private banking customers, retail credit customers and credit card customers, the Bank further expanded its customer base and explored customer value. Moreover, the Bank held "drills" for retail relationship managers to improve their comprehensive marketing capabilities and professional sales abilities. During the reporting period, the sales volume of agency mutual funds was 3.19 times that in the previous year, and the daily sales of a key fund amounted to RMB14.111 billion, creating a new high in terms of daily sales of the Bank's agency mutual funds. Regular premiums of agency insurance grew 50.07% year on year, and premiums of E-SBU along with hit products were 1.69 times those in the same period of the previous year. The sales of its wealth management product "Sunshine Orange" reached RMB20 billion, representing the largest amount of funds raised through a single product within the shortest period. The fee-based business income from agency privately-offered funds increased by 45.45% over the previous year, indicating good effect in transformation.

Asset allocation capability

The Bank improved functions of its mobile banking including wealth status review, asset allocation platform, intelligent investment and research, and kept popularizing the diversified and balanced asset allocation philosophy among customers. It further improved its capabilities of marketing complicated products, and achieved significant effect in the transition to NAV-based wealth management products. In 2020, among private banking customers, the asset allocation ratio of funds increased 3.2 percentage points, and the coverage ratio of funds increased 13.7 percentage points; the insurance asset allocation ratio grew by 0.22 percentage point, and the coverage ratio of insurance products went up 0.5 percentage point.

Scenario innovation capability

The Bank continued to integrate products, transactions and scenarios, and improved its capabilities of scenario-based customer pooling, acquisition and activation. It applied big data to explore the demands of high-net-worth customers, built scenarios regarding culture, finance and economics, sports, health care and parent-child interaction, created brands and integrated resources. Online, the Bank launched scenarios with respect to wealth status review, intelligent investment and research and Sunshine Pension; offline, it organized activities such as asset allocation lectures, banquet for the Year of the Ox, visits to elderly communities and insurance PLUS salons. In this way, the Bank built an online and offline traffic platform to gather, acquire and activate customers.

Investment advisory capability

The Bank built a three-tiered private banking system, covering the Head Office, branches and sub-branches, in which tier-1 private banking departments were established in 14 branches and tier-2 private banking departments were set up in another 20 branches. Moreover, the Bank set up a group of private banking wealth management managers and investment advisors to build a multi-layered, systematic, professional and standardized private banking team. Additionally, it improved the training efficiency for managers and advisors via AI technology innovatively, in which more than 200,000 employees of the Bank passed AI tests.

Risk control capability

The Bank strengthened the comprehensive risk management of retail agency sales, and established a risk management system covering the whole process of the "establishment, fundraising, management and withdrawal" of agency products, the whole life cycle before, during and after sales, and the business of agency wealth management, mutual funds, privately-offered funds and insurance. Moreover, the Bank continuously staffed the compliance and risk control teams, and improved the professional abilities of risk control. Additionally, the Bank explored the development of an intelligent risk control system, launched Wealth AI+ and achieved three leading intelligent risk control functions in the industry, namely AI authentication of qualified investors, AI introduction to products and AI video assurance.

7. Digital banking

The Bank continued to advance the digital CEB strategy, accelerated the development of digital banking, and promoted online and mobile transactions. At the early stage of the pandemic, the Bank rolled out contact-free financial services to help with the fight against COVID-19, ensured continuous operation of remote banking, and launched a green channel for anti-epidemic business on Cloud Fee Payment. It boosted the development of the Group's wealth ecosphere, gave full play to the Group coordination, and made remarkable achievements in bank-securities cooperation and bank-insurance-securities joint marketing. With further enhanced influence of digital finance, the Bank was awarded the "Best Digital Bank" by China Financial Certification Authority (CFCA) for seven consecutive years. As at the end of the reporting period, 98.69% of counter transactions were handled through electronic channels, 0.21 percentage point higher than the end of last year. Mobile Banking V8.0 was launched to support one-stop wealth management, with 13,402,400 monthly active users and 3,331,100 users newly added in 2020, up 33.08% year on year. The Bank granted RMB1.27 trillion of "Sunshine Digital Loan", with a loan balance of RMB106,842 million, up RMB28,900 million over the end of the previous year. It completed the first asset securitization program based on online lending, and rolled out a unified payment system for Cloud Fee Payment, with the transaction volume reaching RMB11.21 trillion, up 7.04% year on year.

8. Cloud Fee Payment

The Bank continued to maintain its leading edge as China's largest open-ended and convenient fee payment platform, extended the access to fee payment projects, and continuously increased the coverage of agency fee collection services regarding water, electricity, gas, heating, communication and cable TV. As a result, the number and amount of agency payments for government affairs rose significantly. The Bank further stepped up efforts to export platform cooperation, broaden service channels and enhance the cloud payment service capability. It continued to simplify operating procedures and optimize user experience by launching financial products under payment scenarios such as Payment Wallet and Wealth Wallet, and actively build an integrated "finance + life" ecosphere. Acting as an online convenient platform with a large number of projects and channels, Cloud Fee Payment provided great experience to all users and made contributions to the fight against the pandemic by promoting social distancing. The brand of Cloud Fee Payment became increasingly popular due to inclusive and convenient services, and the *White Paper on China's Convenient Fee Payment Industry* had been released for six consecutive years, which won the first prize of Science and Technology Development Award from PBOC and the Best Social Responsibility Case Award from China Banking Association. As at the end of the reporting period, the platform offered 10,040 fee payment service items in total, an increase of 2,837 or 39.39% over the end of last year. The platform was exported to 575 platforms, an increase of 160 or 38.55% over the end of last year. The total number of direct users of Cloud Fee Payment was 50,319,800, marking an increase of 38,766,900 or 335.56% over the end of last year. The number of monthly active direct users reached 12,402,200, marking an increase of 11,373,000 or 1,105.05% year on year. The platform served 717 million payment users for the past three years, with 509 million active users this year, up 34.67% on a yearly basis. It processed 1,865 million transactions, up 13.37% over last year, with total payments reaching RMB403,763 million. Besides, income from fee-based business stood at RMB585 million, up 37.00% year on year.

Discussion and Analysis of Operations

iii. Financial market business

The Bank promoted financial market business development along with COVID-19 prevention and control, turning the pandemic crisis into an opportunity for development. It continued to firm up the investment and trading business, support the development of real economy, and innovate the Sunshine brand to improve its product value and services. In an enhanced endeavor to advance the transformation of wealth management, the Bank increased the proportion of net-asset-value (NAV) wealth management products, issued multiple featured wealth management products that were related to anti-pandemic, stock index, gold-linked, and public health safety, and went all out to strengthen the brand of its custody business, with increases in both custody scale and income, thus boosting the high-quality development of the financial market business. During the reporting period, the Bank's financial market business registered an operating income of RMB24,225 million, accounting for 16.98% of the Bank's total operating income.

1. Treasury business

Constantly strengthening the research on macroeconomic situations, the Bank continued to improve the investment and trading of proprietary bonds, invested in and underwrote anti-pandemic bonds, and supported real economy with concrete efforts. The Bank carried out monetary transactions steadily, improved capital operation efficiency and ensured liquidity safety. It expanded its investment in bonds, and improved asset allocation structure by purchasing more treasury bonds, local government bonds, policy financial bonds and high-grade credit bonds. And the Bank ranked at the forefront of joint-stock commercial banks in terms of the underwriting of treasury bonds and policy financial bonds. It developed the hit product "Sunshine Exchange Gain" (Cai Hui Ying) into a complete product package composed of three types of financial derivatives including exchange rate, interest rate and credit, thus improving its capability of serving customers. The Bank also improved the comprehensive risk control system to ensure the treasury business conducted in an order and compliant way. As at the end of the reporting period, the balance of bonds in proprietary account amounted to RMB864,922 million, accounting for 16.11% of the Bank's total assets, 50.94% of which were treasury bonds and local government bonds.

2. Interbank business

The Bank stringently implemented regulatory requirements, strengthened the management of specialized interbank business, and maintained an appropriate scale of interbank business to ensure compliance and prudence in operation. It conducted market research and judgment to ride on market trends, supported the development of real economy, and improved the quality and efficiency of business allocation. It continued to pay attention to liquidity safety and fulfilled the function of bank-wide liquidity management. Adhering to the bottom line of risk management, the Bank kept business risks under strict control, stepped up early warning and monitoring of credit risks, and maintained the stability of asset quality to realize the high-quality development of the interbank business. Moreover, the Bank managed interbank customers in a coordinated manner, strengthened customer base and expanded business cooperation. As at the end of the reporting period, the balance of interbank deposits stood at RMB469,345 million.

3. Asset management business

Following the regulatory guidance and relying on its wealth management subsidiary, the Bank strengthened the asset management system. In support of COVID-19 prevention and control, the Bank made active contacts with pharmaceutical, medical and public health infrastructure construction institutions in Hubei and surrounding areas to issue multiple anti-pandemic products, and invested in special bonds for pandemic control and prevention and other anti-pandemic-related projects.

With "Colorful Sunshine" product system at the core, the Bank enhanced the product diversity with the product "Sunshine Orange Gains with Absolute Profit" achieving the sales performance of RMB20 billion in one and a half days. The Bank also expanded sales channels by conducting scenario-based marketing, and cooperating with multiple agencies, to provide integrated online and offline services. It enhanced the ability of investment, extended equity investment layout, made more active equity investment of wealth management products through the launch of equity products including Sunshine Red Public Health & Safety, CSI 300 Dividend Index, and ESG Industry Selection Wealth Management, and achieved sound performance. Meanwhile, the Bank put in place a comprehensive risk management system featuring unified management of credit risk, centralized management of market risk, stratified management of operational risk and independent management of liquidity risk to stimulate the sound development of wealth management business. As at the end of the reporting period, the Bank's non-principal-guaranteed wealth management products had a balance of RMB836,273 million, an increase of RMB57,436 million or 7.37% over the previous year. Among which, the balance of NAV wealth management products stood at RMB503.552 billion, accounting for 60.21%. Throughout the year, the Bank accumulatively issued RMB3.98 trillion of non-principal-guaranteed wealth management products. All products under "Sunshine Wealth Management" brand were duly honored at maturity.

4. Asset custody business

The Bank fully integrated with the E-SBU ecosphere of China Everbright Group, achieving fruitful results in internal and external collaboration. It scaled up efforts in marketing, developed pension finance at a fast speed, and achieved remarkable increase in income from securities investment fund custody, bank wealth management custody and pension custody. The Bank upgraded the new-generation custody system, investment supervision system and performance evaluation system, and improved its capabilities of serving customers. Moreover, the Bank took solid measures to forestall risks, refined the risk matrix model and enhance its internal control and management. As at the end of the reporting period, the Bank's income after tax from custody business amounted to RMB1,445 million, and RMB6,250,833 million of assets were under the Bank's custody.

Discussion and Analysis of Operations

X. BUSINESS INNOVATION

The Bank stepped up the top-level design, built the fintech innovation system in a scientific, systematic and comprehensive way, and sharpened its core competitiveness. It also established a special funds mechanism for fintech innovation with a budget of RMB500 million to support the rapid incubation, implementation and promotion of new technologies, new businesses and new models. With the establishment of Everbright Digital Finance Academy, the Bank advanced talent cultivation, project incubation and the establishment of innovation ecosphere. As a move to integrate the innovation management functions of the whole bank, the fintech segment was responsible for planning and promoting bank-wide innovation. Besides, the Bank set up the review and management mechanism for hit digital products, thus connecting the fintech innovation and incubation system with the review mechanism of hit digital products.

During the reporting period, key projects supported by the special funds for fintech innovation, such as smart transportation, industry chain financing, sunshine logistics, e-commerce, and public resources, had made profits. The Logistics Express (Wu Liu Tong) stepped into the stage of fast development, the Everbright Dual Chain (Blockchain-powered supply chain finance) was launched on a pilot basis, and the Mobile Banking V8.0 rolled out the "AI Digital Human", an intelligent customer service.

XI. INFORMATION TECHNOLOGY

The Bank continued building the "123+N" digital banking development system. The "one smart brain" reshaped the Bank's intelligent service, developed 600 algorithm models and 1,730 customer labels, and realized the cross application of multi-modal bio-metrics identification, seeing an increase of 83% in the number of scenarios covered over the previous year. "Two technological platforms" accelerated the innovation and application of technologies, implemented the "Evercloud" project and the "Polaris" structural transformation, promoted the container cloud platform, with 88.77% of the whole bank's application systems uploaded onto the cloud, and built the new-generation intelligent data asset management platform, with the total amount of data on the big data platforms standing at 3.63 PB, an increase of 105% over the end of the previous year. "Three service capabilities" focused on mobilized, open-ended and ecosphere-centered development, with new models and channels of online services launched. "N (numerous) digital hit products" saw fast expansion backed by fintech in terms of Cloud Fee Payment, Cloud Payment, Sunshine Digital Loan, Logistics Express (Wu Liu Tong), Overseas Finance Cloud, Sunshine Financing E-chain, etc.

Taking information technology as the core driver of business development, the Bank implemented the program to double investment in technology. As at the end of the reporting period, the Bank invested RMB5.15 billion in technology development, an increase of RMB1.746 billion or 51.29% over the previous year, accounting for 3.61% of the operating income. The number of IT personnel across the Bank was 1,965, an increase of 423 or 27.43% over the previous year, accounting for 4.24% of the total employees.

During the reporting period, IT systems of the Bank were stable and no material security incident occurred.

Column 3: Innovation enabling business development

The Bank followed the development strategy of Digital CEB and the transformation towards operations featuring "agility, technology, and ecosphere", seized the trends and opportunities arising from the new technological revolution and industrial transformation and endeavored to build itself into an innovative bank, thereby opening a brand-new chapter of innovation.

Outstanding fruits of the innovation system: The Bank established the first professional academy of digital finance in the financial sector, built a team of fintech innovation talents, implemented a series of innovation projects, established open and innovative partnership with external agencies including think tanks, colleges and universities and enterprises, and explored new paths for innovation-driven business development.

Significant effect of innovation projects: The Bank stepped up the construction of fintech innovation projects, applied for a total of 148 projects, among which 47 were officially initiated, representing a passing rate of about 32% in terms of the innovation project review. As at the end of the reporting period, key projects generated high yields, newly-added deposit of corporate customers exceeded RMB10 billion and the number of retail users increased by 100,000.

Faster progress in technology innovation: The Bank was granted 15 national computer software copyrights and two patents for its Ever Distributed Database (Ever DB) system, unified monitoring and management platform, capacity management system and data transformation algorithm software. Moreover, it was selected as a member of the Council of the Cloud Native Industry Alliance (CNIA), and its container cloud PaaS was selected as one of the top ten cloud native cases.

All-round model for innovation talent cultivation: The Bank established InnoStar Camp, the first training camp for innovation talent in the industry, covering the whole process from creativity, design and development to road shows based on practical projects. Through this model, training was provided in five phases by using the lean startup toolkit so that technology personnel and front-line business personnel could quickly develop the ability of launching innovation projects. Participants of InnoStar Camp made outstanding achievements in the practical projects with one project winning the special award in the innovation contest of China Everbright Group, and another three projects receiving special funds to facilitate the innovation incubation.

Brilliant performance of hit digital products at the market: Everbright Dual Chain (Blockchain-powered supply chain finance) had been connected to platforms of core supply chain enterprises, and witnessed faster growth of transactions and customers. It had been officially integrated into PBOC's pilot program of fintech innovation and supervision, and received multiple awards including the Star of Financial Innovation. The brand influence of Logistics Express (Wu Liu Tong) had been constantly enhanced in the highway trucking industry with the amount of total transactions exceeding RMB90 billion and the number of member customers over 6 million. Via Customer Rewards Access (Quan Yi Tong), the Bank built a unified digital marketing platform, tremendously improving its digitization level of marketing services for customers.

Mechanism for special funds for fintech innovation: The Bank established a working group of fintech innovation, performing functions including innovation fund allocation. It set up a project review mechanism, and determined a three-tiered review procedure to ensure the high value and early output of projects initiated. Besides, it made a dedicated budget, and opened the fast track for investing in fintech innovation.

New ecosphere for fintech innovation: The innovation ecosphere consists of four parts, namely innovation as the starting point, agility as the inner ring, coordination as the middle ring and win-win results as the outer ring. Innovation as the starting point refers to the mechanism of special budget for fintech innovation, through which the bank-wide fintech innovation can press ahead in a top-down and inside-out manner. Agility as the inner ring refers to holding innovation events such as InnoStar Camp, makerspace and innovation expert database with the Bank's digital finance academy as the innovation incubation base. Coordination as the middle ring refers to strengthening coordination with China Everbright Group, and establishing a mechanism for the coordination with the Group's innovation business units such as the innovation center, creativity contest, Everbright Academy, Everbright Technology and Beijing-Tianjin-Hebei Incubation Base based on the six aspects of the Group's E-SBU construction. Win-win results as the outer ring refers to carrying out communications and cooperation with international incubation platforms, leading enterprises, think tanks, colleges and universities and governments, expanding and introducing innovation projects and resources, and building an open and boundless new ecosphere of fintech innovation.

XII. HUMAN RESOURCES MANAGEMENT

The Bank attached great importance to the team building of officials, select and put officials of all ages in appropriate positions for best performance, strengthened the coordination of official exchanges, and implemented requirements on position transfers of officials. The Bank also improved its organizational structure, allocated the human resources in a scientific way, and recruited talents through multiple channels. To overcome the adverse impact of COVID-19, it launched new training models, and upgraded the learning platform with more efforts made on online training. Moreover, the Bank refined the performance evaluation and remuneration management system, to highlight the requirements put forward by wealth management transformation, and to improve the effect of evaluation and incentive mechanism.

XIII. INVESTMENT ANALYSIS

i. As at the end of the reporting period, the balance of the Bank's long-term equity investments amounted to RMB12,983 million, representing an increase of RMB600 million or 4.85% as compared with the end of previous year.

ii. Material Equity Investments

Unit: RMB ten thousand, ten thousand shares, %

Investee	Principal business	Investment amount	Number of shares held	Percentage of shareholding	Profit or loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	468,000	531,000	90	115,722	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Everbright Wealth Management Co., Ltd.	Wealth management	500,000	-	100	56,405	Nil
Beijing Sunshine Consumer Finance Co., Ltd.	Personal consumer finance	60,000	60,000	60	-9,554	China CYTS Tours Holding Co., Ltd., O-Bank Co., Ltd.
CEB International Investment Corporation Limited	Investment banking	HKD2.6 billion	-	100	HKD104 million	Nil
China Everbright Bank (Europe) S.A.	Full-licensed banking business	EUR20 million	-	100	EUR-1.17 million	Nil
Shaoshan Everbright Rural Bank Co., Ltd.	Commercial banking	10,500	10,500	70	360	Sany Group Co., Ltd., Guangzhou Baoli Hetai Financial Holding Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Shaoshan Urban Construction Investment Co., Limited
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Commercial banking	7,000	7,000	70	487	Jiangsu East Goldfox Fashion Co., Ltd., Huai'an Hongyun Municipal Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packaging Co., Ltd., Huai'an Honghuai Agricultural Industry Development Co., Ltd.
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Commercial banking	10,500	10,500	70	588	Ruijin Cultural Tourism Development and Investment Co. Ltd., Ruijin Hongdu Aquatic Product Food Co. Ltd., Ruijin Lvyexuan Forestry Co., Ltd., Ruijin Tiancheng Agricultural Products Co., Ltd.
China UnionPay Co., Ltd.	Bank card interbank information exchange network	9,750	7,500	2.56	563,600	Other commercial banks, etc.
National Financing Guarantee Fund Co., Ltd.	Re-guarantee	75,000	-	1.51	-	20 shareholders including MOF, China Development Bank, Industrial and Commercial Bank of China, China Merchants Bank, China Life, etc.

Notes:

1. All the above-mentioned major equity investments were made with unquoted equity.
2. All the above-mentioned major equity investments were long-term investments.
3. All the above-mentioned equity investments were not subject to any litigation.

iii. During the reporting period, the Bank had no material non-equity investment and conducted bond investment in the ordinary course of its business. Please refer to the afore-mentioned for details.

iv. Financial assets designated at fair value during the reporting period

The Bank held domestic and overseas bonds and financial derivative instruments measured at fair value in the ordinary course of its business. Please refer to "Notes to the Consolidated Financial Statements" for details.

XIV. DURING THE REPORTING PERIOD, THERE WAS NO MATERIAL DISPOSAL OF EQUITY INTEREST OF THE BANK.

XV. MAJOR COMPANIES IN WHICH THE BANK HELD EQUITY

i. Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company engages in financial leasing business. It was registered in Wuhan City, Hubei Province with a registered capital of RMB5.9 billion. During the reporting period, the company mainly focused its financial leasing business on fields related to national economy and people's well-being, such as public utilities, infrastructure construction and urbanization as well as national strategic emerging industries such as new materials, new energy and high-end manufacturing. By now, it has formed certain brand advantages in aviation and vehicle equipment, and is expanding business in wind power, forming a nationwide business network. As at the end of the reporting period, its total assets and net assets were RMB117,321 million and RMB10,318 million, respectively. It realized a net profit of RMB1,157 million for the reporting period.

ii. Everbright Wealth Management Co., Ltd.

Founded in September 2019, the company specializes in asset management related businesses such as the issuance of publicly-offered wealth management products, the issuance of private-equity wealth management products, wealth management advisory and consultation. It was registered in Qingdao City, Shandong Province with a registered capital of RMB5 billion. During the reporting period, through diversified products and professional abilities of assets allocation, the company provided comprehensive asset appreciation services for investors. As at the end of the reporting period, its total assets and net assets were RMB5,914 million and RMB5,637 million, respectively. It realized a net profit of RMB564 million for the reporting period.

In 2020, Everbright Wealth Management was dedicated to developing a "Colorful Sunshine" series product system, issued wealth management products with such themes as pension customer base, salary management, children growth, health and safety, and ESG, and launched such featured products as direct stock investment, stock index, gold-linked products and products with minimum purchase of 1 *Fen*. It also made more efforts in equity distribution, and the equity products such as Sunshine Red Health and Safety, Dividend Enhancement and ESG Selection performed well. As at the end of the reporting period, the company managed RMB504.1 billion worth of products.

iii. Beijing Sunshine Consumer Finance Co., Ltd.

Founded in August 2020, the company specializes in business related to personal consumer loans. It was incorporated in Beijing with a registered capital of RMB1.0 billion. During the reporting period, the company actively promoted the building of self-owned scenarios and improved its independent risk control capability. As at the end of the reporting period, its total assets and net assets were RMB3,150 million and RMB904 million, respectively. It realized a negative net profit of RMB96 million for the reporting period.

iv. CEB International Investment Corporation Limited

Registered with a capital of HKD2.6 billion in Hong Kong in June 2015, the company has obtained the licenses for securities trading, securities consultation, financial consultation and asset management business. During the reporting period, the company focused on developing such investment banking businesses as listing sponsorship and underwriting, public offering and placement of new shares by listed companies, and enterprise refinancing. As at the end of the reporting period, its total assets and net assets were HKD11,800 million and HKD2,602 million, respectively. It realized a net profit of HKD104 million for the reporting period.

v. China Everbright Bank (Europe) S.A.

The company was incorporated in Luxembourg in July 2017 with a registered capital of EUR20 million. As a fully-licensed banking institution, it mainly engages in deposit taking, loan granting, bill and bond issuance and any other businesses that can be conducted by credit institutions according to laws in Luxembourg. During the reporting period, it focused its efforts on developing bilateral loans, syndicated loans and risk participation. As at the end of the reporting period, its total assets and net assets were EUR36.35 million and EUR13.48 million, respectively. It realized a negative net profit of EUR1.17 million for the reporting period.

vi. Shaoshan Everbright Rural Bank Co., Ltd.

Founded in September 2009, the rural bank engages in commercial banking services including deposit-taking and lending. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150 million. During the reporting period, focusing on serving rural residents, agriculture and rural areas as well as the local area, it developed businesses for small and micro enterprises and helped boost the growth of county economy by exploring ways of supporting rural economic development with its financial products and services. As at the end of the reporting period, its total assets and net assets were RMB767 million and RMB221 million, respectively. It realized a net profit of RMB3.60 million for the reporting period.

vii. Jiangsu Huai'an Everbright Rural Bank Co., Ltd.

Incorporated in February 2013, the rural bank engages in commercial banking services including deposit-taking and lending. It was registered in Huai'an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, it continued to serve rural residents, agriculture and rural areas, expanded businesses for small and micro enterprises, and achieved steady growth. As at the end of the reporting period, its total assets and net assets were RMB1,223 million and RMB137 million, respectively. It realized a net profit of RMB4.87 million for the reporting period.

viii. Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

Incorporated in November 2018, the rural bank engages in commercial banking services including deposit-taking and lending. It was registered in Ruijin City, Jiangxi Province with a registered capital of RMB150 million. During the reporting period, it explored services for rural residents, agriculture and rural areas, and developed businesses for medium, small and micro enterprises. As at the end of the reporting period, its total assets and net assets were RMB706 million and RMB160 million, respectively. It realized a net profit of RMB5.88 million for the reporting period.

XVI. STRUCTURED ENTITIES CONTROLLED BY THE BANK

The structured entities controlled by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to "Notes to the Consolidated Financial Statements" for details.

XVII. RISK MANAGEMENT

i. Credit risk management

Implementing the requirement of "strict loan governance according to law", the Bank continued to strengthen the coordinated management of credit risk as per the principle of unified management of policy, approval, monitoring and special assets resolution. It improved the unified credit management mechanism, upgraded the risk management information system, and carried out unified credit management for various credit and investment businesses. Meanwhile, the Bank intensified the corporate governance of its subsidiaries and improved the consolidated management. It also applied big data, artificial intelligence, blockchain and other fintech means to transform traditional risk control techniques to improve the digital and intelligent level of risk management.

The Bank strengthened credit support for areas of pandemic prevention and control, and provided differentiated preferential financial services for the areas concerning the society and people's livelihood affected by the pandemic. It intensified efforts in performing social responsibilities, supported domestic demand expansion, work and production resumption and employment security, and provided precise financial services for pandemic prevention and control, resumption of work and production, and real economy development. The Bank improved the credit structure, reasonably allocated credit resources, and made coordinated efforts to supporting the real economy and preventing and resolving risks. It actively supported major national strategies by bolstering business in strategic emerging industries, advanced manufacturing industries and modern service industries, and granted more medium and long-term loans to manufacturing industries. Meanwhile, the Bank supported private enterprises, small and micro businesses, rural residents, agriculture and rural areas, and actively developed inclusive finance.

The Bank persisted to classify assets in an accurate manner so as to reveal risk conditions dynamically and objectively. It pursued a prudent and sound provision policy, performing impairment test and provisioning strictly according to the new accounting standards for financial instruments. Besides, it also improved the full-process management mechanism of asset quality, intensified the disposal of existing non-performing loans, and broadened disposal channels.

Please refer to "Notes to the Consolidated Financial Statements" for further details.

ii. Liquidity risk management

The Bank held a prudent and sound attitude towards liquidity risk management and adopted a proactive liquidity management strategy, in a bid to keep liquidity at a sound and adequate level and stick to its safety bottom line for liquidity. In response to changes in macroeconomic and market situations, the impact of the pandemic and various uncertain and unstable factors, the Bank made forward-looking overall planning, and strengthened stress testing and emergency plan assessment. It strictly controlled risk limits, strengthened the reserve of premium liquid assets, and expanded diverse liability channels. Besides, the Bank further improved its consolidated management governance system, and enhanced the risk resistance capacity of the Group.

Please refer to "Notes to the Consolidated Financial Statements" for further details.

iii. Market risk management

The Bank continued to improve its market risk management system, regularly examined its management policy, adjusted market risk limit, and put all consolidated businesses and products that are associated with market risks under limit control. The Bank closely followed the fluctuations of both domestic and foreign markets, endeavored to predict and analyze interest rate and exchange rate risks, and implemented various risk prevention measures. As a result, the Bank ensured the smooth operation of related businesses, prevented extreme market risks that may be caused by emergencies, and kept all market risk monitoring indicators within the scope of risk appetite. Also, the Bank carried out regular market risk stress tests, and improved stress test procedures and result application mechanism.

Please refer to the "Notes to the Consolidated Financial Statements" for further details.

iv. Large exposures management

The Bank strictly implemented regulatory requirements, formulated management rules for large exposures, and established an organizational structure and management system for large exposures management. Besides, it promoted the development of relevant information systems, measured and dynamically monitored changes in large exposures, and thus effectively controlled customer concentration risk. As at the end of the reporting period, all limit indicators for the Bank's large exposures were controlled within the regulatory scope.

v. Country risk management

Country risk management constitutes an important part of the Bank's comprehensive risk management system. Through dynamically monitoring changes in country risk, the Bank imposed strict management on country and region access, set and monitored country risk limit, made allowances for country risk impairment for country risk-involving businesses, conducted risk stress tests, and developed systems to improve the digitization of country risk management. It also regularly reported the Bank's country risk management to the senior management and regulators. As at the end of the reporting period, the Bank's assets involved in country exposures were small in amount and within the limit.

Discussion and Analysis of Operations

vi. Operational risk management

The Bank further strengthened the identification, assessment, monitoring and reporting of operational risk in key areas, tracked weak and vulnerable links, specified the responsibilities of risk management entities, and raised the awareness of compliant operation of all employees. At the same time, the Bank strengthened supervision and guidance on important operational risk events and regulatory penalties, assigned tasks and analyzed the causes to ensure the quality and efficiency of rectification. By collecting cautionary cases and publicizing circulars, the Bank issued warnings on typical, recurring and common risks and problems. It also employed three tools including Key Risk Indicators (KRI), Loss Data Collection (LDC) and Risk and Control Self-Assessment (RCSA) to identify potential risks and conduct risk monitoring to improve risk management.

Please refer to "Notes to the Consolidated Financial Statements" for further details.

vii. Compliance risk management

The Bank kept strengthening its compliance risk management by timely following changes in external laws and regulations and organizing revision and review of rules and regulations to serve as an important carrier to enhance the corporate governance capacity. By standardizing the responsibilities, system, classification and contents of its policy management, the Bank built a regular review mechanism aiming at "legality and compliance, simplicity and effectiveness, easy implementation", with integrated and simplified policies. It also paid attention to the whole-process management and control of compliance risk, and standardized the special authorization, temporary authorization and reauthorization procedures, in a bid to optimize the operation and management authorization system. In addition, the Bank persisted in unannounced inspections and investigations of abnormal transactions of employees, and enhanced the handling of criminal cases and litigation, thereby ensuring the implementation of internal and external rules and regulations.

viii. Reputational risk management

The Bank attached great importance to its reputational risk management and upheld the philosophy of "early warning, in-depth assessment, proper disposal" to improve its reputational risk management mechanism. It comprehensively revised reputational risk management policies and assessment measures, and formulated effective public opinions monitoring, reporting and response plans. Through various forms of training and emergency drills, the Bank strengthened its reputational risk identification and emergency response capacity. During the reporting period, the Bank did not incur any material reputational risk event that could seriously endanger the reputation of the Bank.

ix. Anti-money laundering (AML) management

The Bank revised its money-laundering risk management policies and improved the AML internal control mechanism. It completed the money laundering risk assessment of legal-person institutions, conducted money-laundering risk assessment of financial products and services, and promoted its AML special examination. It also upgraded the functions of the AML system, and refined the suspicious transaction monitoring model. Moreover, the Bank improved the completeness of customer identity information, brought high-risk customers and accounts under intensified management and control, and carried out special money laundering risk investigations on activities such as leasing and selling of bank accounts and illegal wildlife trade. Besides, it strictly fulfilled its international obligations and fully acted on the UN Security Council's resolutions on economic sanctions and counter-terrorist financing (CTF).

x. Credit policies for key fields

After the outbreak of the COVID-19, the Bank immediately took differentiated risk management measures, and opened green channels to fight against the pandemic. It suspended some prerequisite procedures required by project approval, delegated the approval authorization for special projects, simplified the face-to-face process for lending, and supported the credit on "daily necessities" and "medical supplies" for the purpose of epidemic prevention and control. At the same time, the Bank intensified its credit support to fields hit by the pandemic, improved policies by postponing repayment of principal and interest of loans to help enterprises and individuals weather the pandemic.

The Bank kept increasing loans for advanced manufacturing industry, especially medium and long-term loans for manufacturing industries, and credit facilities for private enterprises, inclusive finance and key sectors of new infrastructure, new urbanization and major project construction. Meanwhile, the Bank supported the transformation and upgrading of the traditional manufacturing industry and the customers in the advanced manufacturing industries such as new-generation information technology industry, aerospace equipment, advanced rail transit equipment, advanced power equipment, high-performance new materials, bio-medicine and high-performance medical devices, and improved the quality and efficiency of services for the real economy.

In the real estate sector, the Bank adhered to the overall principle of "housing is for living in, not for speculation", and upheld the business strategy of "aggregate management, prudent implementation, differentiated credit extension and strict risk control". The Bank strictly controlled concentration risk in the real estate industry by exercising mandatory limit management over total credit facilities. In addition to the list-based management of real estate developers, the Bank implemented city-specific policies and adopted differentiated credit policies according to the cities' population, inventory, land supply, regulation and control policies. Following the principle of "selecting the top best", the Bank strictly reviewed the availability of project capital and developers' own funds, "four certificates" of property developers, as well as project information about land-taking cost, house structure and targeted group of customers. Meanwhile, the Bank strengthened the monitoring of loan use and tracking of project sales, and intensified the closed-off management of funds. The Bank's credit asset quality in the real estate industry remained stable and above the average level of the Bank's all credit assets.

Discussion and Analysis of Operations

Column 4: Developing smart risk control to serve inclusive finance

Closely following the trend of fintech such as big data and artificial intelligence, and transforming towards the strategic direction of "agility, technology and ecosphere" with the foothold of serving the real economy, the Bank endeavored to build a smart risk control system with core competitiveness to promote digital transformation of risk management and develop online inclusive finance business.

The Smart Risk Control Center was established in 2018, upholding the philosophy of "tech for social good, people first and serving people", and exercising "open and shared, independent and controllable, agile and efficient development with mutual progress of man and technology". Leveraging independent algorithm capabilities and big data resources, the Center supports multiple business scenarios of inclusive finance, provides one-stop smart risk control solutions and empowers digital transformation.

An open and shared digital smart risk control platform system was established to improve the capabilities of smart risk control services: Coordinating the development of risk data center, risk technology center and risk service center, and integrating resources on the platform, the Center preliminarily incubated a digital smart risk control platform system which can be converted to productivity. The risk data center integrated data resources including multi-source heterogeneous big data, distributed time series data and graph data, to form risk data assets. The risk technology center researched advanced algorithms including deep learning and graph convolution (GCN), established a standard algorithm library and improved its technological abilities to form algorithm assets. Aiming to be agile, efficient and integrated, the risk service center launched a smart risk control engine and a stream-oriented computation platform successively to embed risk management into business front-end and scenarios.

An independent and controllable digital smart risk control system was built to foster core competitiveness: Foreseeing technology and combining theories with practice, the Bank promoted R&D and application of deep learning algorithm, GCN algorithm, stream-oriented computation algorithm and NLP algorithm in an independent and controllable manner. These efforts brought the Bank a number of patents for invention and software copyrights, helping build a technological barrier and improve its technological image.

Agile and efficient products of digital smart risk control were rolled out to facilitate high-quality development of inclusive finance: The Bank launched standard smart risk control rating products (anti-fraud rating, credit rating, behavioral rating, etc.) and financial solutions of smart risk control (smart risk control solutions to consumer finance, inclusive finance, etc.). As at the end of the reporting period, a total of 39 automatic approval scenarios went live, importing more than 37 million customers with automatic approving and granting RMB1.6 trillion loan accumulatively, and the balance of valid assets exceeding RMB177.9 billion.

A fintech R&D team with the spirit of workmanship in the new era was built to make mutual progress of man and technology: Benchmarked against the fintech leaders in the financial sector, and oriented to "agility, technology and innovation", the Bank adopted new management mechanisms (including agile organization and flat management; swift implementation with responsible project managers; technology independence and self-developed key technologies; management innovation and performance point system) to build a professional team of algorithm scientists.

XVIII. OUTLOOK OF THE BANK

i. Competition landscape and development trend of the industry

In 2021, China's banking industry will advance reforms to effectively forestall and defuse financial risks and ensure that no systemic risks will emerge. It will continuously support the development of real economy, work to help ensure stability on six fronts and maintain security in six areas, push forward the supply-side structural reform in the financial industry and promote all-round opening-up. Meanwhile, support will also be rendered to the implementation of major national strategies and the modernization of its governance system and ability.

ii. Business plan

In 2021, the Bank will further improve its structure of assets and liabilities, enhance its ability to serve the real economy, promote the growth of core deposits, optimize the capital use structure of various on- and off-balance-sheet businesses, and boost the Bank's high-quality development. If there should be no significant change in current operating environment and regulatory policies, the Bank will strive to achieve a loan growth rate of no lower than 10%. This business plan does not constitute a performance commitment of the Bank to its investors, who shall maintain sufficient risk awareness and understand the discrepancy between business plan and performance commitment.

iii. Capital demand plan

The Bank will formulate capital plans based on its financial budget, strategic planning and stress testing results. Based on its actual conditions, the Bank will replenish capital via internal and external channels. Besides, it will implement counter-cyclical capital management to address the influence of economic fluctuation and changes in regulatory policies and ensure long-term sustainable development.

iv. Potential risk and countermeasures

In 2021, internationally speaking, the far-reaching impact of the COVID-19 pandemic adding more instability to the international financial market, the world economy is undergoing deep adjustment following the international financial crisis, and the growth tends to slow down under pressure. From the domestic perspective, China has entered the stage of high-quality development with robust resilience and overall stable social situation. At the same time, there exist problems such as unbalanced and inadequate development, unsound foundation for economic recovery, and various noticeable derivative risks. As the deepening of interest rate liberalization and the coming of the last year of the transition period of the new rules on asset management, the banking sector encounters fiercer competition and more pressure to manage assets and liabilities under the regulatory requirements such as reduction of structured deposits. At the same time, traditional commercial banks are seriously challenged by the intensified financial disintermediation and the rapid development of internet finance.

Committed to the general principle of making progress amid stability, and upholding strategy orientation and innovation-driven development, the Bank will highlight the characteristics of wealth management and fintech, and make a new leap toward high-quality development. Aiming to develop into a first-class wealth management bank, the Bank will emphasize the following tasks: First, the Bank will follow decisions and plans of the central government and fulfill its duties and responsibilities as a central enterprise. Second, the Bank will enter a new stage and implement the "Leap Development Plan" in an all-round manner. Third, the Bank will focus more on innovation and leverage on the role of technology in development. Fourth, the Bank will focus more on customer services to safeguard the rights and interests of consumers.


愿景 VISION
一流财富
管理银行
企业愿景
企业使命

Significant Events

I. FORMULATION AND IMPLEMENTATION OF PROFIT DISTRIBUTION POLICY

i. Profit Distribution Policy

In accordance with the profit distribution principle, specific policies and procedures of consideration stipulated in the *Articles of Association* of the Bank, the Bank shall prioritize cash dividends in profit distribution. Except for special situations, the profit to be distributed in cash each year shall be no less than 10% of the distributable profit of the year if both the profit for the year and the accumulated undistributed profit are positive.

ii. Profit Distribution Plan for 2020

Taking into account the interests of all shareholders, sustainable development of the Bank's business and the requirements of regulators on capital adequacy ratio, and pursuant to the *Company Law of the People's Republic of China, the Securities Law of the People's Republic of China* and relevant requirements of the *Articles of Association* of the Bank, the Bank hereby formulates its 2020 profit distribution plan as follows:

1. As at the end of 2020, the Bank appropriated accumulative statutory surplus reserves of RMB26,244.5636 million, which had reached 50% of the Bank's registered capital. Therefore, according to the *Company Law of the People's Republic of China*, the Bank needed not to appropriate statutory surplus reserve this time.

2. According to the *Management Measures for Provision of Reserves by Financial Institutions* promulgated by the MOF, a general reserve of RMB7,492.2996 was appropriated.

3. Distribution of cash dividends to shareholders of preference shares amounted to RMB3,130 million (RMB1,060 million was distributed on 29 June 2020 and RMB390 million was distributed on 11 August 2020. Dividends of RMB1,680 million were to be distributed).

4. Cash dividends were distributed to all shareholders of ordinary shares at RMB2.10 (before tax) per 10 shares. Based on the Bank's issued shares of 54,031.9090 million as at the end of 2020, the total cash dividends amounted to RMB11,346.7009 million, accounting for 30.00% of the net profit attributable to equity shareholders of the Bank on consolidation basis. As the convertible bonds issued by the Bank are in the conversion period, if the total share capital changes before the equity distribution registration date, the Bank will keep the total amount of cash dividends to be distributed unchanged and accordingly adjust the dividends to be distributed per share. Specific adjustments will be announced separately. The cash dividends were denominated and declared in RMB, paid to shareholders of A shares in RMB and paid to shareholders of H shares in HKD. The actual amount paid in HKD shall be calculated based on the average benchmark exchange rate of RMB against HKD announced by PBOC one week prior to the shareholders' general meeting (inclusive of the date of the shareholders' general meeting).

5. In 2020, the Bank did not implement capitalization of capital reserve funds.

6. The retained undistributed profits will be used to replenish capital in order to meet the regulatory requirements for capital adequacy ratios.

The above profit distribution plan is subject to the approval of the 2020 Annual General Meeting.

The profit distribution plan for 2020 of the Bank did not make any adjustment or amendments to the existing cash dividend policy of the Bank. The profit distribution plan complied with the *Articles of Association* of the Bank, reflecting clear and definite standards and proportion for dividend distribution as well as complete decision-making procedures and mechanism. The Board of Directors and the Board of Supervisors discussed and considered the profit distribution plan, and Independent Non-executive Directors performed their duties to safeguard the legitimate rights and interests of minority shareholders. The above profit distribution plan will be submitted to the 2020 Annual General Meeting where all of the ordinary shareholders including minority shareholders have the right to participate and express their views and demands. The Annual General Meeting of the Bank shall open online voting, when the votes of minority shareholders in relation to the profit distribution plan will be counted separately so as to fully protect the lawful rights interests of minority shareholders.

The tax deductions concerning profit distribution of the Bank for the year shall be carried out in accordance with relevant regulations, which will be specified in the dividend distribution announcement.

iii. Profit Distribution of Ordinary Shares and Cash Dividends for the Last Three Years

Unit: RMB million, %

Item	2020	2019	2018
Cash dividends	11,346.70	11,232.72	8,450.77
Proportion to net profit attributable to shareholders of the Bank	30.00	30.07	25.11

II. IMPORTANT UNDERTAKINGS AND PERFORMANCE OF UNDERTAKINGS GIVEN BY THE BANK AND THE BANK'S DE FACTO CONTROLLER, SHAREHOLDERS AND OTHER RELATED PARTIES

i. Pursuant to the relevant provisions of the CSRC, to ensure the Bank can effectively implement remedy measures in relation to the public issuance of convertible bonds and non-public issuance of preference shares, all Directors and Senior Management of the Bank promised to faithfully and diligently perform their duties, safeguard the legitimate rights and interests of the Bank and all shareholders, and made the following commitments:

1. They shall neither transfer interests to other entities or individuals for free or in an unfair way, nor jeopardize the interests of the Bank by other means;

2. They shall be thrifty, their work duty-related consumption shall be under restriction in strict compliance with the relevant requirements at the national, local and the Bank level, and they shall refrain from over-consumption, extravagance and waste;

3. They shall never utilize the Bank's assets in any investment or consumption activities irrelevant to the performance of their duties;

4. They shall try to propel the Board of Directors or the Remuneration Committee under the Board to formulate remuneration policy which is linked to the implementation of remedy measures for the return by the Bank;

5. If the Bank launches any equity incentive scheme in the future, the conditions for exercising its rights under the intended equity incentive scheme shall be linked to the implementation of remedy measures for the return.

As at the end of the reporting period, there had been no violation of the commitments above by the Directors and Senior Management of the Bank.

ii. According to the Bank's plan on non-public issuance of H shares, China Everbright Group and Overseas Chinese Town Holdings Company respectively undertook that the H shares they subscribed from this issuance shall not be transferred within 60 months after the issuance ended.

On 22 December 2017, the Bank issued 4.2 billion H shares to Overseas Chinese Town Holdings Company and 1.61 billion H shares to China Everbright Group. As at the end of the reporting period, there was no breach of undertakings committed by either of the aforesaid two companies.

As far as the Bank is aware, other than the above matters, there is no material undertaking given by the Bank and the Bank's shareholders, Directors, Supervisors, Senior Management or other related parties.

III. RESERVE

Please refer to "Consolidated Statement of Changes in Equity" for details about reserve change of the Bank.

IV. FIXED ASSETS

Please refer to "Notes to Consolidated Financial Statements" for details about the changes in fixed assets of the Bank as at the end of the reporting period.

V. PURCHASE, SALE OR REPURCHASE OF THE BANK'S LISTED SECURITIES

During the reporting period, the Bank and its subsidiaries did not purchase, sell or repurchase any listed securities of the Bank.

VI. PRE-EMPTIVE RIGHTS

The *Articles of Association* of the Bank does not provide on pre-emptive rights, and shareholders of the Bank have not been granted any pre-emptive right.

VII. RETIREMENT AND BENEFITS

Please refer to "Notes to Consolidated Financial Statements" for details about the retirement and benefits provided by the Bank to its employees.

VIII. MAJOR CUSTOMERS

As at the end of the reporting period, the operating income contributed by the top 5 customers of the Bank did not exceed 30% of the Bank's operating income. Due to the nature of business, the Bank had no major provider.

IX. USE OF CAPITAL BY THE CONTROLLING SHAREHOLDER AND OTHER RELATED PARTIES FOR NON-OPERATING PURPOSES

There was no non-operational capital occupation by the controlling shareholder and other related parties of the Bank. Ernst & Young Hua Ming LLP has issued a special audit opinion on it.

X. CHANGES IN ACCOUNTING POLICIES

There was no change in accounting policies of the Bank during the reporting period.

XI. APPOINTMENT AND RESIGNATION OF ACCOUNTING FIRM

i. Appointment of Accounting Firm for Auditing the Financial Statements

On 5 June 2020, the Bank convened the 2019 Annual General Meeting, deciding to engage Ernst & Young Hua Ming LLP as the accounting firm in charge of the Bank's domestic audit for 2020 (Xu Xuming, Leung Shing Kit as certified public accountants for signature) and to engage Ernst & Young as the accounting firm in charge of the Bank's overseas audit for 2020 (Kam Cheong Geoffrey as certified public accountant for signature). The audit fees of financial statement payable to the two firms amounted to RMB9 million (inclusive of reimbursement and value-added tax). Both of the two accounting firms have provided audit services for the Bank for five consecutive years.

ii. Engagement of Accounting Firm for Internal Control Audit

On 5 June 2020, the Bank convened the 2019 Annual General Meeting, deciding to appoint Ernst & Young Hua Ming LLP as its internal control auditor for 2020, and the audit fees payable stood at RMB0.90 million (inclusive of reimbursement and value-added tax).

The Audit Committee of the Board of Directors of the Bank had no different opinions on the engagement of accounting firm.

XII. MATTERS CONCERNING BANKRUPTCY OR REORGANIZATION

During the reporting period, no bankruptcy or reorganization took place at the Bank.

XIII. MATERIAL LITIGATION AND ARBITRATION MATTERS

The Bank was involved in some litigation and arbitration cases in its regular course of business, most of which were initiated by the Bank for the purpose of collecting non-performing loans. During the reporting period, the Bank was not involved in any major litigation and arbitration cases. As at the end of the reporting period, the Bank was involved in 754 sued litigation and arbitration cases pending final judgment, which involved about RMB1.58 billion. The above litigation and arbitration cases would not have a significant adverse impact on the financial position or operating performance of the Bank.

XIV. PENALTY IMPOSED ON THE BANK AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

During the reporting period, none of the Bank, its Directors, Supervisors, Senior Management, controlling shareholder and de facto controller was subject to any investigation by the competent authorities, any mandatory measures by the judicial authorities or the disciplinary departments, transferal to the judicial authorities, criminal proceedings, investigation, administrative penalty or circulation of criticism by the CSRC, and public censure by any stock exchange, or any penalty with significant impact on the Bank's operation imposed by any other regulatory body.

XV. CREDIBILITY OF THE BANK, ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

During the reporting period, the Bank, its controlling shareholder and de facto controller did not fail to comply with effective court judgments or repay significant matured debts.

XVI. IMPLEMENTATION OF STOCK INCENTIVE PLAN AND EMPLOYEE STOCK OWNERSHIP PLAN

As at the end of reporting period, the Bank did not implement any stock incentive plan and employee stock ownership plan.

XVII. MATTERS CONCERNING CONNECTED TRANSACTIONS OF THE BANK UNDER THE HONG KONG LISTING RULES

In accordance with the *Hong Kong Listing Rules*, the transactions between the Bank and its connected persons (as defined in the *Hong Kong Listing Rules*) constitute connected transactions of the Bank. The Bank has monitored and managed these connected transactions in accordance with the *Hong Kong Listing Rules*.

Details on related parties and related party transactions which have occurred in the year ended on 31 December 2020 of the Bank were included in "Notes to the Consolidated Financial Statements".

Certain transactions among the above related party transactions also constitute connected transactions as prescribed in Chapter 14A of the *Hong Kong Listing Rules*, and shall be subject to declaration, annual review and announcement as required in Chapter 14A of the *Hong Kong Listing Rules*. The above connected transactions have observed relevant provisions in Chapter 14A of the *Hong Kong Listing Rules* specifically:

The connected transactions disclosed below constitute connected transactions or continuing connected transactions as prescribed in Chapter 14A of the *Hong Kong Listing Rules* and meet relevant disclosure requirements. In respect of the following connected transactions, Directors confirmed that the Bank had complied with the disclosure requirements prescribed in Chapter 14A of the *Hong Kong Listing Rules*. For details, please refer to the announcements disclosed by the Bank on the websites of the HKEX and the Bank.

i. Non-exempt Connected Transactions

1. Continuing connected transactions

(1) Approval of transaction amount of non-performing assets acquisition for connected legal person

On 20 June 2019, the Bank entered into an agreement with Everbright Jin'ou Asset Management Limited ("Everbright Jin'ou"), pursuant to which, Everbright Jin'ou may acquire the non-performing assets under management of the Bank for commercial purposes under the premise of reasonable pricing and valuation.

Significant Events

Main terms and conditions of the agreement are listed as below:

Based on different project types, under the premise of consensus of negotiation and true and complete risk transfer between the Bank and Everbright Jin'ou, Everbright Jin'ou may entrust the Bank to assist with the disposal of non-performing assets or dispose as an agent, or Everbright Jin'ou shall collect the assets on its own.

The transactions contemplated under the Agreement shall be conducted on normal commercial terms and the rates shall be no less than the rates charged by the Bank to the independent third parties for comparable transactions. The disposal of non-performing assets by the Bank is conducted under the principle of marketization and legalization and in the mode of invitation tender. Qualified companies will be invited to make sealed bidding or open bidding. The Bank determines the transfer plan based on the circumstances such as the valuation of non-performing assets, and determines the counterparty and trading price on the prime principle. Everbright Jin'ou should participate in the bidding process on equal terms as that for other bidders to purchase the non-performing assets of the Bank.

The Bank approved a cumulative transaction amount of non-performing assets of RMB4 billion in aggregate to Everbright Jin'ou, with a single transaction in an amount not exceeding RMB2 billion. The validity period of the amount is three years and the annual cap is RMB4 billion.

Everbright Jin'ou is a subsidiary of China Everbright Group, the controlling shareholder of the Bank, thus Everbright Jin'ou is an associate of China Everbright Group and therefore a connected person of the Bank in accordance with the *Hong Kong Listing Rules*.

During the reporting period, the annual cap for the continuing connected transaction is RMB4 billion, and no transaction occurred in 2020.

(2) Approval of bond underwriting amount for connected legal person

On 6 September 2019, the Bank entered into an agreement with China Everbright Group, pursuant to which, the Bank agreed to provide bond underwriting service for China Everbright Group.

Main terms and conditions of the agreement are listed as below:

The Bank approved the bond underwriting amount of RMB5 billion for China Everbright Group. The underwriting amount is based on the balance management system and is valid for two years with an annual balance cap of RMB5 billion. The annual cap of the underwriting fee is RMB90 million. The issuance factors such as the current underwriting coupon rate under the business will be applied in accordance with the current underwriting approval process, and the guarantee form of the business is credit.

The Bank implemented stand-by underwriting for China Everbright Group within the amount of RMB5 billion according to the principle of fair price, and the purchase price shall be no less favorable than that of the bonds with similar terms underwritten by the Bank for comparable independent third parties of the same period. The transactions contemplated under the agreement shall be conducted on normal commercial terms and the rates shall be no less favorable than the rates charged by the Bank to the independent third parties for comparable transactions.

China Everbright Group is the controlling shareholder of the Bank and constitutes a connected person of the Bank in accordance with the *Hong Kong Listing Rules*.

During the reporting period, the annual cap for the bond underwriting amount of the continuing connected transaction is RMB5 billion and the annual cap of the underwriting fee was RMB90 million, and the amounts actually occurred were RMB1.5 billion and RMB23.1931 million, respectively.

(3) Acceptance of technology service provided by connected legal person

On 20 March 2020, the Company entered into a framework agreement on technology service with Everbright Technology Co., Ltd. ("Everbright Technology"), which is valid from 20 March 2020 to 31 December 2020 (both dates inclusive), pursuant to which, Everbright Technology agreed to provide technology services for the Company.

Main terms and conditions of the agreement are listed as below:

Everbright Technology will provide technology services to the Company, including providing technology services in both mature and emerging technology service fields, as well as human resources outsourcing field. The agreement is valid from 20 March 2020 to 31 December 2020 (both dates inclusive), and the total contract amount under the agreement shall not exceed RMB312.66 million (tax inclusive).

Everbright Technology is a wholly-owned subsidiary of China Everbright Group, the Bank's controlling shareholder, and constitutes a connected person of the Bank according to the *Hong Kong Listing Rules*.

The annual cap of the continuing connected transaction for 2020 (from 20 March 2020 to 31 December 2020 (both dates inclusive)) was RMB312.66 million, and the amount actually incurred was RMB303 million during the reporting period.

2. Confirmations by Independent Non-executive Directors

Independent Non-executive Directors of the Bank had reviewed the above continuing connected transactions, and confirmed that the transactions are:

(1) conducted in the usual course of business of the Bank;

(2) conducted on normal commercial terms or better. If the transactions available for comparison are not sufficient to determine whether the terms of such transactions are normal commercial terms or not, the terms of such transactions are not less favorable than the same as those granted by the Bank to an independent third party; and

(3) conducted in accordance with relevant transaction agreements with fair and reasonable terms, and in line with the overall interests of shareholders of the Bank.

Significant Events

3. Confirmations by auditors

The Bank has engaged an external auditor to report on continuing connected transactions of the Bank in compliance with the *Hong Kong Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the Hong Kong Institute of Certified Public Accountants, and with reference to the *Practice Note 740* Auditor's Letter on Continuing Connected Transactions under the *Hong Kong Listing Rules*. The auditor has issued an unqualified opinion letter containing the verification results of the above continuing connected transactions in accordance with Article 14A.56 of the *Hong Kong Listing Rules*. The Bank has submitted a copy of this letter to the Hong Kong Exchanges and Clearing Limited.

Based on the work carried out, the auditor of the Bank has provided a letter to the Board of Directors confirming that, with respect to the disclosed continuing connected transactions mentioned above:

(1) The auditor did not notice any matter convincing the auditor that the disclosed continuing connected transactions had not been approved by the Board of Directors of the Bank.

(2) In respect of continuing connected transactions conducted by the Bank, the auditor did not notice any matter convincing the auditor that the transactions had not been conducted in accordance with the pricing policy of the Bank in all material respects.

(3) The auditor did not notice any matter convincing the auditor that the transactions had not been conducted in accordance with the relevant agreements regulating the transactions in all material respects.

(4) In respect of the total amount of each continuing connected transaction disclosed above, the auditor did not notice any matter convincing the auditor that the amount of such continuing connected transaction exceeded the annual cap set by the Bank.

4. Connected transactions

(1) Signing of financial leasing agreement with connected legal person Beijing Gubei Shuizhen Tourism Co., Ltd. ("Gubei Tourism")

To increase the income from financial leasing business of the Group and meet both parties' business development needs, on 25 May 2020, the Bank's subsidiary Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") as the Lessor entered into a financial leasing agreement with Gubei Tourism as the Lessee, pursuant to which, (i) Everbright Financial Leasing has acquired the leased assets from Gubei Tourism at a consideration of RMB300,000,000, and (ii) Everbright Financial Leasing has agreed to lease the leased assets to Gubei Tourism with the lease period of five years and the total rent of approximately RMB346,067,777, of which the lease principal is RMB300,000,000 and the total lease interest is approximately RMB46,067,777.

Gubei Tourism is a legal person indirectly controlled by China Everbright Group, the Bank's substantial shareholder, and constitutes a connected person of the Bank. As the highest applicable percentage ratio (as defined under the *Hong Kong Listing Rules*) in respect of the transaction contemplated under the financial leasing agreement is more than 0.1% but less than 5%, the transaction is subject to the reporting and announcement requirements but is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the *Hong Kong Listing Rules*.

For details about the transaction under the financial leasing agreement, please refer to the Bank's announcement dated 25 May 2020.

(2) Signing of aircraft sale and purchase agreements with connected legal person China Aircraft Leasing Group Holdings Limited ("CALC") (through its seven wholly-owned special purpose vehicles)

To effectively expand the aviation assets and customer base of Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing"), and enhance the quality and income of its aviation assets, on 2 July 2020, Everbright Financial Leasing (as the Purchaser) entered into aircraft sale and purchase agreements with CALC as the Vendor (through its seven wholly-owned special purpose vehicles), pursuant to which the Vendor agreed to transfer the ownership of seven Boeing B737-800 aircraft together with rights and obligations under the leasing agreements to the Purchaser. The respective consideration of the aircraft will be paid with self-owned funds of the Purchaser upon completion of each of the aircraft sale and purchase agreements. The market appraise value of the aircraft is made by an independent appraiser and is approximately USD316 million (equivalent to approximately HKD2.46 billion).

The Bank has applied to the HKEX for, and the HKEX has granted, exemption from strict compliance with (i) the Rules 14.58(4) and 14.58(7) of the *Hong Kong Listing Rules* regarding the disclosure of the transaction consideration and the net profit attributable to the assets; (ii) the Rule 14.58(6) of the *Hong Kong Listing Rules* regarding the net book value of the Subject of Transfer; and (iii) the Rule 14A.68(5) of the *Hong Kong Listing Rules* regarding the original cost of the Vendor's initial purchase of the Subject of Transfer.

China Everbright Group, the controlling shareholder of the Bank, indirectly controls China Everbright Limited, so CALC is a connected party of the Bank. As the highest applicable percentage ratio (as defined under the *Hong Kong Listing Rules*) in respect of the transactions contemplated under the aircraft sale and purchase agreements is more than 0.1% but less than 5%, the transactions are subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the *Hong Kong Listing Rules*.

For details about the transactions under the aircraft sale and purchase agreements, please refer to the Bank's announcement dated 2 July 2020.

ii. Exemptible Connected Transactions

During the reporting period, a series of connected transactions were carried out between the Bank and its connected persons in the ordinary course of business of the Bank. Pursuant to Chapter 14A of the Hong Kong Listing Rules, such connected transactions were exempted from reporting, annual review, announcement and independent shareholders' approval requirements.

XVIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

i. Significant Events of Material Custody, Contracting or Leasing Assets of Other Companies, or Other Companies' Material Custody, Contracting or Leasing Assets of the Bank

Except for routine business, during the reporting period, there was no significant matter in relation to any material arrangement for custody, contracting and leasing of assets by or to the Bank.

Significant Events

ii. Significant Guarantee

The provision of guarantee is in the ordinary course of business at the Bank. During the reporting period, the Bank did not enter into any material guarantee which needed to be disclosed save for the financial guarantees within its business scope as approved by PBOC and former CBRC.

iii. Explanatory Notes and Independent Opinion of Independent Non-executive Directors Concerning the Provision of Guarantee by the Bank

In accordance with relevant regulations and requirements of the *Circular on Certain Issues concerning Regulating Capital Flow between Listed Companies and Their Related Parties and Listed Companies' Provision of Guarantee (2017 revision)* (CSRC announcement [2017] No.16), Independent Non-executive Directors of the Bank reviewed guarantee provided by the Bank on a just, fair and objective basis and issued their opinion as follows:

It was verified that the provision of external guarantee is one of the routine operations the Bank, which has been approved by PBOC and the former CBRC. As at the end of the reporting period, the Bank had a guarantee outstanding for the RMB180 million payable interests of financial bonds issued by China Everbright Group, which was backed by counter guarantee provided by China Everbright Group with its 67.50 million shares of a large securities firm. Save as disclosed, for the balance of the guarantee business of the Bank, please refer to the "Notes to the Consolidated Financial Statements".

Attaching importance to the risk management of guarantee business, the Bank formulated specific business management measures and operating procedures, and effectively monitored and prevented risks in the guarantee business by on-site and off-site inspections. During the reporting period, no business in violation of the above-mentioned regulations took place in the Bank.

iv. Significant Authorization to Others in Matters Relating to Cash Assets Management

During the reporting period, there was no significant authorization to others in matters relating to cash assets management.

v. Other Material Contracts

During the reporting period, the Bank had no other material contracts, and all contracts regarding operations of ordinary business were duly performed.

XIX. FULFILLMENT OF SOCIAL RESPONSIBILITIES

i. Targeted Poverty Alleviation

The Bank took an active part in poverty alleviation work. During the reporting period, it donated RMB39.99 million to poverty-stricken counties targeted by China Everbright Group, increasing cumulative donations to more than RMB84 million. In facilitating poverty alleviation with financial services, the Bank set up three tier-2 branches and two county-level sub-branches and installed self-service banking facilities in designated areas, providing local villagers with convenience in accessing financial services. In supporting poverty alleviation through industrial development, the balance of targeted poverty alleviation loans reached RMB24,814 million, an increase of RMB5,143 million over the end of the previous year. In supporting poverty alleviation through e-commerce, the Bank leveraged its "Wonderful E-Shopping" e-commerce platform to help 80 national-level poverty-stricken counties in 18 provinces explore new paths of poverty alleviation. The e-commerce platform helped over 100 enterprises sell 1.17 million items of 393 poverty alleviation products, with total sales reaching RMB83.15 million. Specifically, RMB50.82 million worth of products were sold during the reporting period, an increase of 147.84% year on year. In supporting poverty alleviation through consumption, the Bank accumulatively purchased RMB65.24 million worth of agricultural products from poverty-stricken areas, which were distributed as employee benefits, used in staff canteens or put on sale in supermarkets. RMB43.22 million of purchases occurred during the reporting period. In promoting poverty alleviation through charity activities, the Bank made a commitment to donate RMB2.28 million to 2,888 students under the CEG "Mingde" one-to-one student assistance program of the Mingde Charity Foundation. The Bank made a total of RMB2.16 million donations to the "The Happiness Project – Helping Impoverished Mothers" for 10 consecutive years. Donations totaling over RMB40 million were also made to the "Water Cellar for Mothers" program for 15 years in a row, helping nearly 140,000 people get access to safe drinking water. Above all, the Bank donated a total of RMB45.32 million in 2020.

ii. Consumer Rights & Interests Protection

The Bank attached great importance to consumer protection and performed the primary responsibilities for consumer protection. The Board of Directors, the Board of Supervisors and the Senior Management assumed consumer protection duties, and promoted the integration of consumer protection into corporate governance, corporate culture building and business development strategies by regularly hearing and reviewing consumer protection reports and providing guidance, so as to continuously enhance the sense of happiness, security and gain of financial consumers. The Bank enhanced the guiding role of innovation, launched the financial consumer protection brand, "Sunshine Consumer Protection", and a series of brand building plans including launching new logos, introduced the innovative practice of "Sunshine Service", and rolled out the "Sunshine Partner" program. The organizational structure was optimized by not only setting up Channel Management Department/Consumer Rights & Interests Protection Department at the Head Office during the reporting period, responsible for organizing, coordinating, supervising, and guiding the bank-wide work on consumer protection, but also establishing departments in charge of consumer protection at 39 domestic tier-1 branches. Policies were reviewed and revised to standardize financial marketing and promotion activities, and quick compensation procedures were developed for the handling of small-value complaints. To implement the work requirements of solving the difficulties of the elderly in using intelligent technologies, the Bank included removing the digital divide facing the elderly in its consumer protection system, providing more intelligent products and services suitable for the elderly. The Bank also strengthened the monitoring and analysis of complaints and worked hard to eliminate root causes of complaints, optimize products and streamline service procedures in key business fields. During the reporting period, the Bank handled 21,733 complaints from customers. Geographically, complaints were concentrated in Guangdong Province, Shanghai Municipality and Beijing Municipality. By business segments, complaints mainly involved bank cards, debt collection and loan business.

Significant Events

iii. Environment Information

The Bank vigorously developed green finance, supported the development of energy-saving and environment-friendly industries, persisted on green operation, and carried out environment-friendly public welfare activities. The Bank is not among the key pollutant discharging units published by the Ministry of Environmental Protection.

iv. Please refer to the *2020 Corporate Social Responsibility Report* for details on targeted poverty alleviation, consumer protection and environment information, and the report is available on the websites of SSE, the HKEX and the Bank.

XX. OTHER SIGNIFICANT EVENTS

i. Equity change

Upon the approvals of both MOF and CBIRC, CHI transferred 10,250,916,094 A shares it held in the Bank (representing 19.53% of the total share capital of the Bank) to China Everbright Group. Upon the completion of the equity change on 9 July 2020, CHI no longer directly held any shares of the Bank. As the Bank's controlling shareholder is China Everbright Group, there was no change in the Bank's de facto controller.

ii. Increase in shareholding in the Bank by controlling shareholder China Everbright Group

On 14 October 2020, China Everbright Group increased its shareholding by 1,542,553,191 ordinary A shares of the Bank in total by way of conversion of convertible bonds. Before the conversion, China Everbright Group directly and indirectly held 25,472,743,396 ordinary shares of the Company, representing 48.53% of the total ordinary shares of the Company; after the conversion, China Everbright Group directly and indirectly held 27,015,296,587 ordinary shares of the Company, representing 49.999% of the total ordinary shares of the Bank.

iii. Completion of the issuance of non-fixed-term capital bonds

As approved by both CBIRC and PBOC, the Bank completed the issuance of non-fixed-term capital bonds on 22 September 2020. The size of issuance of the bonds is RMB40 billion. The coupon rate is 4.60% during the first five years, and will be adjusted every five years. The issuer shall have a conditional redemption right on every dividend payment date from the fifth year onwards. The proceeds from this issuance of the bonds will be used to replenish the Bank's additional tier-1 capital after deducting relevant issuance fees.

iv. Opening for business of Beijing Sunshine Consumer Finance Co., Ltd.

In January 2020, CBIRC approved the establishment of Beijing Sunshine Consumer Finance Co., Ltd. in Beijing by the Bank. On 17 August 2020, the company was opened for business.

v. Progress in establishment of CEB Tokyo Representative Office

In January 2020, the Bank's application for establishing CEB Tokyo Representative Office was approved by both domestic and overseas regulators. In September 2020, CBIRC approved the qualifications of the Chief Representative of CEB Tokyo Representative Office, and the representative office was official established.

vi. Progress in establishment of CEB Macao Branch

In November 2020, the Bank's application for establishing CEB Macao Branch was approved by CBIRC. As at the disclosure date of this Report, overseas regulatory approval and other preparations were in progress.

XXI. SIGNIFICANT EVENTS OF SUBSIDIARIES

i. Everbright Financial Leasing Co., Ltd.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged EY Hua Ming to audit its annual financial report.

ii. Everbright Wealth Management Co., Ltd.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged EY Hua Ming to audit its annual financial report.

iii. Beijing Sunshine Consumer Finance Co., Ltd.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged EY Hua Ming to audit its annual financial report.

iv. CEB International Investment Corporation Limited

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged EY to audit its financial report.

v. China Everbright Bank (Europe) S.A.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged EY to audit its financial report.

vi. Shaoshan Everbright Rural Bank Co., Ltd.

In December 2020, the rural bank changed its accounting firm from Baker Tilly China Certified Public Accountants LLP (Special General Partnership) to Hunan Zhengde United Certified Public Accountants LLP (General Partnership) for the audit of its annual financial report. During the reporting period, the rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material contract, judicial or administrative investigation or administrative penalty.

vii. Jiangsu Huai'an Everbright Rural Bank Co., Ltd.

In September 2020, the rural bank distributed cash dividends of RMB4 million among all shareholders. During the reporting period, the rural bank had an equity change, where its former shareholder Huai'an Shuanglong Weiye Technology Co., Ltd. transferred all the shares it held in the rural bank to Huai'an Hongyun Municipal Affairs Co., Ltd. and Huai'an Honghuai Agricultural Industry Development Co. Ltd. The rural bank had no material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Huai'an Xinrui Public Accounting Firm LLP to audit its annual financial report.

viii. Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

During the reporting period, the rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ganzhou Zhonghao Accounting Firm to audit its annual financial report.

XXII. PROFESSIONAL LIABILITY INSURANCE FOR THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, the Bank established a professional liability insurance system for the Directors, Supervisors and Senior Management in accordance with relevant laws, regulations and the *Articles of Association* of the Bank. The *Articles of Association* of the Bank and such professional liability insurance system set out relevant permitted indemnity provisions, and such insurance policies shall cover relevant liabilities of the insured parties and indemnify relevant fees resulted from possible litigations in accordance with provisions thereunder.

XXIII. SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

The Bank had no material subsequent event after the reporting period.

XXIV. REVIEW OF ANNUAL RESULTS

EY Hua Ming and EY respectively audited the Bank's financial statements, which were prepared according to the PRC GAAP and IFRS respectively, and issued the standard unqualified auditor's reports. The Board of Directors and its Audit Committee have reviewed the annual results and financial reports of the Bank for 2020.

XXV. PUBLICATION OF ANNUAL REPORT

The Annual Report, in Chinese and English, prepared by the Bank in accordance with the IFRS and the *Hong Kong Listing Rules*, are available at the websites of the HKEX and the Bank.

Changes in Ordinary Share Capital and Shareholders

I. CHANGES IN SHARES

Unit: share, %

		Before change		Changes during the reporting period	After change	
		Number	Percentage	Conversion of convertible bonds	Number	Percentage
I.	Shares subject to restrictions on sales	5,810,000,000	11.07	–	5,810,000,000	10.75
	Shares held by state-owned legal persons	5,810,000,000	11.07	–	5,810,000,000	10.75
II.	Shares not subject to restrictions on sales	46,679,323,101	88.93	1,542,585,878	48,221,908,979	89.25
	1. RMB-denominated ordinary shares	39,810,587,601	75.84	1,542,585,878	41,353,173,479	76.54
	2. Overseas listed foreign shares	6,868,735,500	13.09	–	6,868,735,500	12.71
III.	Total shares	52,489,323,101	100.00	1,542,585,878	54,031,908,979	100.00

II. SECURITIES ISSUANCE AND LISTING

i. Securities Issuance

During the reporting period, a total of RMB5,800,125,000 A-share convertible bonds were converted to A-share ordinary shares of the Bank, and the number of shares converted was 1,542,585,878, of which 1,542,553,191 were converted by China Everbright Group.

As at the end of the reporting period, the total shares of the Bank stood at 54,031,908,979 shares, including 41,353,173,479 A shares and 12,678,735,500 H shares.

ii. Bond Issuance and Redemption

On 22 September 2020, the Bank completed the issuance of RMB40 billion of non-fixed-term capital bonds. Please refer to "Section Seven Significant Events" and "Section Ten Issuance of Convertible Corporate Bonds" for details.

iii. Save for the above, there was no change in the total number of shares, shareholding structure, or assets and liabilities structure of the Bank as a result of bonus issue, capitalization of capital reserves, rights issue, adoption or exercise of share incentive scheme, mergers, capital reduction, listing of employee shares, bond issuance or for other reasons.

iv. The Bank had no employee shares.

III. NUMBER OF SHAREHOLDERS

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	188,755	878
Total number of shareholders as at the last trading day of the month prior to the disclosure of the A share annual report	188,308	–

Changes in Ordinary Share Capital and Shareholders

IV. SHAREHOLDING OF TOP TEN SHAREHOLDERS

Unit: Share, %

Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held	Shareholding percentage	Number of shares pledged/frozen
China Everbright Group Ltd.	State-owned legal person	11,793,469,285	A shares	23,359,409,561	43.23	–
		–	H shares	1,782,965,000	3.30	–
Hong Kong Securities Clearing Company Nominees Limited including	Overseas legal person	6,512,000	H shares	11,063,806,380	20.48	Unknown
Overseas Chinese Town Holdings Company	State-owned legal person	–	H shares	4,200,000,000	7.77	–
Ocean Fortune Investment Limited	Overseas legal person	–	H shares	1,605,286,000	2.97	–
China Life Reinsurance Company Ltd.	State-owned legal person	–	H shares	1,530,397,000	2.83	–
China Everbright Limited	Overseas legal person	–	A shares	1,572,735,868	2.91	–
China Securities Finance Corporation Limited	State-owned legal person	–	A shares	1,550,215,694	2.87	–
China Reinsurance (Group) Corporation	State-owned legal person	–	A shares	413,094,619	0.76	–
		–	H shares	376,393,000	0.70	–
Shenergy (Group) Co., Ltd.	State-owned legal person	–	A shares	766,002,403	1.42	–
COSCO Shipping (Shanghai) Investment Management Co., Ltd.	State-owned legal person	–	A shares	723,999,875	1.34	–
Hong Kong Securities Clearing Company Ltd.	Overseas legal person	-81,681,162	A shares	723,077,824	1.34	–
Central Huijin Asset Management Ltd.	State-owned legal person	–	A shares	629,693,300	1.17	–
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	–	A shares	626,063,556	1.16	–

Notes:

1. As at the end of the reporting period, 1,610 million H shares held by China Everbright Group and 4,200 million H shares held by Overseas Chinese Town Holdings Company were subject to restrictions on sales. Besides them, all other ordinary shares were not subject to restrictions on sales.

2. During the reporting period, China Everbright Group increased holding of 11,793,469,285 shares of the Bank, of which 10,250,916,094 shares were transferred from CHI, and 1,542,553,191 shares were converted from convertible bonds. Please refer to "Section Seven Significant Events" and "Section Ten Issuance of Convertible Corporate Bonds" for details.

3. The Bank was aware that as at the end of the reporting period, China Everbright Limited is a subsidiary indirectly controlled by China Everbright Group. China Life Reinsurance Company Ltd. is a wholly-owned subsidiary of China Reinsurance (Group) Corporation. COSCO Shipping (Shanghai) Investment Management Co., Ltd. and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China COSCO Shipping Corporation Limited. Save for the above, the Bank was not aware of any related party relationship or concerted actions among the above shareholders.

4. The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 11,063,806,380 H shares as at the end of the reporting period. Among them, 4,200,000,000, 1,605,286,000, 1,530,397,000, 376,393,000 and 172,965,000 H shares of the Bank were held by Overseas Chinese Town Holdings Company, Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., China Reinsurance (Group) Corporation and China Everbright Group respectively. The number of remaining H shares of the Bank held under it was 3,178,765,380 H shares.

5. As at the end of reporting period, as the nominee holder, Hong Kong Securities Clearing Company Ltd. held, designated by and on behalf of others, 723,077,824 A shares of the Bank in total, including the shares under Shanghai Stock Connect held by Hong Kong and overseas investors.

V. DATE OF TRADING FOR SHARES SUBJECT TO RESTRICTIONS ON SALES

Unit: Share

Date	Number of shares available for listing and trading upon the expiration of restrictions on sales	Remaining shares subject to restrictions on sales	Remaining shares not subject to restrictions on sales
22 December 2022	5,810,000,000	5,810,000,000	48,221,908,979

VI. SHAREHOLDING OF TOP TEN HOLDERS OF SHARES SUBJECT TO RESTRICTIONS ON SALES AND SPECIFIC TERMS OF RESTRICTIONS

Unit: Share

Name of shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales	Date for trading	Number of shares newly available for listing and trading	Specific terms of restrictions
Overseas Chinese Town Holdings Company	4,200,000,000	2022-12-22	–	H-share lock-up period
China Everbright Group Ltd.	1,610,000,000	2022-12-22	–	H-share lock-up period

VII. CONFIRMATION OF COMPLIANCE WITH REQUIREMENT OF SUFFICIENCY OF PUBLIC FLOAT UNDER THE *HONG KONG LISTING RULES*

Based on publicly available information and to the knowledge of the Directors, as at 31 December 2020, the Bank had maintained the minimum public float as required by the *Hong Kong Listing Rules* and the waiver granted by HKEX.

VIII. SUBSTANTIAL SHAREHOLDERS

i. Controlling shareholder

1. Basic information

Company name:	China Everbright Group Ltd.
Legal representative:	Li Xiaopeng
Date of establishment:	12 November 1990
Registered capital:	RMB78,134,503,680
Scope of business:	investment in and management of financial enterprises engaged in banking, securities, insurance, fund, trust, futures, leasing, gold and silver trading; asset management; investment in and management of non-financial enterprises. (Business activities shall be carried out subject to the company's free choice according to law; business activities which are subject to relevant approval in accordance with applicable laws shall be carried out only after obtaining such approvals granted by competent regulatory authorities; and no business activities in the prohibited and restricted categories of Beijing industry policies shall be carried out).

Changes in Ordinary Share Capital and Shareholders

2. Shareholding in other domestic and overseas listed companies

As at 31 December 2020, the shareholding of China Everbright Group in other domestic and overseas listed companies were listed as follows:

Company name	Stock exchanges for listing	Shareholding Percentage (%)
Everbright Securities Co., Ltd.	SSE, HKEX	45.98
China Everbright Limited	HKEX	49.74
China Everbright Environment Group Limited	HKEX	43.08
China CYTS Tours Holding Co., Ltd.	SSE	21.14
Cachet Pharmaceutical Company Limited	SZSE	28.47
Everbright Grand China Assets Limited	HKEX	74.99
Shenwan Hongyuan Group Co., Ltd.	SZSE, HKEX	3.99

3. The controlling shareholder of China Everbright Group is CHI with a shareholding percentage reaching 63.16%

4. Shareholding relationship between China Everbright Group and the Bank:

5. There is no pledge or freezing of China Everbright Group's equity.

ii. Other Substantial Shareholders Holding More than 5% Shares of the Bank

Overseas Chinese Town Holdings Company directly holds 7.77% shares of the Bank, and dispatches directors to the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is the State-owned Assets Supervision and Administration Commission of the State Council of China, with the shareholding percentage up to 100%. The company was established in December 1987, with a registered capital of RMB12 billion, and its legal representative is Mr. Duan Xiannian. It mainly engages in investment in tourism and related cultural industries (including performing arts, entertainment and its services), industry, real estate, commerce and trade, packaging, decoration and printing industries; tourism, warehouse rental, arts and culture, donated car bonded warehouse, and conference and exhibition services. There is no pledge or freezing of the company's equity.

iii. Other Substantial Shareholders under Regulatory Standards

In accordance with the *Interim Measures for Equity Management of Commercial Banks* (Decree No.1 of CBRC in 2018), substantial shareholders of the Bank include:

1. China COSCO Shipping Corporation Limited ("COSCO Shipping") indirectly holds a total of 4.31% shares of the Bank through its subsidiaries COSCO Shipping (Shanghai) Investment Management Co., Ltd. and Ocean Fortune Investment Limited, and dispatches directors to the Bank, thus imposing a substantial influence on the Bank. Established in February 2016 with a registered capital of RMB11 billion and legal representative of Xu Lirong, COSCO Shipping is mainly engaged in the auxiliary business of international shipping and sea transportation; import and export of goods and technologies; international sea, land and air freight agency business; self-owned ship chartering; sales of ships, containers and steel; design of ocean engineering equipment; investment in docks and ports; sales of communication equipment, and provision of information and technical services; storage (except for hazardous chemicals); technological development, transfer, consultation and services in the fields of shipping and spare parts; and equity investment fund. There is no pledge or freezing of the company's equity.

2. China Reinsurance (Group) Corporation directly and indirectly holds a total of 4.29% shares of the Bank and dispatches directors to the Bank, thus imposing a substantial influence on the Bank. Its controlling shareholder is CHI, with the shareholding percentage up to 71.56%. China Reinsurance (Group) Corporation was established in August 1996 with a registered capital of RMB42,479.80 million, and its legal representative is Yuan Linjiang. It mainly engages in the establishment of insurance enterprises through investment, investment business and domestic and international reinsurance business permitted by national laws and regulations. There is no pledge or freezing of the company's equity.

3. China Everbright Limited holds 2.91% shares of the Bank and dispatches supervisors to the Bank, thus imposing a substantial influence on the Bank. China Everbright Limited, which was founded in August 1972 (the name of "Everbright Limited" was adopted in 1997), has issued 1,685 million shares, and its Chairman is Zhao Wei. The company is China's leading cross-border investment and asset management company, and a Hong Kong-listed company with alternative asset management as its core business. Committed to becoming a "world-leading cross-border asset management company", the company is mainly engaged in fund management and proprietary fund investment. Meanwhile, the company develops coordinately by providing funds required for project cultivation and fund development through proprietary fund investment business. There is no pledge or freezing of the company's equity.

4. Shenergy (Group) Co., Ltd. holds 1.42% shares of the Bank and dispatches supervisors to the Bank, thus imposing a substantial influence on the Bank. The company is under the actual control of Shanghai Municipal State-owned Assets Supervision and Administration Commission. Established in November 1996, with a registered capital of RMB20 billion and its legal representative of Huang Di'nan, the company mainly engages in the investment, development and management of basic industries of electric power and energy, investment in natural gas resources and urban gas pipe network, investment in and management of real estate and high-tech industries, industry investment, asset management and domestic trade (except special provisions). There is no pledge or freezing of the company's equity.

iv. Related Party Transactions with the Substantial Shareholders

The Bank had treated more than 2,200 enterprises including the above substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries as the Bank's related parties. During the reporting period, the Bank incurred 83 related party transactions with 65 related parties, involving a total amount of RMB124,380 million. The above related party transactions had been reported to the Board of Directors and its Related Party Transactions Control Committee for approval or filing purpose in accordance with related procedures.

IX. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2020, as far as the directors and supervisors of the Bank were aware, the following persons or corporations (other than directors, supervisors or chief executives of the Bank) had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the *Securities and Futures Ordinance of Hong Kong* ("HKSFO") or which were required to be notified to the Bank:

Name of substantial shareholder	Class of shares	Type of interest	Long/Short position	Number of shares	Percentage of relevant shares in issue (%)[4,5]	Percentage of the total issued shares (%)[4,5]
China COSCO Shipping Corporation Limited[1]	H shares	Interest of controlled corporation	Long	1,605,286,000	12.66	2.97
China Shipping (Group) Company[1]	H shares	Interest of controlled corporation	Long	1,605,286,000	12.66	2.97
COSCO Shipping Financial Holdings Co., Limited[1]	H shares	Interest of controlled corporation	Long	1,605,286,000	12.66	2.97
Ocean Fortune Investment Limited[1]	H shares	Beneficial owner	Long	1,605,286,000	12.66	2.97
Central Huijin Investment Ltd.[2]	H shares	Interest of controlled corporation	Long	3,773,385,000	29.76	6.98
China Everbright Group Ltd.[2]	H shares	Beneficial owner/Interest of controlled corporation	Long	1,866,595,000	14.72	3.45
China Reinsurance (Group) Corporation[2]	H shares	Beneficial owner/Interest of controlled corporation	Long	1,906,790,000	15.04	3.53
China Life Reinsurance Company Ltd.[2]	H shares	Beneficial owner	Long	1,530,397,000	12.07	2.83
Overseas Chinese Town Holdings Company	H shares	Beneficial owner	Long	4,200,000,000	33.13	7.77
China Everbright Group Ltd.[3]	A shares	Beneficial owner/Interest of controlled corporation	Long	25,922,412,492	62.69	47.98
Central Huijin Investment Ltd.[3]	A shares	Interest of controlled corporation	Long	26,965,200,411	65.21	49.91

Notes:

1. Ocean Fortune Investment Limited holds a long position in 1,605,286,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited is wholly-owned by COSCO Shipping Financial Holdings Co., Limited, which is wholly-owned by China Shipping (Group) Company. China Shipping (Group) Company is wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the HKSFO, China COSCO Shipping Corporation Limited, China Shipping (Group) Company and COSCO Shipping Financial Holdings Co., Limited are all deemed to have interests in the 1,605,286,000 H shares held by Ocean Fortune Investment Limited.

2. China Life Reinsurance Company Ltd. holds a long position in 1,530,397,000 H shares of the Bank directly. China Reinsurance (Group) Corporation holds a long position in 376,393,000 H shares of the Bank directly. China Everbright Group directly holds a long position in 1,782,965,000 H shares of the Bank. China Everbright Holdings Company Limited holds a long position in 83,630,000 H shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. is wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation is held by CHI. China Everbright Group Holdings Company Limited is wholly-owned by China Everbright Group, while 63.16% of the issued share capital of China Everbright Group is held by CHI. In accordance with the HKSFO, China Reinsurance (Group) Corporation is deemed to have interests in the 1,530,397,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group is deemed to have interests in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, CHI is deemed to have interests in a total of 3,773,385,000 H shares of the Bank indirectly.

3. China Everbright Group directly holds a long position in 24,133,120,466 A shares of the Bank, and is deemed to indirectly hold a long position in a total of 1,789,292,026 A shares of the Bank through its subsidiaries as follows:

   (1) China Everbright Limited directly holds a long position in 1,572,735,868 A shares of the Bank.

   (2) Meiguang Enyu (Shanghai) Properties Company Limited directly holds a long position of 148,156,258 A shares of the Bank.

   (3) China Everbright Investment and Assets Management Co., Ltd. directly holds a long position of 8,000,000 A shares of the Bank.

   (4) Everbright Financial Holding Asset Management Co., Ltd. directly holds a long position of 60,399,900 A shares of the Bank.

   Therefore, China Everbright Group directly and indirectly holds a long position of 25,922,412,492 A shares of the Bank in total.

   China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly hold a long position of 413,094,619 and 629,693,300 A shares of the Bank, respectively. As far as the Bank is aware, 100% of the issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 63.16% of the issued share capital of China Everbright Group are held by CHI respectively. In accordance with the HKSFO, CHI is deemed to hold a long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., a long position in 413,094,619 A shares held by China Reinsurance (Group) Corporation, and a long position in 25,922,412,492 A shares held by China Everbright Group. Therefore, CHI directly and indirectly holds a long position of 26,965,200,411 A shares of the Bank in total.

4. As at 31 December 2020, the total issued share capital of the Bank was 54,031,908,979 shares, including 41,353,173,479 A shares and 12,678,735,500 H shares.

5. The percentage of shareholdings is rounded to two decimal places.

6. The data disclosed above is based on the information provided on the website of HKEX and the information obtained by the Bank as at the end of the reporting period.

Save as disclosed above, as at 31 December 2020, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the HKSFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the HKSFO.

X. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 31 December 2020, as far as the directors and supervisors of the Bank were aware, none of the directors, supervisors nor the chief executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Divisions 7 and 8 of Part XV of the HKSFO) which were required to be recorded in the register required to be kept and notified to the Bank and HKEX under Section 352 of the HKSFO, or which were required to be notified to the Bank and HKEX pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")* set out in Appendix 10 to the *Hong Kong Listing Rules*, nor had they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

Changes in Preference Share Capital and Shareholders

I. ISSUANCE AND LISTING OF PREFERENCE SHARES

Unit: %, Ten Thousand Shares

Code	Abbreviation	Date of issuance	Issuance price (RMB)	Coupon rate	Issuance volume	Date of listing	Approved volume for listing and trading	Date of delisting
360013	Everbright P1	19 June 2015	100	4.45	20,000	21 July 2015	20,000	–
360022	Everbright P2	8 August 2016	100	3.90	10,000	26 August 2016	10,000	–
360034	Everbright P3	15 July 2019	100	4.80	35,000	5 August 2019	35,000	–

II. USE OF PROCEEDS

In response to higher capital requirements raised by regulators, the Bank issued preference shares to ensure sustainable business development and improve its capital structure. All the proceeds were used to replenish the additional tier-1 capital.

III. TOTAL NUMBER OF PREFERENCE SHAREHOLDERS AND SHAREHOLDINGS OF TOP TEN PREFERENCE SHAREHOLDERS

i. Everbright P1 (Code 360013)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period				20		
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report				20		
Name of shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/ frozen
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	37,750,000	18.88	Domestic preference shares	–
China International Capital Corporation Limited	Others	19,000,000	19,000,000	9.50	Domestic preference shares	–
China CITIC Bank Corporation Limited	Others	–	17,750,000	8.88	Domestic preference shares	–
TruValue Asset Management Co., Ltd.	Others	–	15,510,000	7.76	Domestic preference shares	–
BOC International (China) Co., Ltd.	Others	–	15,500,000	7.75	Domestic preference shares	–
Ping An Property & Casualty Insurance Company of China Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
Ping An Life Insurance Company of China, Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
CCB Trust Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
BOCOM Schroders Asset Management Co., Ltd.	Others	8,200,000	8,200,000	4.10	Domestic preference shares	–
China Resources SZITIC Trust Co., Ltd.	Others	-6,100,000	7,770,000	3.89	Domestic preference shares	–

Note: Bank of Communications Schroder Fund Management Co., Ltd. and BOCOM Schroders Asset Management Co., Ltd. are related parties. Ping An Property & Casualty Insurance Company of China, Ltd. and Ping An Life Insurance Company of China, Ltd. are related parties. Save for the above, the Bank is not aware of any related party relationship or concerted actions among the above holders of preference shares, as well as between the above preference shareholders and the top ten ordinary shareholders.

Changes in Preference Share Capital and Shareholders

ii. Everbright P2 (Code 360022)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period					22	
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report					22	
Name of shareholder	**Nature of shareholder**	**Changes in shareholding during the reporting period**	**Number of shares held**	**Percentage of shareholding**	**Type of shares**	**Number of shares pledged/frozen**
AXA SPDB Investment Managers Co., Ltd.	Others	–	16,470,000	16.47	Domestic preference shares	–
AEGON-Industrial Capital Management (Shanghai) Co., Ltd.	Others	-900,000	12,190,000	12.19	Domestic preference shares	–
China Everbright Group Ltd.	State-owned legal person	–	10,000,000	10.00	Domestic preference shares	–
China Life Insurance Company Limited	Others	–	8,180,000	8.18	Domestic preference shares	–
Postal Savings Bank of China Co., Ltd.	Others	–	7,200,000	7.20	Domestic preference shares	–
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	6,540,000	6.54	Domestic preference shares	–
Bank of Communications International Trust Co., Ltd.	Others	–	6,540,000	6.54	Domestic preference shares	–
BOC International (China) Co., Ltd.	Others	2,610,000	5,880,000	5.88	Domestic preference shares	–
Bosera Asset Management Co., Limited	Others	1,300,000	3,910,000	3.91	Domestic preference shares	–
China Resources SZITIC Trust Co., Ltd.	Others	–	3,680,000	3.68	Domestic preference shares	–

Note: Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. are related parties. China Everbright Group is one of the top ten holders of the ordinary shares of the Bank. Save for the above, the Bank is not aware of any related party relationship or concerted actions among the above holders of preference shares, as well as between the above preference shareholders and the top ten ordinary shareholders.

iii. Everbright P3 (Code 360034)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period					23	
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report					23	
Name of shareholder	**Nature of shareholder**	**Changes in shareholding during the reporting period**	**Number of shares held**	**Percentage of shareholding**	**Type of shares**	**Number of shares pledged/frozen**
Ping An Life Insurance Company of China, Ltd.	Others	–	84,110,000	24.04	Domestic preference shares	–
China Life Insurance Company Limited	Others	–	47,720,000	13.63	Domestic preference shares	–
CCB Trust Co., Ltd.	Others	–	31,810,000	9.09	Domestic preference shares	–
BOCOM Schroder Fund Management Co., Ltd.	Others	–	27,270,000	7.79	Domestic preference shares	–
New China Life Insurance Company Limited	Others	–	27,270,000	7.79	Domestic preference shares	–
Ping An Property & Casualty Insurance Company of China, Ltd.	Others	–	18,180,000	5.19	Domestic preference shares	–
CITIC-Prudential Life Insurance Company Limited	Others	–	15,000,000	4.28	Domestic preference shares	–
Postal Savings Bank of China Co., Ltd.	Others	–	13,630,000	3.89	Domestic preference shares	–
China Post & Capital Fund Management Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
BOC International (China) Co., Ltd.	Others	9,090,000	9,090,000	2.60	Domestic preference shares	–
Taiping Life Insurance Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
Bank of Beijing Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
China Resources SZITIC Trust Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–
Guotai Junan Securities Asset Management Co., Ltd.	Others	9,090,000	9,090,000	2.60	Domestic preference shares	–
Bosera Asset Management Co., Limited	Others	-4,540,000	9,090,000	2.60	Domestic preference shares	–

Note: Ping An Life Insurance Company of China, Ltd. and Ping An Property & Casualty Insurance Company of China, Ltd. are related parties. Postal Savings Bank of China Co., Ltd. and China Post & Capital Fund Management Co., Ltd. are related parties. Save as disclosed above, the Bank is not aware of any related party relationship or concerted actions among the above holders of preference share, as well as between the above preference shareholders and the top ten ordinary shareholders.

Changes in Preference Share Capital and Shareholders

IV. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

1. Policy on profit distribution for preference shares

Everbright P1, Everbright P2 and Everbright P3 issued by the Bank are priced at coupon rates subject to adjustments at different intervals. The coupon rate shall remain unchanged for the first five years commencing from the issuance date. Subsequently, the coupon rate shall be adjusted once every five years, and remain unchanged for each new period. Through market consultation, the first coupon rate for the Everbright P1, Everbright P2 and Everbright P3 was 5.30%, 3.90% and 4.80% respectively. Of these, on 25th June 2020, the coupon rate for the Everbright P1 was adjusted to the second coupon rate of 4.45%, as the first coupon rate had been applied for five years.

The dividends on the above three preference shares are non-cumulative, and the dividends shall be paid in cash. Under the circumstance that the Bank decides to cancel part of or all of the dividend payment of the preference shares, the undistributed dividends shall not be carried forward to the following dividend period. The preference shareholders are not entitled to the distribution of the remaining profit along with ordinary shareholders after receiving dividends at the agreed rate.

2. Scheme on profit distribution for preference shares

The Bank distributed the dividends for Everbright P1 on 29 June 2020 at a dividend rate of 5.30% (before tax). The dividends for the Everbright P2 was distributed on 11 August 2020 at a dividend rate of 3.90% (before tax). As agreed, the dividends on Everbright P1 and Everbright P2 shall be paid annually. The Bank shall convene a board meeting at least ten working days prior to the dividend payment date of the Everbright P1 (i.e. 25 June 2021) and the Everbright P2 (i.e. 11 August 2021) to consider issues relating to the dividend payment.

The Bank distributed the dividends for Everbright P3 on 17 April 2020, with a dividend rate of 4.80% (before tax). The dividends for Everbright P3 is distributed once every fiscal year. The Bank will implement the dividend distribution plan within 15 working days after review and approval by the Board of Directors.

3. Amount and proportion of the distributed dividends on preference shares in last three years

Unit: RMB million, %

Item	2020	2019	2018
Dividend amount	2,219	1,450	1,450
Proportion of distribution	100.00	100.00	100.00

Note: Proportion of distribution is based on the declared dividends and the agreed dividends payable for the year.

V. DURING THE REPORTING PERIOD, THERE WAS NO REDEMPTION OF PREFERENCE SHARES OR CONVERSION OF PREFERENCE SHARES INTO ORDINARY SHARES BY THE BANK. FOR THE DETAILS OF THE PREFERENCE SHARE REPURCHASE AND THE TRIGGER CONDITIONS OF CONVERSION OF PREFERENCE SHARES INTO ORDINARY SHARES, PLEASE REFER TO THE PROSPECTUSES RELEASED AT PREFERENCE SHARE ISSUANCES OF THE BANK.

VI. DURING THE REPORTING PERIOD, THERE WAS NO VOTING RIGHT RESTORATION OF THE PREFERENCE SHARES OF THE BANK.

VII. ACCOUNTING POLICIES FOR PREFERENCE SHARES OF THE BANK AND REASONS FOR ADOPTION

According to the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments* and *Rules on Differentiating the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF, the preference shares issued by the Bank were accounted for as an equity instrument.

Issuance of Convertible Corporate Bonds

I. OVERVIEW

On 17 March 2017, the Bank completed the issuance of the A share convertible bonds. The proceeds amounted to RMB30 billion and the net funds stood at some RMB29,923 million after deducting the issuance expense. The proceeds were used in business development, which could replenish core tier-1 capital after conversion. On 5 April 2017, the above-mentioned A share convertible bonds were listed on SSE (bond name: Everbright Convertible Bonds, stock code: 113011).

II. HOLDERS OF CONVERTIBLE BONDS AND GUARANTORS DURING THE REPORTING PERIOD

Unit: RMB, %

Convertible bond holders as at the end of the reporting period	3,954	
Guarantors of convertible bonds of the Bank	Nil	
Top ten convertible bond holders	**Par value of bond held at period end**	**Percentage of bonds held**
Specific account for collateralized repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China)	3,365,173,000	13.91
China Everbright Group Ltd.	2,909,153,000	12.02
Specific account for collateralized repurchase in the securities depository and clearing system (Bank of China)	2,086,104,000	8.62
Specific account for collateralized repurchase in the securities depository and clearing system (China Construction Bank)	1,388,377,000	5.74
Specific account for collateralized repurchase in the securities depository and clearing system (Agricultural Bank of China)	804,521,000	3.32
Specific account for collateralized repurchase in the securities depository and clearing system (Bank of Communications)	775,508,000	3.20
Specific account for collateralized repurchase in the securities depository and clearing system (China Merchants Bank)	732,295,000	3.03
Specific account for collateralized repurchase in the securities depository and clearing system (Shanghai Pudong Development Bank)	494,893,000	2.05
Specific account for collateralized repurchase in the securities depository and clearing system (Ping An Bank)	414,546,000	1.71
Enterprise annuity scheme of China National Petroleum Corporation – Industrial and Commercial Bank of China	358,556,000	1.48

III. CHANGES IN CONVERTIBLE BONDS

For the A share convertible bonds issued by the Bank, the conversion period commenced from the first trading day after six months from the completion of the issuance (18 September 2017) and ended on the bond maturity date (16 March 2023). As at the end of the reporting period, a total of RMB5,801,090,000 "Everbright Convertible Bonds" were converted into A shares of the Bank, and the number of accumulated converted shares reached 1,542,813,979. In 2020, a total of 1,542,585,878 shares worth RMB5,800,125,000 were converted, of which 1,542,553,191 worth RMB5,800,000,000 were converted by China Everbright Group.

IV. PREVIOUS ADJUSTMENTS OF CONVERSION PRICE

Unit: RMB per share

Date of adjustment	Conversion price after adjustment	Disclosure date	Media of disclosure	Reasons for adjustment
5 July 2017	4.26	27 June 2017	HKEX website, website of the Bank	Due to profit distribution for ordinary A shares for 2016
26 December 2017	4.31	22 December 2017	Ibid.	Due to non-public issuance of H shares
27 July 2018	4.13	20 July 2018	Ibid.	Due to profit distribution for ordinary A shares for 2017
26 June 2019	3.97	18 June 2019	Ibid.	Due to profit distribution for ordinary A shares for 2018
24 June 2020	3.76	15 June 2020	Ibid.	Due to profit distribution for ordinary A shares for 2019
Conversion price as of the disclosure date of the reporting period				3.76

V. THE BANK'S OUTSTANDING DEBTS, CREDIT WORTHINESS AND AVAILABILITY OF CASH FOR REPAYMENT OF DEBTS IN FUTURE YEARS

In accordance with the applicable provisions in the *Administrative Measures for the Issuance of Securities by Listed Companies* and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, the Bank entrusted China Chengxin International Credit Rating Co., Ltd. ("CCXI") to track and rate the credit standing of its A share convertible bonds issued in 2017. CCXI *issued the Tracking and Rating Report on A Share Convertible Corporate Bonds (2020) of China Everbright Bank Company Limited* on 27 May 2020 based on the comprehensive analysis and evaluation of the Bank's operating results and the industry situation, maintaining the credit rating of the bond issuer as AAA with a table outlook and the credit rating of Everbright Convertible Bonds as AAA. The rating incurred no change from the previous one. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash flows from operating and investment activities will constitute the cash sources of debt repayment.

Directors, Supervisors, Senior Management, Staff and Business Outlets

I. INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Term of Office	Total remuneration from the Bank during the reporting period (Pretax, RMB10,000)	Whether received remuneration from the related party
Li Xiaopeng	Secretary of CPC Committee, Chairman, Non-executive Director	Male	61	Mar. 2018-Jul. 2022	–	Yes
Wu Lijun	Vice Chairman, Non-executive Director	Male	56	Mar. 2020-Jul. 2022	–	Yes
Fu Wanjun	Non-executive Director	Male	52	Feb. 2021-Jul. 2022	–	Yes
Yao Zhongyou	Member of CPC Committee, Executive Director, Executive Vice President	Male	57	Feb. 2021-Jul. 2022	239.02	No
Qu Liang	Member of CPC Committee, Executive Director, Executive Vice President and Secretary of CPC Committee and President of Beijing Branch	Male	54	Feb. 2021-Jul. 2022	280.03	No
Yao Wei	Non-executive Director	Male	45	Feb. 2021-Jul. 2022	–	Yes
Liu Chong	Non-executive Director	Male	51	Dec. 2019-Jul. 2022	–	Yes
Yu Chunling	Non-executive Director	Female	54	Nov. 2019-Jul. 2022	–	Yes
Xu Hongcai	Independent Non-executive Director	Male	56	Feb. 2015-Feb. 2021	43.00	No
Feng Lun	Independent Non-executive Director	Male	61	Feb. 2015-Jul. 2019	36.00	Yes
Wang Liguo	Independent Non-executive Director	Male	63	Jan. 2017-Jul. 2022	42.00	No
Shao Ruiqing	Independent Non-executive Director	Male	63	Aug. 2019-Jul. 2022	42.58	Yes
Hong Yongmiao	Independent Non-executive Director	Male	57	Sep. 2019-Jul. 2022	43.00	No
Li Yinquan	Independent Non-executive Director	Male	66	Jun. 2020-Jul. 2022	21.50	Yes
Lu Hong	Member of CPC Committee, Chairman of the Board of Supervisors, Shareholder Supervisor	Male	57	Mar. 2021-Jul. 2022	–	No
Yin Lianchen	Shareholder Supervisor	Male	54	Dec. 2014-Jul. 2022	–	Yes
Wu Junhao	Shareholder Supervisor	Male	55	Nov. 2009-Jul. 2022	–	Yes
Wu Gaolian	External Supervisor	Male	68	Jun. 2016-Jul. 2022	–	No
Wang Zhe	External Supervisor	Male	60	Nov. 2016-Jul. 2022	33.00	Yes
Qiao Zhimin	External Supervisor	Male	68	Sep. 2019-Jul. 2022	34.00	Yes
Xu Keshun	Employee Supervisor	Male	54	Jul. 2019-Jul. 2022	246.25	No
Sun Jianwei	Employee Supervisor	Male	54	Jul. 2019-Jul. 2022	198.73	No
Shang Wencheng	Employee Supervisor	Male	45	Jul. 2019-Jul. 2022	213.90	No
Wu Chongkuan	Member of CPC Committee (Executive Vice President level), Chairman of the Working Committee of the Labor Union	Male	58	Apr. 2014-	239.02	No
Dong Tiefeng	Member of CPC Committee, Secretary of Discipline Inspection Committee (Executive Vice President level)	Male	53	Dec. 2020-	–	No
Li Jiayan	Member of CPC Committee (Executive Vice President level), Secretary to the Board of Directors	Male	57	Jan. 2018-	233.77	No
Qi Ye	Member of CPC Committee, Executive Vice President	Female	51	Jul. 2020-	137.04	No
Yang Bingbing	Member of CPC Committee, Executive Vice President	Male	50	Jul. 2020-	137.04	No
Total remuneration received from the Bank					2,219.88	

Notes:

1. The remuneration of Directors and Supervisors is subject to approval of the Shareholders' General Meeting.

2. The remuneration of certain Directors, Supervisors of the Bank has not been finalized and an announcement will be made for further disclosure in due course.

3. The remuneration of Directors, Supervisors and Senior Management serving in 2020 was calculated according to the actual term of office.

4. On February 2021, due to the expiry of term of office, Mr. Xu Hongcai ceased to be Independent Non-executive Director of the Bank. Before his successor's qualification for serving as Independent Non-executive Director of the Bank is approved by CBIRC, he will resume this position temporarily.

5. Mr. Feng Lun ceased to be Independent Non-executive Director of the Bank after the 2019 Second Extraordinary General Meeting as of 30 July 2019. Before his successor's qualification for serving as Independent Non-executive Director of the Bank is approved by CBIRC, he will resume this position temporarily.

6. Mr. Lu Hong took the position of Chairman of the Board of Supervisors of the Bank as of 26 March 2021. In 2020, he did not receive any remuneration for Chairman of the Board of Supervisors.

7. During the reporting period, none of the Directors, Supervisors and Senior Management held any share of the Bank.

8. During the reporting period, the Bank did not implement any share incentive scheme, and none of the Directors, Supervisors and Senior Management held share option of the Bank's shares or was granted any restrictive shares.

9. None of the incumbent Directors, Supervisors and Senior Management of the Bank has been subject to any penalty by any securities regulatory authorities in the recent three years.

II. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT WHO RESIGNED DURING THE REPORTING PERIOD

Name	Position	Gender	Age	Term of Office	Total remuneration from the Bank during the reporting period (Pretax, RMB10,000)	Whether received remuneration from the related party
Liu Jin	Deputy Secretary of CPC Committee, Executive Director, President	Male	54	Mar. 2020-Mar. 2021	64.42	No
Cai Yunge	Non-executive Director	Male	49	May 2017-Sep. 2020	–	Yes
Lu Hong	Executive Director, Executive Vice President	Male	57	Oct. 2019-Mar. 2021	241.66	No
Wang Xiaolin	Non-executive Director	Male	58	Oct. 2018-Jul. 2020	–	Yes
Shi Yongyan	Non-executive Director	Male	52	May 2018-Jul. 2020	–	Yes
Dou Hongquan	Non-executive Director	Male	52	Oct. 2019-Jul. 2020	–	Yes
He Haibin	Non-executive Director	Male	46	May 2018-Jul. 2020	–	Yes
Fok Oi Ling Catherine	Independent Non-executive Director	Female	62	Jan. 2014-Jun. 2020	21.50	Yes
Li Xin	Chairman of the Board of Supervisors, Shareholder Supervisor	Male	60	Jun. 2015-Jan. 2021	241.65	No
Huang Haiqing	Member of CPC Committee, Secretary of Discipline Committee (Executive Vice President Level)	Male	56	Jun. 2016-Sep. 2020	180.64	No
Sun Qiang	Member of CPC Committee, Executive Vice President	Male	52	Aug. 2016-May 2020	98.92	No
Total remuneration received from the Bank					848.79	

Notes:

1. Mr. Liu Jin resigned from the positions of Deputy Secretary of CPC Committee, Executive Director and President of the Bank as of 16 March 2021 due to work adjustment.

2. Mr. Lu Hong resigned from the positions of Executive Director and Executive Vice President of the Bank as of 2 March 2021 due to work adjustment.

3. Mr. Li Xin resigned from the positions of Chairman of the Board of Supervisors and Shareholder Supervisor of the Bank as of 19 January 2021 due to retirement.

4. The remuneration of resigned Directors, Supervisors and Senior Management of the Bank for 2020 was calculated according to their actual term of office.

5. None of the Directors, Supervisors and Senior Management who resigned from the Bank had been subject to penalty from the securities regulatory authorities in the past three years.

III. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

i. Changes of Directors

1. On 25 March 2020, CBIRC approved Mr. Wu Lijun's qualifications for serving as Director and Vice Chairman of the Bank.

2. On 25 March 2020, CBIRC approved Mr. Liu Jin's qualification for serving as Executive Director of the Bank.

3. On 26 March 2020, the Bank's 2020 First Extraordinary General Meeting elected Mr. Li Yinquan as Independent Non-executive Director of the Bank. On 11 June 2020, CBIRC approved the qualification of Mr. Li Yinquan for serving as Independent Non-executive Director of the Bank.

4. On 11 June 2020, due to the expiry of term of office, Ms. Fok Oi Ling Catherine ceased to be Independent Non-executive Director of the Bank, Chairperson and member of Related Party Transactions Control Committee, member of Audit Committee, member of Nomination Committee, and member of Remuneration Committee of the Board of Directors of the Bank.

5. On 27 July 2020, due to work adjustment, Mr. He Haibin resigned from the positions as Non-executive Director of the Bank, member of Audit Committee, and member of Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Board of Directors of the Bank.

6. On 28 July 2020, due to equity change and work adjustment, Mr. Wang Xiaolin resigned from the positions as Non-executive Director of the Bank, Chairman and member of Risk Management Committee, member of Strategy Committee, and member of Remuneration Committee of the Board of Directors of the Bank.

7. On 28 July 2020, due to equity change and work adjustment, Mr. Shi Yongyan resigned from the positions as Non-executive Director of the Bank, member of Nomination Committee, and member of Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Board of Directors of the Bank.

8. On 28 July 2020, due to equity change and work adjustment, Mr. Dou Hongquan resigned from the positions as Non-executive Director of the Bank, member of Strategy Committee, and member of Inclusive Finance Development and Consumer Rights and Interests Protection Committee of the Board of Directors of the Bank.

9. On 23 September 2020, due to work adjustment, Mr. Cai Yunge resigned from the positions as Non-executive Director of the Bank, member of Risk Management Committee, and member of Audit Committee of the Board of Directors of the Bank.

10. On 30 October 2020, the 2020 Second Extraordinary General Meeting elected Mr. Fu Wanjun and Mr. Yao Wei as Non-executive Directors of the Bank and Mr. Yao Zhongyou and Mr. Qu Liang as Executive Directors of the Bank. On 5 February 2021, CBIRC approved their qualifications as Directors of the Bank.

11. On 2 March 2021, due to work adjustment, Mr. Lu Hong resigned from the positions as Executive Director of the Bank, and member of Risk Management Committee of the Board of Directors of the Bank.

12. On 16 March 2021, due to work adjustment, Mr. Liu Jin resigned from the positions as Executive Director of the Bank, Chairman and member of Risk Management Committee, Chairman and member of Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of Strategy Committee of the Board of Directors of the Bank.

Directors, Supervisors, Senior Management, Staff and Business Outlets

ii. Changes of Supervisors

1. On 19 January 2021, due to retirement, Mr. Li Xin resigned from the positions as Chairman of the Board of Supervisors and Shareholder Supervisor of the Bank, and member of the Nomination Committee of the Board of Supervisors of the Bank.

2. On 2 February 2021, the 10th Meeting of the Eighth Session of the Board of Supervisors approved to nominate Mr. Lu Hong as candidate for Shareholder Supervisor of the Bank. On 25 March 2021, the 2021 First Extraordinary General Meeting elected Mr. Lu Hong as Shareholder Supervisor of the Bank. On 26 March 2021, the 11th Meeting of the Eighth Session of the Board of Supervisors elected Mr. Lu Hong as Chairman of the Board of Supervisors of the Bank.

iii. Changes of Senior Management

1. On 13 January 2020, CBIRC approved Mr. Liu Jin's qualifications for serving as President of the Bank.

2. On 5 March 2020, CBIRC approved Mr. Qu Liang's qualifications for serving as Executive Vice President of the Bank.

3. On 19 May 2020, due to work adjustment, Mr. Sun Qiang resigned from the position as Executive Vice President of the Bank.

4. On 19 May 2020, the 15th Meeting of the Eighth Session of the Board of Directors approved to appoint Ms. Qi Ye as Executive Vice President of the Bank. On 24 July 2020, CBIRC approved her qualifications for serving as Executive Vice President of the Bank.

5. On 19 May 2020, the 15th Meeting of the Eighth Session of the Board of Directors approved to appoint Mr. Yang Bingbing as Executive Vice President of the Bank. On 24 July 2020, the CBIRC approved his qualifications for serving as Executive Vice President of the Bank.

6. On 22 September 2020, Mr. Huang Haiqing ceased to serve as Secretary of Discipline Inspection Committee (Executive Vice President Level) of the Bank.

7. On 8 December 2020, Mr. Dong Tiefeng took the position as Secretary of Discipline Inspection Committee (Executive Vice President Level) of the Bank.

8. On 2 March 2021, due to work adjustment, Mr. Lu Hong resigned from the position as Executive Vice President of the Bank.

9. On 16 March 2021, due to work adjustment, Mr. Liu Jin resigned from the position as President of the Bank.

IV. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

1. Mr. Liu Chong, Non-executive Director of the Bank, concurrently served as Chairman of Dong Fang International Container (Hong Kong) Co., Ltd.

2. Mr. Xu Hongcai, Independent Non-executive Director of the Bank, concurrently served as Independent Director of Bank of Hebei Co., Ltd. and China Life Asset Management Company Limited.

3. Mr. Wang Liguo, Independent Non-executive Director of the Bank, concurrently served as Director of Dalian Yadong Investment Consulting Co., Ltd. but ceased to serve as its Chairman.

V. REMUNERATION POLICIES OF THE BANK

The Bank had formulated and put into force remuneration management policies including the *Management Measures for Remuneration of Employees*, the *Management Measures for Remuneration of Senior Management*, the *Management Measures for Remuneration of Leadership of Branches*, and the *Management Measures for Remuneration and Welfare of Personnel Dispatched to Overseas Institutions*. The policies specify the management principles, scope of application, main contents and relevant procedures, and establish a unified remuneration system with unified rights and responsibilities while taking account of both intra-institution fairness and market-oriented principles.

VI. PROCEDURES FOR DETERMINING THE REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, BASIS FOR DETERMINING THE REMUNERATION AND THE ACTUAL REMUNERATION PAID

Remuneration of Directors and Senior Management of the Bank were verified and paid in accordance with the *Articles of Association* of the Bank. The remuneration plan for Directors and Senior Management is reviewed by the Remuneration Committee of the Board of Directors before it was submitted to the Board of Directors for approval. The remuneration plan for Directors was further subject to the Annual General Meeting for approval.

Remuneration of Supervisors of the Bank was verified and paid in accordance with the *Articles of Association* of the Bank. The remuneration plan was reviewed by the Nomination Committee of the Board of Supervisors and then was considered by the Board of Supervisors, before it was subject to the shareholders' general meeting for approval.

Details about the Remuneration for the Directors, Supervisors and Senior Management of the Bank in 2020 are available in Part I and Part II of this section.

VII. POSITIONS HELD IN SHAREHOLDING COMPANIES BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of shareholder	Position	Terms of Office
Li Xiaopeng	China Everbright Group Ltd.	Secretary of CPC Committee, Chairman	Dec. 2017 to the present
	China Everbright Group Holdings Limited	Chairman	Dec. 2017 to the present
Wu Lijun	China Everbright Group Ltd.	Deputy Secretary of CPC Committee Vice Chairman, General Manager	Sep. 2019 to the present Nov. 2019 to the present
Fu Wanjun	China Everbright Group Ltd.	Member of CPC Committee, Deputy General Manager	Mar. 2019 to the present
Yao Wei	Overseas Chinese Town Holdings Company	Member of the Standing Committee of CPC Committee, Chief Accountant	Jul. 2020 to the present
Liu Chong	COSCO Shipping Development Co., Ltd.	Member of CPC Committee, Managing Director	Mar. 2016 to the present
Yu Chunling	China Re Asset Management Company Ltd.	Secretary of CPC Committee, Vice Chairman, General Manager	Oct. 2018 to the present
Yin Lianchen	China Everbright Limited	Chief Investment Officer Executive Director	Apr. 2012 to the present Jun. 2017 to the present
Wu Junhao	Shenergy (Group) Co., Ltd.	General Manager of Financial Management Department	Apr. 2011 to the present

VIII. WORKING EXPERIENCE, APPOINTMENT AND CONCURRENT APPOINTMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

i. Directors

Mr. Li Xiaopeng

Mr. Li Xiaopeng joined the Bank as Chairman of the Board of Directors in March 2018 and has served as Secretary of CPC Committee of the Bank since December 2017. Currently, he is also Secretary of CPC Committee and Chairman of China Everbright Group Ltd., Honorary Principal of CPC Party School at China Everbright Group Ltd. and of Everbright Academy, Chairman of the Board of Directors at China Everbright Group Holdings Limited, Vice Chairman of China Chamber of International Commerce, and Honorary Chairman of Hong Kong China Enterprise Association. He was Member of CPC Committee and Deputy General Manager of Henan Provincial Branch of ICBC, General Manager of the Banking Department of the Head Office of ICBC, Secretary of CPC Committee and General Manager of ICBC Sichuan Provincial Branch, Member of CPC Committee and Vice President of China Huarong Asset Management Corporation, Member of CPC Committee and Assistant President of the Head Office of ICBC, Secretary of CPC Committee and General Manager of ICBC Beijing Municipal Branch, Member of CPC Committee, Executive Director and Executive Vice President of ICBC, Deputy Secretary of CPC Committee and Chairman of the Board of Supervisors of China Investment Corporation, and Deputy CPC Committee Secretary, Vice Chairman and General Manager of China Merchants Group. He was also Chairman of ICBC International Holdings Limited, Chairman of ICBC Financial Leasing Co., Ltd., Chairman of ICBC Credit Suisse Asset Management Co., Ltd., Vice Chairman of China Merchants Bank Co., Ltd., Chairman of China Merchants Energy Shipping Co., Ltd., Chairman of China Merchants Port Holdings Company Limited, Chairman of China Merchants Huajian Highway Investment Co., Ltd., Chairman of China Merchants Capital Investment Co., Ltd., Chairman of China Merchants Joint Development Co., Ltd., and Chairman of China Merchants Investment Development Company Limited. He graduated from Wuhan University, holds a doctoral degree in economics, and is a senior economist. Mr. Li is a member of the Committee for Economic Affairs of the Thirteenth Session of the CPPCC National Committee.

Mr. Wu Lijun

Mr. Wu Lijun has served as Vice Chairman of the Board of Directors of the Bank since March 2020. He is currently Deputy Secretary of CPC Committee, Vice Chairman and General Manager of China Everbright Group Ltd. He served as Deputy Director (Deputy Bureau Director Level) of State Material Reserve Regulatory Center of Ministry of Domestic Trade, Chief of Information Center, Deputy Director (Presiding) of Training Center, Director of Personnel Education Department and Director of Party Organization Department of China Securities Regulatory Commission (CSRC). He also served as Member of CPC Party Committee and Assistant Chairman of CSRC, Chairman of the Board of Directors and CPC Party Secretary (Deputy Minister Level) of Shenzhen Stock Exchange. He obtained a doctoral degree in economics from Renmin University of China. He is a senior economist.

Mr. Fu Wanjun

Mr. Fu Wanjun has served as Director of the Bank since February 2021. He is currently Member of CPC Committee and Deputy General Manager of China Everbright Group Ltd. He served as the Deputy Manager of Credit and Loan Department II, Deputy Manager and Manager of Marketing Department II, Assistant General Manager, Deputy General Manager, Member of CPC Committee of Urumqi Branch of Bank of Communications (BOCOM), Secretary of CPC Committee and General Manager of BOCOM Yinchuan Branch, Secretary of CPC Committee and General Manager of BOCOM Xinjiang District (Urumqi) Branch, Secretary of CPC Committee and General Manager of BOCOM Chongqing Branch, General Manager (principal level in provincial branches) of Corporate and Institutional Business Department of BOCOM Head Office, Business Director (in charge of corporate and institutional business segment) of BOCOM Head Office. He obtained an EMBA (Executive Master in Business Administration) degree from Dalian University of Technology. He is a senior economist.

Mr. Yao Zhongyou

Mr. Yao Zhongyou has served as Executive Director of the Bank since February 2021, Executive Vice President of the Bank since August 2014, and Member of CPC Committee of the Bank since May 2014. He served as Deputy Manager of International Business Department of Hebei Provincial Branch of China Construction Bank (CCB), General Manager, Secretary of CPC Leading Group of CPC Committee of CCB Chengde Branch, Director of General Office, Deputy General Manager and Member of CPC Committee of CCB Hebei Provincial Branch, Deputy General Manager of Equity Management Department of China Everbright (Group) Corporation, Executive Director, Member of CPC Committee and Vice President of Everbright Financial Holding Asset Management Co., Ltd., and General Manager of Financial Management Department of China Everbright (Group) Corporation. He graduated from Wuhan University majoring in finance and obtained a master’s degree in economics. He is a senior economist.

Mr. Qu Liang

Mr. Qu Liang has served as Executive Director of the Bank since February 2021, Executive Vice President of the Bank since March 2020, and Member of CPC Committee of the Bank and Secretary of CPC Committee and General Manager of Beijing Branch of the Bank since September 2018. He served as Deputy General Manager of Corporate Business Department of Henan Provincial Branch of ICBC, Director of General Office, General Manager of Corporate Banking Department II, General Manager of Corporate Banking Department I of Zhengzhou Branch of China Merchants Bank (CMB), Deputy General Manager of Corporate Banking Department at CMB Head Office, Secretary of CPC Committee, General Manager of CMB Hohhot Branch, Secretary of CPC Committee, General Manager of CMB Chongqing Branch, Commissioner of Comprehensively Deepening Reform Leading Group Office (headquarters department head level) of China Everbright Group Ltd. He graduated from Zhengzhou University with a bachelor’s degree in politics, and obtained a master’s degree in economic law at Zhengzhou University. He is a senior economist.

Directors, Supervisors, Senior Management, Staff and Business Outlets

Mr. Yao Wei

Mr. Yao Wei has served as Director of the Bank since February 2021. He is currently a Standing Member of CPC Committee and Chief Accountant of Overseas Chinese Town Group Company Limited. He successively served as Deputy Director, Director of Assets Division (Fixed Assets), and Head of Internal Control Group of Accounting Division of Finance Department in Daya Bay Nuclear Power Operations and Management Co., Ltd. (DNMC), staff, Budget Director, Tax Manager, Senior Manager, Chief of General Finance Division of Finance Department in China General Nuclear Power Group Corporation, Chief Accountant of CGN Wind Energy Ltd., Chief Accountant of CGN Meiya Power Holdings Co., Ltd. (later renamed as CGN New Energy Holdings Co., Ltd.), Deputy General Manager (Presiding), General Manager of Finance Department, General Manager of Finance and Asset Management Department of China General Nuclear Power Group Corporation. He once concurrently served as Chief Accountant of CGN Solar Energy Development Co., Ltd., Chairman of CGNPC International Limited and Executive Director of Shenzhen Nengzhihui Investment Co., Ltd. He graduated from Zhongnan University of Economics and Law, majoring in accounting, and obtained a bachelor’s degree in economics. He is a certified public accountant.

Mr. Liu Chong

Mr. Liu Chong has served as Director of the Bank since December 2019. He currently serves as Member of CPC Committee and Managing Director of COSCO Shipping Development Co., Ltd., and concurrently as Non-executive Director of China Cinda Asset Management Co., Ltd. He successively served as Deputy General Manager of China Shipping Investment Co., Ltd., Deputy General Manager of China Shipping Logistics Co., Ltd., Chief Accountant of China Shipping (Hainan) Haisheng Co., Ltd., Director of Capital Management Department of China Shipping (Group) Company, Chief Accountant of China Shipping Container Lines Co., Ltd., General Manager of China Shipping Investment Co., Ltd., and Vice Chairman of China International Marine Containers (Group) Ltd. He graduated from Sun Yat-sen University majoring in economics and obtained a bachelor’s degree in economics. He is a senior accountant.

Ms. Yu Chunling

Ms. Yu Chunling has served as Director of the Bank since November 2019. She is currently Secretary of CPC Committee, Vice Chairman and General Manager of China Re Asset Management Company Ltd. She once served as Deputy Division Chief of Planning Division of General Planning Department, Division Chief of General Office of Investment Business Department, Division Chief of Operation Management Division of General Planning Department, Deputy Director of Operation Center, Deputy Director of General Planning Department, Director of Treasury & Financial Market Department, and General Manager of Tianjin Branch of China Development Bank. She graduated from Chinese Academy of Fiscal Sciences of Ministry of Finance majoring in finance and obtained a doctoral degree in economics. She is a senior accountant.

Mr. Xu Hongcai

Mr. Xu Hongcai has served as Independent Non-executive Director of the Bank since February 2015. He is currently Managing Director of China Association of Policy Science and Deputy Director of its Economic Policy Committee, Deputy Chairman of American Returned Scholars Association of Western Returned Scholars Association (WRSA), Senior Researcher of China-US Relations Research Center of WRSA, and Part-time Professor of Central University of Finance and Economics. He concurrently serves as Independent Director of China Life Asset Management Company Limited and Independent Director of Hebei Bank Co., Ltd. He successively served as Clerk at the Head Office of PBOC, Deputy General Manager at Shanghai Office of GF Securities, Vice President at Beijing Venture Capital Co., Ltd., Professor at Capital University of Economics and Business, and Assistant Engineer of China Petrochemical Corporation. He graduated from Renmin University of China with a master’s degree in philosophy, and then graduated from the Graduate School of Chinese Academy of Social Sciences with a doctoral degree in economics.

Mr. Feng Lun

Mr. Feng Lun has served as Independent Non-executive Director of the Bank since February 2015. He is Executive Director of Beijing Sifang Yufeng Investment Co., Ltd. He once served as Lecturer at Party School of Central Committee of CPC, Deputy Director at Research Center of System Reform Institute of State Economic System Reform Commission, Senior Vice President of Research Center of Hainan Reform and Development Research Institute, and Director of China Minsheng Banking Corp., Ltd. He founded Vantone Group in 1991. He obtained a bachelor's degree in economics from Northwest University, a master's degree in law from Party School of Central Committee of CPC, a doctorate degree in law from Graduate School of Chinese Academy of Social Sciences and a master's degree in public policy (MPP) from Lee Kuan Yew School of Public Policy at National University of Singapore.

Mr. Wang Liguo

Mr. Wang Liguo has served as Independent Non-executive Director of the Bank since January 2017. He is currently Professor (National Second Class) of Dongbei University of Finance and Economics, Doctoral Tutor, Chief Expert of Major Bidding Projects of National Social Science Fund, Director of China Investment Association, Executive Director of Construction Economics Branch of China Construction Industry Association, Vice Chairman of Dalian Engineering Consulting Association, Director of Dalian Yadong Investment Consulting Co., Ltd. He once served as Lecturer and Associate Professor of Dongbei University of Finance and Economics, Dean of School of Investment Engineering Management of Dongbei University of Finance and Economics, and Member of Higher Education Engineering Management Major Evaluation Committee of Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a bachelor's degree in economics and a master's degree in economics and then a doctoral degree in industrial economics.

Mr. Shao Ruiqing

Mr. Shao Ruiqing has served as Independent Non-executive Director of the Bank since August 2019. He is currently Professor and Doctoral Tutor in accounting at Shanghai Lixin University of Accounting and Finance. He also holds such positions as Vice President of China Communications Accounting Society, Executive Director of Accounting Society of China, Vice President and Chairman of Academic Committee of Shanghai Accounting Association, Executive Director of Shanghai Audit Association, Member of Accounting & Finance Expert Advisory Committee of Ministry of Transport of the People's Republic of China, Consulting Expert of China Accounting Standards Committee of Ministry of Finance, Independent Director of China Eastern Airlines Corporation Limited, Independent Director of HUAYU Automotive Systems Co., Ltd., Independent Director of Tibet Urban Development and Investment Co., Ltd., and Independent Director of Shanghai International Port (Group) Co., Ltd. He once served as Teaching Assistant, Lecturer, Associate Professor of the Economics Faculty of Department of Economics of Shanghai Maritime University (during the period of which, he received Sino-British Friendship Scholarship for studying and conducting research in maritime finance at University of Wales in the United Kingdom), Associate Professor, Dean of Accounting Faculty of Shanghai Maritime University, Professor, Dean of Finance & Accounting Faculty of Shanghai Maritime University (during the period of which, he received national fund from Studying Abroad Program and was a senior visiting scholar at University of Sydney, Australia), Professor, Deputy Dean of School of Management of Shanghai Maritime University, Professor, Doctoral Tutor, Dean of School of Economics and Management of Shanghai Maritime University, Professor, Doctoral Tutor, Vice President of Shanghai Lixin University of Accounting, Deputy to the 13th Shanghai Municipal People's Congress; and External Supervisor of China Merchants Bank. He respectively obtained a bachelor's degree in economics from Shanghai Maritime University, a master's degree in management from Shanghai University of Finance and Economics and a doctoral degree in management from Tongji University. He is entitled to a special government allowance provided by the State Council of China, and is also an Honorary Fellow Member of the Association of International Accountants.

Mr. Hong Yongmiao

Mr. Hong Yongmiao has served as Independent Non-executive Director of the Bank since September 2019. He is currently Distinguished Researcher of the Academy of Mathematics and Systems Science of Chinese Academy of Sciences, Distinguished Professor of the School of Economics and Management of University of Chinese Academy of Sciences, Member at Academy of Sciences for the Developing World, Fellow of Econometric Society, Vice Chairman of Economics Professional Teaching Mentoring Committee of Higher College of Ministry of Education, Co-editor of *China Journal of Econometrics*. He was previously President of the Chinese Economists Society and Independent Non-executive Director of ICBC. He obtained a bachelor's degree in science and a master's degree in economics from Xiamen University, and a doctoral degree in economics from University of California, San Diego in the United States.

Mr. Li Yinquan

Mr. Li Yinquan has served as Independent Non-executive Director of the Bank since June 2020. He is currently Director of China Merchants Capital Investment Co., Ltd. He is also Independent Non-executive Director of Genertec Universal Medical Group Company Limited, Million Cities Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited, Kimou Environmental Holding Limited, and Lizhi, Inc. He served as Assistant General Manager, Deputy General Manager level cadre of International Business Department, Head of Preparatory Group of New York Branch, Deputy General Manager of HR & Education Department, Deputy General Manager of Hong Kong Branch of Agricultural Bank of China. He also served as General Manager of Planning and Finance Department, Chief Financial Officer (Chief Accountant), Vice President of China Merchants Group Co., Ltd., General Manager, CEO, Chairman of China Merchants Capital Investment Co., Ltd., Executive Director of China Merchants Holdings (International) Company Limited, Non-executive Director of China Merchants Bank Co., Ltd., Executive Director of China Merchants Energy Shipping Co., Ltd., Executive Director of China Merchants China Direct Investments Limited. He graduated from the Graduate School of the People's Bank of China and obtained a master's degree in economics. He later obtained a master's degree in finance development in Finafrica Institute, Italy. He is a senior economist.

ii. Supervisors

Mr. Lu Hong

Mr. Lu Hong has served as Chairman of the Board of Supervisors and Supervisor of the Bank since March 2021, and has been Member of CPC Committee of the Bank since March 2009. He joined the Bank in 1994 and served successively as Manager of Securities Affairs Department, Division Chief of the Office of the Board of Directors, Assistant General Manager of Planning and Finance Department, General Manager of Planning and Finance Department of Beijing branch, Deputy General Manager of Financial Accounting Department of the Head Office, Deputy General Manager and General Manager of Planning and Finance Department of the Bank. From September 2009 to March 2021, he served successively as Secretary of the Board of Directors, Executive Vice President and Executive Director of the Bank. He used to be an engineer of China Railway Economic and Planning Research Institute under the Ministry of Railways and Manager of Investment Banking Department of Huaxia Securities Co., Ltd. He graduated from Shanghai Railway Institute with a master's degree in railway engineering and a doctoral degree in applied economics from Xi'an Jiaotong University. He is a senior accountant.

Mr. Yin Lianchen

Mr. Yin Lianchen has served as Supervisor of the Bank since December 2014. He is currently Managing Director, Chief Investment Officer of China Everbright Limited, Non-executive Director of Everbright Securities Co., Ltd. He successively served as General Manager of Corporate Administration Department, Director of Securities Brokerage Department, Director of Planning & Communication Department of China Everbright Limited, Chief Representative of Moody's KMV (China), Deputy General Manager of Beijing Yonder Investment Group, Chief of General Office of China Everbright (Group) Corporation, Assistant General Manager of China Everbright Limited, and Deputy Division Chief of Asset Management Division of Banking Regulation Department I of PBOC. He graduated from Nankai University with a master's degree in western financial accounting.

Mr. Wu Junhao

Mr. Wu Junhao has served as Supervisor of the Bank since November 2009. He is General Manager of Financial Management Department of Shenergy (Group) Limited and concurrently serves as Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He successively served as Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of Asset Management Department and Deputy (Acting) Director of Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a master's degree in enterprise management at East China Normal University.

Mr. Wu Gaolian

Mr. Wu Gaolian has served as External Supervisor of the Bank since June 2016. He successively served as Standing Committee Member of Party Committee, Deputy County Magistrate, Deputy Managing Magistrate of Fusong County of Jilin Province, General Manager of Jilin Tonghua Branch, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (the People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director, President of China Reinsurance (Group) Corporation, Director of China Everbright Bank Co., Ltd., and Director of China Everbright Group Ltd. He graduated from Graduate School of Chinese Academy of Social Sciences majoring in the economics of money and banking. He holds a master's degree and is a senior economist.

Mr. Wang Zhe

Mr. Wang Zhe has served as External Supervisor of the Bank since November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry, and serves concurrently as Vice President of Shanghai Financial Association, Independent Director of Shanghai Pudong Development Bank, and Independent Director of Boill Healthcare Holdings Limited. He successively served as Clerk of Monetary Division, Deputy Division Chief of General Office of PBOC, Manager of China Gold Coin Shenzhen Commercial Center, Deputy General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Center, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman, Secretary of CPC Committee of Shanghai Gold Exchange, and Secretary of CPC Committee of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a master's degree.

Directors, Supervisors, Senior Management, Staff and Business Outlets

Mr. Qiao Zhimin

Mr. Qiao Zhimin has served as External Supervisor of the Bank since September 2019. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd. He once served as Deputy Division Director of Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch, Deputy General Manager of General Planning Department of the Head Office of BOC, Deputy Director-General of Accounting Department, Deputy Director-General of Banking Supervision Department I of PBOC; Chief of Regulation Team (Director-General Level) for ICBC, Director of Finance and Accounting Department of former CBRC, Vice Chairman of the 4th Session of Board of Supervisors and Chairman of the 5th Session of Board of Supervisors for China Minsheng Banking Corp., Ltd., Independent Non-executive Director of the Bank. He graduated from Hunan College of Finance and Economics, majoring in finance. He holds a master's degree and is a senior accountant.

Mr. Xu Keshun

Mr. Xu Keshun has served as Employee Supervisor of the Bank since July 2019. He is currently Chief of Office of the Board of Supervisors of the Bank (General Manager Level of the Head Office). He served as Principal Staff Member of HR Office and General Office of Henan Branch of China Construction Bank, Deputy General Manager (Presiding) of HR & Education Department, General Manager of Business Development Department of Zhengzhou Branch, and Deputy General Director of HR & Education Department of the Head Office of China Investment Bank, Director of Audit Division of Henan Branch of China Development Bank, Member of CPC Committee, Deputy General Manager of Zhengzhou Branch of the Bank, Secretary of CPC Committee, General Manager of Yantai Branch, Secretary of CPC Committee and General Manager of Zhengzhou Branch of the Bank. He obtained an EMBA degree from Guanghua School of Management of Peking University and is a senior economist.

Mr. Sun Jianwei

Mr. Sun Jianwei has served as Employee Supervisor of the Bank since July 2019. He is currently General Manager of Legal & Compliance Department of the Bank. He served as Deputy Manager of Foreign Exchange and Credit Department of International Department, Assistant Division Chief of Credit Review Division of Credit Approval Department, Division Chief of Asset Recovery Division, Division Chief of System Collection Division, Division Chief of System Management Division and Assistant General Manager of Asset Preservation Department of the Head Office of the Bank. He was once Member of CPC Committee, Assistant General Manager, Chief Risk Officer of Kunming Branch, Member of CPC Committee, Deputy General Manager, Chief Risk Director, Secretary of Discipline Inspection Committee of Shijiazhuang Branch, Deputy Secretary (Presiding) of CPC Committee, Deputy General Manager (Presiding), Secretary of CPC Committee, General Manager of Heilongjiang Branch of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree and is an economist.

Mr. Shang Wencheng

Mr. Shang Wencheng has served as Employee Supervisor of the Bank since July 2019. He is currently General Manger of Auditing Department of the Bank. He served as Deputy Chief of Financial Management Division of Finance and Planning Department, Accredited Financial Supervisor (Senior Manager Level) of Credit Card Center, Accredited Financial Supervisor (Senior Manager Level) of Information Technology Department, Senior Manager of Financial Management Division, and Senior Manager of Management Accounting Division of Planning and Finance Department, Deputy Director of Auditing Center (East) (first Assistant General Manager Level and then Deputy General Manager Level of the Head Office) and Deputy General Manager of Auditing Department of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree, and then obtained a doctoral degree in finance from Dongbei University of Finance and Economics. He is a senior economist, a senior accountant, and a certified public accountant.

iii. Senior Management

Mr. Wu Chongkuan

Mr. Wu Chongkuan has served as Member of CPC Committee (Executive Vice President Level) of the Bank since April 2014. He is currently Chairman of Labor Union Committee and Chairman of Labor Union of the Bank, and Vice Chairman of Labor Union Committee of China Everbright Group. He joined the Bank in May 1997 and took several positions including Head, General Manager of General Office, General Manager of Special Assets Management Department (during which he concurrently served as Head of the Bank's Xi'an Group for Accepting Branches of China Investment Bank), Secretary of CPC Committee, General Manager of Heilongjiang Branch, Secretary of CPC Committee, General Manager of Shanghai Branch, Director of Working Committee of Labor Union. He previously served as Division Chief of Research & General Affairs Division of China International Staff Service Center, Head, General Manager of Fund Business Department of China Rural Development Trust Investment Company. He graduated from Northwestern Polytechnical University majoring in space engineering, and obtained a bachelor's degree in engineering. He is an engineer.

Mr. Yao Zhongyou

Please refer to "i. Directors".

Mr. Dong Tiefeng

Mr. Dong Tiefeng has served as Member of CPC Committee and Secretary of Disciplinary Committee (Executive Vice President Level) since December 2020. He served as Deputy Division Chief of Chinese Bank Supervision Division, Deputy Division Chief of Foreign Bank Supervision Division II, Division Chief of Foreign Bank Supervision Division I of Supervision Department I of PBOC, Division Chief of Chinese Bank Supervision Division of Banking Supervision Department I, Deputy Director of Banking Supervision Department I, Deputy Director of Human Resources Department, Deputy Director of Party Committee Organization Department, Inspector of Human Resources Department (also Party Committee Organization Department) of the former CBRC, General Manager of Legal & Compliance Department of China Everbright Bank, Deputy Director-General of Party Organization Department, Deputy Director-General of Publicity Department, Deputy Director-General of Human Resources Department (department head), Director-General of Party Committee Organization Department, Director-General of Publicity Department, Deputy Director-General of Human Resources Department, Vice Principal of Party School of China Everbright (Group) Corporation, Director-General of Party Committee Organization Department, Director-General of Publicity Department, Director-General of Human Resources Department, Vice Principal of Party School, Member of Discipline Inspection Committee, Member of CPC Committee of the Head Office, General Manager of Human Resource Department, Director-General of United Front Work Department of China Everbright Group Ltd. (CEG), Vice Principal of both CEG Party School and Everbright Academy. He graduated from School of Economics, Hebei University, majoring in world economics, and obtained a doctoral degree in economics. He is a senior economist.

Mr. Qu Liang

Please refer to "i. Directors".

Mr. Li Jiayan

Mr. Li Jiayan has served as Secretary to the Board of Directors of the Bank since January 2018 and Member of CPC Committee (Executive Vice President Level) of the Bank since July 2019, and concurrently served as Representative of Securities Affairs of the Bank. He joined the Bank in November 2005, and successively served as Deputy General Manager of Development Research Department, Deputy General Manager of Strategic Management Department, Deputy Chief of Office of the Board of Directors and Supervisors (Deputy General Manager Level), Deputy Chief of Office of the Board of Directors (Listing Office), Representative of Securities Affairs (General Manager Level), Head of Listing Office (General Manager Level), General Manager of Capital & Securities Affairs Management Department. He used to work as Deputy Division Chief of Project Approval Division of Foreign Investment Office, Director of Complaints Center for Foreign Investors and Division Chief of Coordination & Management Division of Foreign Investment Office under Wuhan Municipal Government, Executive Deputy General Manager of Wuhan PKF International Investment Co., Ltd. He graduated from School of Law, Wuhan University, and obtained a bachelor's degree and a master's degree in law. Later he went to School of Law of University of California, Berkeley for further study, and obtained a master's degree and a doctoral degree in law.

Ms. Qi Ye

Ms. Qi Ye has served as Executive Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. She joined the Bank in 1992 and was successively Clerk of Credit Department of the Head Office, cadre of Hainan Representative Office, Assistant General Manager, Executive Vice President of the Haikou Branch (Affiliated to the Branch), Deputy General Manager of Personal Business Department of the Head Office (later renamed as Retail Banking Department), Risk Director of Retail Banking Department (Deputy General Manager Level of the Head Office), Accredited Retail Risk Director of Risk Management Department (Deputy General Manager Level of the Head Office), Risk Director of Micro-finance Department (General Manager Level of the Head Office), Deputy General Manager (General Manager Level of the Head Office), General Manager of Retail Banking Department, and Chief Business Supervisor of the Bank. She graduated from Economics Faculty of Beijing Normal University, majoring in economic management, and later obtained a master's degree in business administration from the International Business Administration program jointly organized by Peking University and Fordham University. She is an economist.

Mr. Yang Bingbing

Mr. Yang Bingbing has served as Executive Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. He joined the Bank in 2005 and has served successively as Assistant General Manager, Deputy General Manager of Risk Management Department of the Head Office, Deputy General Manager (Presiding), General Manager of Information Technology Department, General Manager of Electronic Banking Department, General Manager of Digital Banking Department, and Chief Business Supervisor of the Bank. He served as Deputy Principal Staff Member, Principal Staff Member of Unified Credit Management Division of Risk Management Department of the Head Office (during which, he served as Deputy Director (Presiding) of Credit Management Division of Risk Management Department of Bank of China (Hong Kong) Limited), Senior Risk Manager (in charge of Risk Management Planning) of Risk Management Department of Bank of China Limited. He graduated from School of Business Administration of Hong Kong Polytechnic University with a master's degree in business administration. He is a senior economist.

IX. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and Supervisors of the Bank had interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

X. FINANCIAL, BUSINESS AND KINSHIP RELATIONSHIPS AMONG MEMBERS OF THE BOARD OF DIRECTORS

Saved as disclosed in this Report, there is no financial, business, kinship relationships or other material relationships among the members of the Board of Directors.

XI. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

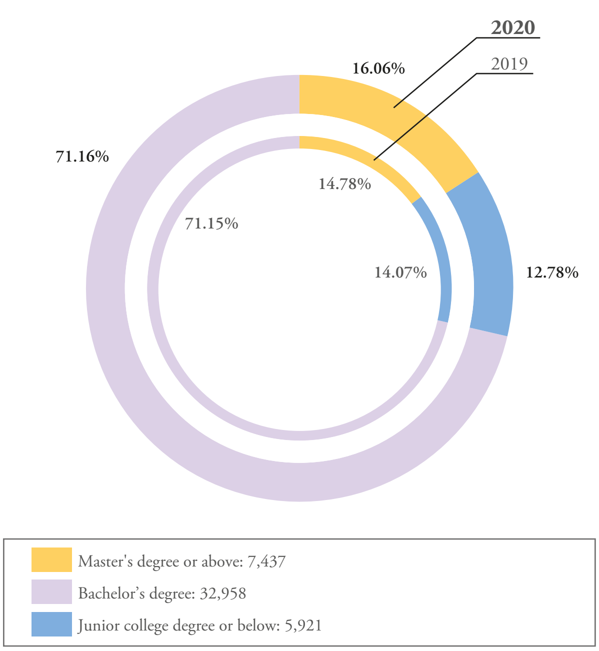
None of the Directors or Supervisors of the Bank or related parties had any material interest in any material transaction, arrangements or contracts to which the Bank or any of its subsidiaries was a party during the reporting period. None of the Directors or Supervisors of the Bank entered into any service contract, pursuant to which the Bank shall compensate to Director or Supervisor if the contract for each year is terminated for the Bank's reason (excluding statutory compensation).

XII. EMPLOYEES

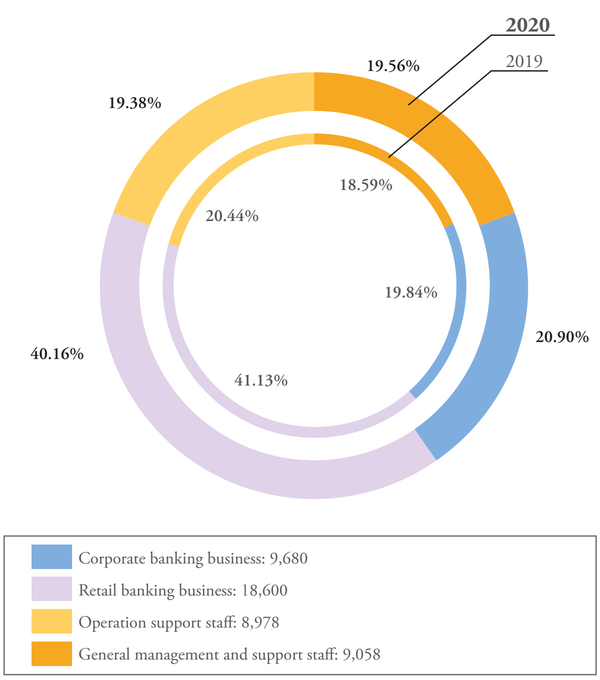
i. Overview

As at the end of the reporting period, the Bank had 46,316 employees (exclusive of those of subsidiaries) and 1,355 retired employees. In terms of educational background, 5,921 incumbent employees held a junior college degree or below, accounting for 12.78% of the total employees, 32,958 incumbent employees held a bachelor's degree, accounting for 71.16%, and 7,437 incumbent employees held a master's degree or above, accounting for 16.06%. In terms of profession, there were 9,680 employees in the corporate banking business, accounting for 20.90%; 18,600 employees in the retail banking business (including the credit card business and digital banking business), accounting for 40.16%; 8,978 operation support employees (including tellers), accounting for 19.38%; and 9,058 general management and support employees, accounting for 19.56%.

The educational background structure of employees of the Bank



The profession structure of employees of the Bank



ii. Remuneration Policies for Employees

Keeping in line with its development strategy and operation objectives, combining incentives with constraints, the Bank established a remuneration system that is performance-oriented, fair within the Bank and comparable to the market. Front-line employees were given bigger weights in remuneration distribution. The overseas institutions' expatriate remuneration system was further improved, and subsidiaries were asked to improve their remuneration management.

iii. Training Plans

The Bank placed equal emphasis on COVID-19 containment and staff training. It managed to overcome the adverse impact of the pandemic, developed the Sunshine College digital learning ecosystem, rolled out the "Starshine Cup" course design contest and created the "Knowledge Cloud Base". The "Kun Peng Program" and the "Workforce Sharpening Initiative" were carried out to cultivate a group of outstanding wealth managers. The Bank also provided training courses designed to enhance both physical and mental health of employees, in a bid to help employees work from home more efficiently with a positive mind during the coronavirus lockdown. Innovative training modes were used, such as live-streaming and other online training options, to ensure continuity of learning and training among employees. In 2020, the Bank organized 7,049 training courses and sessions of all sorts, with a participation of total 744,000 person-times, including 566,000 person-times of online participation.

iv. Employees of Main Subsidiaries at the End of the Reporting Period

1. Everbright Financial Leasing Co., Ltd. had 168 formal employees, including 8 administrative staff members, 90 business staff members and 70 supporting staff members, with 95% of them holding a bachelor's degree or above.

2. Everbright Wealth Management Co., Ltd. had 176 formal employees, including 8 administrative staff members, 93 business staff members and 75 supporting staff members, with 100% of them holding a bachelor's degree or above.

3. Beijing Sunshine Consumer Finance Co., Ltd. had 55 formal employees, including 6 administrative staff members, 35 business staff members and 14 supporting staff members, with 100% of them holding a bachelor's degree or above.

4. CEB International Investment Corporation Limited had 99 formal employees, including 5 administrative staff members, 42 business staff members and 52 supporting staff members, with 96% of them holding a bachelor's degree or above.

5. China Everbright Bank (Europe) S.A. had 20 formal employees, including 4 administrative staff members, 11 business staff members and 5 supporting staff members, with 100% of them holding a bachelor's degree or above.

6. Shaoshan Everbright Rural Bank Co., Ltd. had 34 formal employees, including 4 administrative staff members, 19 business staff members and 11 supporting members, with 55.88% of them holding a bachelor's degree or above.

7. Jiangsu Huai'an Everbright Rural Bank Co., Ltd. had 50 formal employees, including 3 administrative staff members, 33 business staff members and 14 supporting staff members, with 84% of them holding a bachelor's degree or above.

8. Jiangxi Ruijin Everbright Rural Bank Co., Ltd. had 34 formal employees, including 2 administrative staff members, 26 business staff members and 6 supporting staff members, with 82.4% of them holding a bachelor's degree or above.

XIII. INSTITUTIONS

During the reporting period, both the Head Office and branches of the Bank successively set up channel management departments, responsible for promoting the adjustment of outlet layout, integration of all channels and improvement of average efficiency of outlets. The Bank aligned outlet construction with its development strategy, improved the value creation capacity and market competitiveness of outlets, and realized a year-on-year growth of the average profit per outlet. Through improving the outlet layout and scientifically adjusting the aggregate amount and structure, the Bank strengthened the service capacity for key regions and major customer groups. It also explored innovative channel services, coordinated both online and offline resources, and enriched various scenarios related to wealth management and people's livelihood. Furthermore, the Bank accelerated the digital and intelligent transformation of outlets, and put in great efforts to build smart outlets. By vigorously promoting 5G network and facilities and applying technologies such as AI, VR and the Internet of Things, the Bank innovatively improved the functions of "Everbright Supermarket", gave play to the synergy advantages under China Everbright Group, and promoted the implementation of the E-SBU strategies of the Group.

During the reporting period, 3 tier-2 branches (Binzhou Branch, Huai'an Branch and Zhumadian Branch) were open for business; one branch (Yangquan Branch) was promoted to a tier-2 branch; and 5 new banking outlets were put into operation. As at the end of the reporting period, the Bank had 1,296 branches and outlets in Chinese mainland, which included 39 tier-1 branches, 115 tier-2 branches and 1,142 outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking departments of branches). The outlets of the Bank in Chinese mainland managed to cover all provincial administrative regions and extended their business reach to 149 economic center cities across the country. In the meantime, the Bank had 5 overseas institutions, namely branches in Hong Kong, Seoul, Luxembourg and Sydney and CEB Tokyo Representative Office. Preparations were made for the establishment of CEB Macao Branch.

Details of the Bank's employees and business outlets are as follows:

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)
Head Office	1	7,319	3,374,535
Beijing Branch	70	2,840	599,079
Shanghai Branch	56	1,837	330,838
Tianjin Branch	34	947	74,360
Chongqing Branch	27	952	90,715
Shijiazhuang Branch	55	1,386	103,591
Taiyuan Branch	37	1,076	110,713
Huhhot Branch	20	587	43,690
Dalian Branch	24	712	39,399
Shenyang Branch	38	1,216	62,314
Changchun Branch	37	976	48,861
Heilongjiang Branch	38	1,072	43,986
Nanjing Branch	60	1,672	258,583
Suzhou Branch	21	890	96,779
Wuxi Branch	9	361	74,203
Hangzhou Branch	40	1,326	222,651
Ningbo Branch	19	760	59,880
Hefei Branch	55	1,463	157,438
Fuzhou Branch	42	1,336	78,860
Xiamen Branch	17	532	38,243
Nanchang Branch	30	788	72,668
Ji'nan Branch	37	965	64,776

Directors, Supervisors, Senior Management, Staff and Business Outlets

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)
Qingdao Branch	35	1,019	65,521
Yantai Branch	15	501	46,968
Zhengzhou Branch	51	1,353	140,731
Wuhan Branch	40	1,122	97,748
Changsha Branch	64	1,597	104,416
Guangzhou Branch	91	2,470	283,654
Shenzhen Branch	49	1,222	214,126
Nanning Branch	31	910	59,494
Haikou Branch	23	743	40,754
Chengdu Branch	30	944	81,818
Kunming Branch	22	750	42,530
Xi'an Branch	39	1,139	71,776
Urumqi Branch	7	206	13,794
Guiyang Branch	13	379	30,229
Lanzhou Branch	11	327	20,699
Yinchuan Branch	5	141	4,683
Xining Branch	2	77	4,328
Lhasa Branch	2	69	4,419
Hong Kong Branch	1	205	163,213
Seoul Branch	1	37	23,628
Luxembourg Branch	1	42	18,832
Sydney Branch	1	43	20,680
Tokyo Representative Office	1	4	–
Macao Branch Preparatory Group		3	–
Adjustment on consolidation			(2,346,678)
Total	1,302	46,316	5,253,525

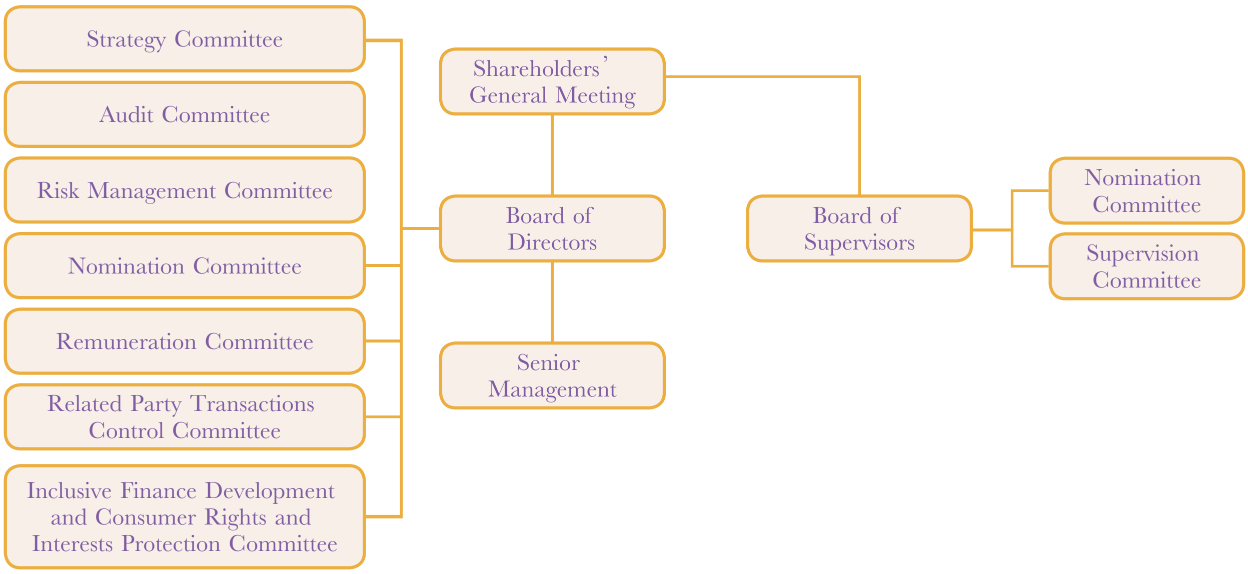
Notes:

1. The employees of the Head Office of the Bank included 3,048 persons in the Credit Card Center and 1,850 persons in the Remote Banking Center.

2. The number of outlets, employees and the total assets listed in the above table excluded subsidiaries' figures.

Corporate Governance

I. CORPORATE GOVERNANCE STRUCTURE



II. OVERVIEW

Aiming at the best practice of corporate governance in the capital market, the Bank has established a sound corporate governance framework and policy system meeting the requirements on modern corporate system, leading to steady improvement in corporate governance of the Bank. In 2020, the Bank strictly complied with the *Company Law*, the *Securities Law*, the *Law on Commercial Banks*, the *Code of the Corporate Governance for Listed Companies*, the *Guidance on the Corporate Governance of Commercial Banks*, the *Guidelines for the Board of Supervisors of Commercial Banks*, the *Hong Kong Listing Rules* and other requirements. The Bank's corporate governance had no major deviation from normative documents regulating the corporate governance of listed companies issued by CSRC.

The Board of Directors of the Bank performed the duties as set out in Rule D.3.1 of Appendix 14 of the *Hong Kong Listing Rules* including reviewing the Bank's corporate governance policies and practices, the training and continuous professional development of Directors and the Senior Management, the Bank's policies and practices in respect of observance of law and regulatory requirements, the Bank's compliance with the *Model Code* and the compliance manual for employees, the Bank's compliance with the provisions of Appendix 14 of the *Hong Kong Listing Rules* and the content disclosed in this section.

During the reporting period, the Board of Directors of the Bank reviewed and approved the proposal on the equity change between China Everbright Group and CHI, and completed the procedures as scheduled, further streamlining the equity relationship. In response to relevant regulatory requirements and work needs, the Board of Directors revised the terms of reference of special committees of the Board of Directors to ensure compliant and efficient operation of special committees. It prudently performed the corporate governance procedures for selection and appointment of Directors and Senior Management members, and adjusted the composition of special committees of the Board of Directors. The Board of Directors improved the management structure by approving the proposals on the establishment and cancellation of relevant tier-1 departments of the Head Office, and continuously consolidated the institutional foundation by revising relevant policies on capital management, money laundering risk management and subsidiary management. It reviewed the quotas for poverty alleviation and external donation for unexpected emergencies for the year 2020, and submitted the result to the shareholders' general meeting for voting and approval, performing its due social responsibilities. The Board of Directors also continued to improve the management mechanism for related party transactions and related parties and strictly reviewed major related party transactions.

During the reporting period, the Bank safeguarded the minority shareholders' rights of knowing, participation and decision-making through proper policy and procedure arrangements. At the shareholders' general meetings, both on-site voting and online voting were adopted. When material matters concerning the interests of medium and small investors were involved, the votes made by medium and small investors were counted and disclosed separately. The Bank and its substantial shareholders were independent in terms of business, personnel, asset, organization and financial affairs, ensuring the Bank's full autonomy in operation.

At the fifth "Golden Sail Award" jointly hosted by China Media Group and Southern Finance Omnimedia Corporation, the Bank won the award of "2020 Excellent Enterprise with High Information Disclosure Reputation". At the "2020 Forum on High-quality Development of Listed Companies & Golden Quality Award Ceremony" hosted by *Shanghai Securities News*, the Bank's Secretary to the Board of Directors was granted the "Excellent Board Secretary".

The Board of Directors of the Bank had reviewed its work during the reporting period and solicited the opinions of the Senior Management during its reviewing process, who considered that the Board of Directors had effectively performed its duty and safeguarded the rights and interest of the shareholders and the Bank.

III. SHAREHOLDERS' GENERAL MEETINGS

i. Convening of Shareholders' General Meetings

During the reporting period, the Bank held one annual general meeting and two extraordinary general meetings, all in conformity with the procedures specified in the *Articles of Association* of the Bank.

On 26 March 2020, the Bank convened the 2020 First Extraordinary General Meeting.

On 5 June 2020, the Bank convened the 2019 Annual General Meeting.

On 30 October 2020, the Bank convened the 2020 Second Extraordinary General Meeting.

The relevant announcements of the above meetings was published on the websites of SSE, HKEX and the Bank.

ii. Implementation of the Resolutions of the Shareholders' General Meetings by the Board of Directors

During the reporting period, the Board of Directors of the Bank earnestly and fully implemented resolutions considered and approved at the shareholders' general meetings of the Bank.

The Board of Directors of the Bank earnestly implemented the profit distribution plan for 2019, distributed dividends to shareholders in a timely manner, and safeguarded shareholders' interests properly. The profit distribution plan was completed in July 2020.

In accordance with the proposal on the election of some Directors at the shareholders' general meetings, the Bank timely reported to CBIRC the qualifications of new Directors. In June 2020, the qualification of Mr. Li Yinquan as Independent Non-executive Director of the Bank was approved by CBIRC. In February 2021, the qualifications of Mr. Fu Wanjun and Mr. Yao Wei as Non-executive Directors of the Bank, and the qualifications of Mr. Yao Zhongyou and Mr. Qu Liang as Executive Directors of the Bank were approved by CBIRC.

Pursuant to the proposal on adjusting the remuneration standards for Independent Non-executive Directors and External Directors reviewed and approved at the shareholders' general meetings, the Bank distributed remuneration as per adjusted standards to Independent Non-executive Directors and External Directors.

IV. DIRECTORS AND BOARD OF DIRECTORS

i. Board Composition

As at the disclosure date of this Report, the Board of Directors consisted of 14 directors, including 2 Executive Directors (Mr. Yao Zhongyou and Mr. Qu Liang), 6 Non-executive Directors (Mr. Li Xiaopeng, Mr. Wu Lijun, Mr. Fu Wanjun, Mr. Yao Wei, Mr. Liu Chong and Ms. Yu Chunling), and 6 Independent Non-executive Directors (Mr. Xu Hongcai, Mr. Feng Lun, Mr. Wang Liguo, Mr. Shao Ruiqing, Mr. Hong Yongmiao and Mr. Li Yinquan).

The Bank has paid special attention to the diversity of the members of the Board of Directors. In accordance with the *Policy on Membership Diversity of the Board of Directors* of the Bank, the Nomination Committee of the Board of Directors comprehensively evaluated director candidates' gender, age, and educational background, professional experience, skills, knowledge, term of service, etc., when examining the appointment qualifications and conditions of director candidates and submitting recommendations to the Board of Directors. The Nomination Committee is also responsible for regularly evaluating the structure, number of members and composition of the Board of Directors. As at the disclosure date of the Report, out of the 14 directors of the Bank, there is 1 female, 12 holding postgraduate degrees or above, and 8 holding doctoral degrees. The Non-executive Directors hold or once held key positions in their respective institutions and possess profound professional background and extensive managerial experience. The Independent Non-executive Directors are experts in economy, finance, accounting, auditing and other aspects, and can provide the Bank with professional advice in different areas.

For the details of the biographies of directors, please refer to "Section Eleven Directors, Supervisors, Senior Management, Staff and Business Outlets".

ii. Duties and Powers of the Board of Directors

As the decision-making body of the Bank, the Board of Directors is responsible for convening the shareholders' general meeting, reporting to the shareholders' general meeting and implementing resolutions passed at the shareholders' general meeting. The Board of Directors shall also set out strategies, operation plans and investment plans and formulate various proposals on financial budget, final accounts, risk capital allocation, and profit distribution and appoint members of Senior Management. Please refer to the *Articles of Association* of the Bank for details.

iii. Board Meetings and Resolutions

During the reporting period, the Board of Directors held 13 meetings, including 6 on-site meetings and 7 meetings via written resolutions. The Board of Directors considered a total of 133 proposals and heard 28 reports, playing an effective role in scientific decision-making.

The Board of Directors actively implemented the internationalization strategy and promoted the internationalization process. CEB Tokyo Representative Office was officially established, and the application of CEB Macao Branch was approved by CBIRC. The issuance of RMB40 billion non-fixed-term capital bonds was completed, which improved the Bank's capital adequacy and sustainable development capability. The Board of Directors continuously intensified risk management and internal control with an aim to forestall and mitigate various risks. It strengthened the internal control of related party transactions, and further improved the management capability for related party transactions. Moreover, the Board of Directors enhanced the support for employees by improving the enterprise annuity plan and upgrading the supplementary medical support scheme, and raised employees' sense of belonging. It also prudently performed information disclosure obligations and continuously enhanced the management of insiders.

The relevant announcements of resolutions of Board meetings of the Bank are published on the websites of SSE, HKEX and the Bank.

Corporate Governance

iv. Attendance of Directors at Board Meetings During the Reporting Period

Director	Shareholder's Meeting	Board of Directors	Special Committees of the Board of Directors: Strategy Committee	Audit Committee	Risk Management Committee	Nomination Committee	Remuneration Committee	Related Party Transactions Control Committee	Inclusive Finance Development and Consumer Rights and Interests Protection Committee
	Number of attendance in person/Number of meetings during the term of office								
Incumbent Directors									
Li Xiaopeng	3/3	12/13	3/3	–	–	4/4	4/4	–	–
Wu Lijun	3/3	9/9	3/3	–	–	–	–	–	–
Fu Wanjun	0/0	0/0	–	0/0	0/0	–	–	–	–
Yao Zhongyou	0/0	0/0	–	–	0/0	–	–	–	–
Qu Liang	0/0	0/0	–	–	–	–	–	–	0/0
Yao Wei	0/0	0/0	–	0/0	–	–	–	–	0/0
Liu Chong	0/3	13/13	–	–	4/4	–	–	–	3/3
Yu Chunling	0/3	13/13	–	–	3/4	–	–	9/9	–
Xu Hongcai	2/3	13/13	3/3	6/6	–	4/4	–	9/9	–
Feng Lun	0/3	9/13	–	–	–	–	3/4	7/9	–
Wang Liguo	2/3	13/13	–	6/6	–	–	4/4	9/9	3/3
Shao Ruiqing	1/3	13/13	–	6/6	4/4	–	3/4	9/9	–
Hong Yongmiao	0/3	13/13	3/3	–	–	4/4	4/4	9/9	–
Li Yinquan	0/1	4/5	–	2/3	–	2/2	2/2	4/4	–
Former Directors									
Liu Jin	2/3	9/9	2/3	–	4/4	–	–	–	2/2
Cai Yunge	2/2	10/10	–	4/4	3/3	–	–	–	–
Lu Hong	3/3	13/13	–	–	4/4	–	–	–	–
Wang Xiaolin	2/2	8/8	2/2	–	2/2	–	2/2	–	–
Shi Yongyan	2/2	8/8	–	–	–	2/2	–	–	1/1
Dou Hongquan	2/2	8/8	2/2	–	–	–	–	–	1/1
He Haibin	0/2	8/8	–	3/3	–	–	–	–	1/1
Fok Oi Ling Catherine	0/2	8/8	–	3/3	–	2/2	2/2	5/5	–

Notes:

1. Directors newly appointed in 2020 would start to perform their duties after their appointment qualifications are approved by CBIRC.

2. On 5 February 2021, CBIRC approved the qualifications of Mr. Fu Wanjun, Mr. Yao Zhongyou, Mr. Qu Liang and Mr. Yao Wei as Directors of the Bank. For more details about the changes of Directors, please refer to "Section Eleven Directors, Supervisors, Senior Management, Staff and Business Outlets".

3. "Number of attendance in person" includes on-site attendance and attendance via phone calls, video calls or written resolutions.

4. Directors who were unable to attend in person the meetings of the Board of Directors and Special Committees all entrusted other Directors to attend the meetings by proxy and exercise their voting rights.

v. Appointment, Re-election and Removal of Directors

In accordance with the *Articles of Association* of the Bank, directors shall be elected and replaced at the shareholders' general meeting, and the term of office for directors (including Non-executive Directors) is three years starting from the date when their appointment qualifications are approved by CBIRC. Directors can be re-elected and re-appointed when the term of office has expired, and the term of office of the re-elected and re-appointed directors commences from the date when such re-election and re-appointment are considered and approved at the shareholders' general meeting.

The term of office of the Independent Non-executive Directors is the same as that of other directors of the Bank. The term of office of the Independent Non-executive Directors in the Bank shall conform to applicable laws and provisions of regulatory authorities.

The *Articles of Association* of the Bank stipulates the procedures for appointing, re-electing and removing directors. The Nomination Committee of the Board of Directors preliminarily reviews the appointment qualification and conditions of each director candidate and submits recommendations to the Board of Directors, which will consider and approve the proposal on the nomination of director candidates and further submit it for election at the shareholders' general meeting.

vi. Board Statement on the Financial Statements

The Senior Management has provided sufficient explanation and information for the Board of Directors to make well-informed decisions in respect to the submitted financial statements and other data for approval. The directors of the Bank acknowledge that they are responsible to prepare the financial statements of the Bank which truly represent the operating results of the Bank for the year of 2020. To the best knowledge of the Directors, there was no material uncertain event or condition that might have a material adverse effect on the continuing operation of the Bank.

V. BOARD COMMITTEES

The Board of Directors of the Bank has set up the Strategy Committee, the Audit Committee, the Risk Management Committee, the Nomination Committee, the Remuneration Committee, the Related Party Transactions Control Committee, and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. During the reporting period, the special committees held 33 meetings, including 3 meetings of the Strategy Committee, 6 meetings of the Audit Committee, 4 meetings of the Risk Management Committee, 4 meetings of the Nomination Committee, 4 meetings of the Remuneration Committee, 9 meetings of the Related Party Transactions Control Committee, and 3 meetings of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. During these meetings, 113 proposals were reviewed and 31 reports were considered. The Board committees, based on the division of duties, carefully considered material issues in the Bank's operation and management and provided professional support for the Board of Directors to make scientific decisions.

Corporate Governance

i. Strategy Committee

Primary duties and responsibilities of the Strategy Committee include formulating business objectives and medium and long-term development strategies, and advising the Board accordingly; reviewing plans on capital management and replenishment, and supervising and inspecting the implementation; developing business plan, reform plan for operation and management mechanisms, major external investment programs and capital operation schemes, supervising and inspecting the implementation, and advising the Board accordingly.

During the reporting period, the Strategy Committee convened 3 on-site meetings, reviewed 4 proposals and heard 1 report. It approved the proposals on the Bank's business plan and financial budget plan for 2020, the 2020 annual fixed assets investment budget plan, the amendment to the Terms of Reference of the Strategy Committee, and strategy re-examination and improvement suggestions. The Committee also heard the report on strategy implementation in 2019.

As at the disclosure date of this Report, the Strategy Committee consisted of 4 Directors, including Non-executive Directors Mr. Li Xiaopeng (Chairman) and Mr. Wu Lijun, and Independent Non-executive Directors Mr. Xu Hongcai and Mr. Hong Yongmiao.

ii. Audit Committee

Primary duties and responsibilities of the Audit Committee include supervising and evaluating the Bank's internal control; inspecting the Bank's risks, and compliance status, accounting policies, financial reporting procedures and financial position; reviewing the Bank's financial information and its disclosure, and taking charge of the annual audit; supervising and guiding the internal audit, examining important policies and reports such as internal audit charter, and reviewing medium and long-term audit plans and annual audit plan; supervising and evaluating external auditors; coordinating internal and external audits; reviewing and supervising the mechanisms for employees of the Bank to report misconducts related to financial report, internal control, etc.

During the reporting period, the Audit Committee convened 6 meetings including 3 on-site meetings and 3 meetings via written resolutions, reviewed 14 proposals and heard 13 reports. It considered the annual auditor's report on financial statements for A shares and H shares, the interim review report, the quarterly reports on the implementation of agreed-upon procedures and periodic reports, the internal control assessment report and the audit report on internal control, and amended the Terms of Reference of the Audit Committee. The Committee also heard the internal audit work summary, the Proposal for Management of 2019 and the report on related rectifications, observed and discussed the performance of the annual, interim and quarterly operation.

In accordance with the requirements of the *Annual Report Procedures of the Audit Committee of the Board of Directors*, the Audit Committee of the Bank earnestly performed its duties for annual audit, reviewed the work plan for annual audit prepared by the auditor, and came up with major issues meriting particular attention in the audit process. In March 2021, the Audit Committee convened a meeting to review the 2020 auditor's report on financial statements of the Bank submitted by EY Hua Ming/EY. The Committee held that the auditor's report reflected the overall situation of the Bank in a truthful, accurate and complete manner, and formed a resolution which was submitted to the Board of Directors for review.

As at the disclosure date of this Report, the Audit Committee consisted of 6 Directors, of which the majority and the Chairman were Independent Non-executive Directors. The members included Independent Non-executive Directors Mr. Shao Ruiqing (Chairman), Mr. Xu Hongcai, Mr. Wang Liguo and Mr. Li Yinquan, and Non-executive Directors Mr. Fu Wanjun and Mr. Yao Wei.

iii. Risk Management Committee

Primary duties and responsibilities of the Risk Management Committee of the Board of Directors include: determining the risk management policies of the Bank and the overall risk tolerance; supervising the duty performance of the Senior Management of the Bank in controlling credit, market, operational, liquidity, compliance and reputational risks, etc.; evaluating the basic risk policy, management situation and risk tolerance of the Bank; regularly submitting risk management reports to the Board of Directors; drafting the Bank's management objective of capital adequacy ratio, and monitoring capital adequacy ratios; reviewing and approving matters related to the implementation of Basel III; supervising the Management's performance of anti-money laundering (AML) duties, and enhancing the effectiveness of data governance.

During the reporting period, the Risk Management Committee convened 4 meetings including 3 on-site meetings and 1 meeting via written resolutions, reviewed 13 proposals and heard 7 reports. It approved the amendment to the Terms of Reference of the Risk Management Committee, risk management reports, risk management and capital management policies, capital adequacy ratio reports, internal capital adequacy assessment reports, business continuity management policy, risk appetite indicators, and other proposals, and paid constant attention to the review and adjustment of credit investment policies, internal control and compliance, law case prevention and management, AML management, credit approval and other aspects of work.

As at the disclosure date of this Report, the Risk Management Committee consisted of 5 Directors, including Executive Director Mr. Yao Zhongyou, and Non-executive Directors Mr. Fu Wanjun, Mr. Liu Chong and Ms. Yu Chunling, and Independent Non-executive Director Mr. Shao Ruiqing.

iv. Nomination Committee

Primary duties and responsibilities of the Nomination Committee include: selecting qualified candidates for Directors and Senior Management; drafting the procedures and the selection criteria for Directors and Senior Management, preliminarily reviewing the appointment qualifications and conditions of candidates, and advising the Board accordingly; regularly assessing the Board structure, the number of Board members and the Board composition, and offering recommendations on the proposed adjustment of the Board of Directors according to the Bank's strategy.

During the reporting period, the Nomination Committee convened 4 meetings, including 2 on-site meetings and 2 meetings via written resolutions, and reviewed 10 proposals. It approved the proposals on amendment to the Terms of Reference of the Nomination Committee, candidates for Directors, appointment of the Senior Management members, annual assessment report of the Board of Directors, etc., and offered suggestions to the Board of Directors.

As at the disclosure date of this Report, the Nomination Committee consisted of 4 Directors, of which the majority and the Chairman were Independent Non-executive Directors. The members included Independent Non-executive Directors Mr. Xu Hongcai (Chairman), Mr. Hong Yongmiao and Mr. Li Yinquan, and Non-executive Director Mr. Li Xiaopeng.

v. Remuneration Committee

Primary duties and responsibilities of the Remuneration Committee include: drafting the remuneration plan for Directors and the Senior Management, making recommendations to the Board and overseeing the implementation of the plan; reviewing the duty performance of Directors and the Senior Management and making recommendations to the Board on the examination and evaluation of them; reviewing the remuneration management policy and rules of the Bank, advising the Board accordingly and supervising the implementation of these policies, etc.

During the reporting period, the Remuneration Committee convened 4 meetings including 1 on-site meeting and 3 meetings via written resolutions, and reviewed 7 proposals. It approved the Board of Directors' report on the evaluation of general performance of duties by Directors for 2019, the 2019 remuneration standard for Directors, amendment to the Terms of Reference of the Remuneration Committee, amendment to the enterprise annuity plan, upgrading of the supplementary medical support scheme for employees, heard the work reports made by the Senior Management one by one, and studied and proposed the assessment and evaluation results of the Senior Management in 2019 and the remuneration suggestions for them.

As at the disclosure date of this Report, the Remuneration Committee consisted of 6 members, of which the majority and the Chairman were Independent Non-executive Directors. The members included Independent Non-executive Directors Mr. Hong Yongmiao (Chairman), Mr. Feng Lun, Mr. Wang Liguo, Mr. Shao Ruiqing and Mr. Li Yinquan, and Non-executive Director Mr. Li Xiaopeng.

vi. Related Party Transactions Control Committee

Primary duties and responsibilities of the Related Party Transactions Control Committee include: filing the common related party transactions; reviewing major related party transactions and submitting the results to the Board of Directors for consideration; providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of related party transactions conducted in the year; developing the related party transactions management measures and submitting the same to the Board of Directors for approval before implementation; identifying the related parties of the Bank and reporting them to the Board of Directors and the Board of Supervisors, and timely announcing such related parties to relevant staff members of the Bank.

During the reporting period, the Related Party Transactions Control Committee convened 9 meetings including 2 on-site meetings and 7 meetings via written resolutions, and reviewed 60 proposals. It approved proposals on the 2019 Report on Related Party Transactions, 58 major related party transactions, received the filings of 29 general related party transactions, and amended the Terms of Reference of the Related Party Transactions Control Committee.

As at the disclosure date of this Report, the Related Party Transactions Control Committee consisted of 7 members, of which the majority and the Chairman were Independent Non-executive Directors. Its members included Independent Non-executive Directors Mr. Li Yinquan (Chairman), Mr. Xu Hongcai, Mr. Feng Lun, Mr. Wang Liguo, Mr. Shao Ruiqing and Mr. Hong Yongmiao, and Non-executive Director Ms. Yu Chunling.

vii. Inclusive Finance Development and Consumer Rights and Interests Protection Committee

Primary duties and responsibilities of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee include: formulating development strategy plan for the Bank's inclusive finance business; reviewing the Bank's general policy, evaluation measures and annual business plan for inclusive finance; guiding and supervising the Senior Management on the development of inclusive finance work; guiding and urging the establishment and improvement of the Bank's management policies and mechanisms for the protection of consumer rights and interests; studying relevant audit reports, regulatory circulars and internal evaluation results related to the Bank's consumer rights and interests protection work, and urging timely rectification by the Senior Management; supervising consumer rights and interests protection work of the Senior Management.

During the reporting period, the Inclusive Finance Development and Consumer Rights and Interests Protection Committee convened 3 meetings including 2 on-site meetings and 1 meeting via written resolutions, reviewed 5 proposals and heard 10 reports. It approved the amendment to the Terms of Reference of the Committee, the basic policy on the development of inclusive finance, and the appraisal requirements for inclusive finance work of branches. It also heard and discussed the annual report on the inclusive finance work, the draft of strategy plan for inclusive finance for 2021-2022, the annual report on the consumer rights and interests protection work, the report on the rectification of problems identified in the special auditing on consumer rights and interests protection work, the appraisal and evaluation of the protection work of financial consumers' rights and interests of the Head Office and branches, etc.

As at the disclosure date of this Report, the Inclusive Finance Development and Consumer Rights and Interests Protection Committee consisted of 4 members, namely, Executive Director Mr. Qu Liang, Non-executive Directors Mr. Yao Wei and Mr. Liu Chong, and Independent Non-executive Director Mr. Wang Liguo.

VI. THE CHAIRMAN AND THE PRESIDENT

The roles and work of the Chairman of the Board and the President are performed by different individuals, and their respective responsibilities are clearly defined and divided, which is in compliance with the provisions of the *Hong Kong Listing Rules*. During the reporting period, Mr. Li Xiaopeng, the Chairman of the Board of Directors of the Bank, was responsible for convening and presiding the meetings of the Board of Directors, ensuring that all Directors attending the Board meetings were properly informed of the issues to be reviewed and reported, managing the operation of the Board of Directors, making sure that all key and relevant issues were discussed by the Board of Directors in a constructive and timely manner. Mr. Liu Jin, as the President of the Bank, was responsible for the overall operation and management, the implementation of the resolutions of the Board of Directors, and the strategies and business plans of the Bank. On 16 March 2021, Mr. Liu Jin resigned from the position as the President of the Bank.

VII. INDEPENDENT NON-EXECUTIVE DIRECTORS

i. Independence of the Independent Non-executive Directors

The 6 Independent Non-executive Directors of the Bank are not involved in any factors influencing their independence mentioned in Rule 3.13 of the *Hong Kong Listing Rules*. The Bank has received the letter of annual confirmation about his or her independence issued from each Independent Non-executive Director according to Rule 3.13 of the *Hong Kong Listing Rules*. The Bank holds that all Independent Non-executive Directors have met the independence requirements of the *Hong Kong Listing Rules*.

Corporate Governance

ii. Attendance of Shareholders' General Meetings by Independent Non-executive Directors

Please refer to "Part IV" of this section for details.

iii. Attendance of Board Meetings by Independent Non-executive Directors

Please refer to "Part IV" of this section for details.

iv. Independent Non-executive Directors' Objections to any issues of the Bank

During the reporting period, none of the Independent Non-executive Directors of the Bank had raised any objections to the proposals of the Board of Directors and other issues.

v. Duty Performance of Independent Non-executive Directors

As at the end of the reporting period, the Bank had 6 Independent Non-executive Directors, exceeding one-third of the Board members. In accordance with the Articles of Association, the Remuneration Committee, the Nomination Committee, the Related Party Transactions Control Committee and the Audit Committee of the Board of Directors were chaired by Independent Non-executive Directors. During the reporting period, they expressed their independent opinions on all issues involving the interests of minority shareholders, such as profit distribution plan, nomination of Directors, appointment of the Senior Management members, remuneration of Directors and the Senior Management, and major related party transactions in accordance with the Articles of Association of the Bank. In all Board committees, each of the Independent Non-executive Directors, based on their expertise, provided professional and constructive opinions and recommendations on issues under discussion. When the Board of Directors was not in session, the Independent Non-executive Directors kept themselves updated of the Bank's internal documents and information on the Bulletin of the Board and participated in the director communication meetings, so as to be well informed of internal control and audit, strategic transformation, business development, and risk prevention and control of the Bank. They communicated actively with other Directors, Supervisors, Senior Management members and auditors, so as to obtain necessary information to perform their duties. Independent Non-executive Directors maintained close contacts with the Bank via emails and phone calls. The Independent Non-executive Directors' recommendations were highly valued, and some were adopted by the Senior Management, playing a positive role in defining strategic direction and improving the risk prevention & control and profitability of the Bank.

VIII.SUPERVISORS AND THE BOARD OF SUPERVISORS

The Board of Supervisors earnestly implemented the regulatory requirements and collaborated with the Board of Directors and the Senior Management, while performing various supervisory duties in accordance with the law. It prudently and objectively provided supervision and evaluation opinions for the Board of Directors, Senior Management and its members, and actively conducted evaluation on its own duty performance, in order to facilitate the effective duty performance of all relevant parties. The Board of Supervisors focused on the Bank's major financial decision-making and implementation and reviewed the financial statements and the profit distribution plan, so as to achieve targeted financial supervision. It enhanced the supervision on the risk management, internal control, strategic management and remuneration management and promoted the compliant and steady operation of the Bank by considering reports, carrying out inspections and research, and conducting interviews with relevant departments. During the reporting period, based on its surveys and studies on the Bank's implementation of strategies, support for the real economy, and risk management and internal control, the Board of Supervisors proposed practical opinions and suggestions. It also held the first seminar among chairmen of the Board of Supervisors of the Bank's subsidiaries, which deepened the communication between the Board of Supervisors of the Bank and those of subsidiaries, thus playing an active role in improving the Bank's corporate governance and achieving healthy and sustainable development.

i. Board of Supervisors

As at the disclosure date of this Report, the Board of Supervisors consisted of 9 members, including 3 Shareholder Supervisors (Mr. Lu Hong, Mr. Yin Lianchen, Mr. Wu Junhao), 3 External Supervisors (Mr. Wu Gaolian, Mr. Wang Zhe, Mr. Qiao Zhimin) and 3 Employee Supervisors (Mr. Xu Keshun, Mr. Sun Jianwei, Mr. Shang Wencheng). The members of the Board of Supervisors, with rich experience in finance, accounting and corporate governance, have demonstrated sufficient professionalism and independence, thus ensuring the effective functioning of the Board of Supervisors.

For the details of the biographies of supervisors, please refer to "Section Eleven Directors, Supervisors, Senior Management, Staff and Business Outlets".

ii. Duty Performance of the Board of Supervisors

The primary supervisory duties of the Board of Supervisors include: holding regular meetings, attending the annual general meetings of shareholders, attending the meetings of the Board of Directors, Board committees and the Senior Management as non-voting delegates, reviewing business management reports, considering the reports of all business lines and branches, conducting interviews with persons in charge of various branches and departments, and conducting inspections on the Bank's branches and outlets. Through the aforementioned duties, the Board of Supervisors supervised the Board of Directors and Senior Management in terms of their duty performance, financial management, risk management, internal control management, strategy management and remuneration management.

iii. Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors, in accordance with relevant provisions in the *Articles of Association* of the Bank and the rules of procedures, convened 5 meetings, including 3 on-site meetings and 2 meetings via written resolutions, at which it reviewed 27 proposals and heard 22 reports, including regular reports of the Bank, reports on the evaluation of the duty performance of the Board of Directors and the Senior Management, the internal control report, the profit distribution plan and remuneration of the Supervisors, and expressed clear opinions on relevant proposals.

During the reporting period, the supervisors attended all the on-site shareholders' general meetings, participated in all the meetings of the Board of Directors as non-voting delegates and supervised the compliance and legality, the voting procedures and the attendance, speeches and voting of the directors of the aforementioned meetings.

Corporate Governance

iv. Attendance of Supervisors at Meetings of the Board of Supervisors During the Reporting Period

Supervisors	Board of Supervisors	Special Committees of the Board of Supervisors: Nomination Committee	Special Committees of the Board of Supervisors: Supervision Committee
	Number of attendance in person/Number of meetings during the term of office		
Incumbent Supervisors			
Lu Hong	0/0	0/0	–
Yin Lianchen	4/5	3/3	–
Wu Junhao	4/5	–	2/4
Wu Gaolian	5/5	3/3	4/4
Wang Zhe	5/5	3/3	4/4
Qiao Zhimin	5/5	3/3	4/4
Xu Keshun	5/5	3/3	–
Sun Jianwei	5/5	–	4/4
Shang Wencheng	5/5	–	4/4
Former Supervisor			
Li Xin	5/5	3/3	–

Notes:

1. On 25 March 2021, Mr. Lu Hong was elected Shareholder Supervisor of the Bank. On 26 March 2021, he was elected Chairman of the Board of Supervisors and Member of the Nomination Committee of the Board of Supervisors.

2. Mr. Li Xin resigned from the positions of Chairman of the Board of Supervisors, Shareholder Supervisor and Member of the Nomination Committee of the Board of Supervisors of the Bank as of 19 January 2021 due to retirement.

3. "Number of attendance in person" includes on-site attendance and attendance via phone calls, video calls or written resolutions.

4. Directors who were unable to attend in person the meetings of the Board of Supervisors and Special Committees had all entrusted other Supervisors to attend the meetings by proxy and exercise their voting rights.

v. Special Committees of the Board of Supervisors

The two committees under the Board of Supervisors are the Nomination Committee and the Supervision Committee. During the reporting period, the two committees convened 7 meetings (including 3 meetings of the Nomination Committee and 4 meetings of the Supervision Committee), at which it reviewed 20 proposals. According to the division of responsibilities, the special committees under the Board of Supervisors discussed and studied significant supervision matters, providing strong support for the effective duty performance of the Board of Supervisors.

1. Nomination Committee

Primary duties and responsibilities of the Nomination Committee include: providing suggestions for the Board of Supervisors regarding the size and composition of the Board of Supervisors; drafting the procedures and criteria for selecting Supervisors and advising the Board of Supervisors accordingly; conducting preliminary review on the qualifications and conditions of the supervisor candidates and advising the Board of Supervisors accordingly; supervising the procedures of the selection and appointment of Directors; drafting the plan for supervising the duty performance of Directors, Supervisors and Senior Management members, making comprehensive evaluation in this regard and reporting to the Board of Supervisors; supervising the rationality of the remuneration management policies of the Bank and the remuneration plan for the Senior Management.

During the reporting period, the Nomination Committee convened 3 meetings (including 2 on-site meetings and 1 meeting via written resolutions), at which it reviewed 13 proposals. It approved the proposals on the Board of Supervisors' evaluation on the duty performance of the Board of Directors and Senior Management in 2019, the Board of Supervisors' evaluation report on the duty performance of Directors and Supervisors in 2019, the 2019 remuneration for Supervisors and the Chairman of the Board of Supervisors, and the Board of Supervisors' supervision and evaluation measures for the duty performance of the Board of Directors, the Board of Supervisors, Senior Management and its members.

As at the disclosure date of this Report, the members of the Nomination Committee included Mr. Qiao Zhimin (Chairman), Mr. Lu Hong, Mr. Yin Lianchen, Mr. Wu Gaolian, Mr. Wang Zhe and Mr. Xu Keshun.

2. Supervision Committee

Primary duties of the Supervision Committee include: developing the plan for supervising the Bank's operation and decision-making, risk management and internal control, and implementing this plan after approved by the Board of Supervisors; developing the plan for supervising the financial activities of the Bank, and implementing this plan after approved by the Board of Supervisors; supervising the Board of Directors in building up the concept of prudent business operation and value principles for the Bank and in formulating the development strategy that works best for the Bank; keeping itself informed of the preparation of the regular reports by the Board of Directors and relevant material adjustments and reporting to the Board of Supervisors accordingly; maintaining good communication with relevant special committees of the Board of Directors, relevant departments of the Bank and external agencies, and providing supervision suggestions on the Bank's selection of its external auditors when it is deemed necessary.

During the reporting period, the Supervision Committee of the Board of Supervisors convened 4 meetings (including 3 on-site meetings and 1 meeting via written resolutions), at which it reviewed 7 proposals. It approved regular reports of the Bank, internal control assessment report, internal control audit report, etc.

As at the disclosure date of this Report, the members of the Supervision Committee included Mr. Wu Gaolian (Chairman), Mr. Wu Junhao, Mr. Wang Zhe, Mr. Qiao Zhimin, Mr. Sun Jianwei and Mr. Shang Wencheng.

Corporate Governance

vi. Supervision by the Board of Supervisors

The Board of Supervisors had no objection to the supervision matters during the reporting period.

vii. Duty Performance of External Supervisors

As at the disclosure date of this Report, the Bank had 3 External Supervisors, no less than one third of the members of the Board of Supervisors. According to the *Articles of Association* of the Bank, Chairman of both the Nomination Committee and the Supervision Committee of the Board of Supervisors shall be acted by External Supervisors. During the reporting period, all the 3 External Supervisors performed their duties in good faith and with due diligence and independently exercised their supervisory powers in strict accordance with regulatory requirements and the *Articles of Association* of the Bank. The time they spent on the supervision work of the Bank was no less than 15 working days. During the performance of duties, the External Supervisors learned about the Bank's operational management situation and strategy implementation, and paid special attention to the legality and fairness of the Bank's related party transactions, the annual profit distribution plan, the completeness and authenticity of information disclosure, and events that may cause material losses to the Bank by attending meetings of the Board of Supervisors and shareholders' general meetings, holding meetings of the special committees of the Board of Supervisors, attending meetings of the Board of Directors and its special committees as non-voting attendees, and participating in the surveys of the Board of Supervisors on branches and outlets. They also actively participated in the study and supervision of significant matters, and expressed independent, professional and objective opinions on the matters discussed by the Board of Supervisors. When the Board of Supervisors was not in session, the External Supervisors carefully studied documents, reports and other materials of the Bank to fully obtain supervision information. The 3 External Supervisors exercised supervision on the Board of Directors, the Senior Management and its members in an independent, objective and professional manner, and played an active role in the Board of Supervisors' duty performance, thereby effectively safeguarding the legitimate rights and interests of the Bank, its shareholders and employees.

IX. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted the standards set out in the *Model Code* in the Appendix 10 to the *Hong Kong Listing Rules* as the code of conduct to govern the securities transactions by Directors and Supervisors of the Bank. Upon enquiry, all Directors and Supervisors confirmed that they had always complied with the *Model Code* for the year ended on 31 December 2020. The Bank has also formulated guidelines regarding the dealing of the Bank's securities by relevant employees and the guidelines are no less exacting than the *Model Code*. It had not come to the attention of the Bank that any employee was in violation of the guidelines during the reporting period.

X. SENIOR MANAGEMENT

As at the disclosure date of this Report, the Senior Management of the Bank consisted of 7 members, who are responsible for the operation and management of the Bank including implementing the resolutions of the Board of Directors, the strategic plans, the business plans and investment plans approved by the Board of Directors, developing plans for setting up internal management structure and the basic management rules and regulations, and formulating specific administrative measures.

During the reporting period, the Senior Management, in accordance with the development strategy of the Bank, earnestly implemented the business plan and the financial budget approved by the Board of Directors, focused on key businesses, moved faster to "build a first-class wealth management bank", and improved its capability for high-quality development. Through these efforts, it made new progress in operational management and realized continuous improvement in operating results.

XI. ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

The Remuneration Committee of the Board of Directors is responsible for drafting the remuneration plan for the Senior Management, reviewing the duty performance of the Senior Management, proposing suggestions on the remuneration plans for the Senior Management and submitting the results to the Board of Directors for approval. During the reporting period, the Remuneration Committee heard the work reports of the Senior Management, studied the 2019 performance evaluation result of Senior Management members and proposed the remuneration plan, which was considered and approved by the Board of Directors before implementation.

XII. TRAINING OF DIRECTORS AND SUPERVISORS

During the reporting period, some Directors participated in the special training for directors of listed companies under the jurisdiction of Beijing organized by the Listed Companies Association of Beijing. Some Supervisors participated in the special training for supervisors of listed companies in Beijing held by the Listed Companies Association of Beijing and the special training for supervisors held by China Everbright Group. The participation by the Bank's Directors and Supervisors in the training programs on corporate governance, policies, laws and regulations, and business operation and management complied with Provision A.6.5 of Appendix 14 of the *Hong Kong Listing Rules*.

XIII. AUDITOR'S REMUNERATION

For details about auditor's remuneration, please refer to "Section Seven Significant Events".

XIV. INFORMATION DISCLOSURE

As a company listed in both Shanghai and Hong Kong, the Bank earnestly implemented the *Securities Law* and relevant regulatory rules, and abided by domestic and overseas laws and requirements. It continuously optimized information disclosure procedures, kept improving the information disclosure quality, strengthened the management of insiders according to the *Policies on the Management of Insider Information and Insiders*, and disclosed information in a timely and fair manner, thus ensuring the authenticity, accuracy and completeness of the disclosed information and protecting the legitimate rights and interests of investors. During the reporting period, the Bank completed the preparation and disclosure of the 2019 Annual Report, the 2020 Interim Report and Quarterly Reports as scheduled. Focusing on the strategic vision of "building a first-class wealth management bank", the Bank enriched the contents of regular reports to fully showcase its development strategy and operational management to domestic and overseas investors. In accordance with domestic and overseas regulatory requirements, the Bank fully disclosed announcements in a timely manner, and published 110 A-share announcements (including online non-announcement documents) and 133 H-share announcements (including A-share overseas regulatory announcements).

XV. INVESTOR RELATIONS MANAGEMENT

During the reporting period, the Bank actively managed investor relations through various activities in accordance with domestic and overseas laws and regulations as well as regulatory requirements. After the disclosure of the 2019 Annual Report, the 2020 Interim Report and Quarterly Reports, the Bank held 4 results announcements via live streaming and teleconference, where it communicated with domestic and overseas institutional investors, banking analysts and news media. Moreover, the Bank carried out 4 road shows, led by Senior Management, in Beijing, Shanghai, Guangzhou and Shenzhen, visited nearly 40 institutional investors, and conducted efficient communication with professional representatives. The Bank arranged 5 on-site surveys with domestic and overseas investment banking analysts and institutional investors for 66 person-times, and its delegations participated in 56 online surveys and strategy seminars organized by domestic and overseas mainstream securities brokerages and communicated with investors for 700 person-times. Additionally, it answered over 400 phone calls from domestic and overseas investors and handled over 150 emails for inquiry. It interacted with investors via interactive online platforms such as "SSE e-interaction", and continuously updated the contents of the Bank's website in both Chinese and English versions to inform investors about the Bank. Also, it actively communicated with minority shareholders attending the shareholders' general meetings and answered their questions.

XVI. COMPANY SECRETARY AND ASSISTANT TO COMPANY SECRETARY UNDER THE *HONG KONG LISTING RULES*

As at the disclosure date of this Report, Mr. Li Jiayan served as the Secretary to the Board of the Directors of the Bank and the Company Secretary under the *Hong Kong Listing Rules*, and Ms. Lee Mei Yi (Tricor Services Limited) acted as the Assistant to Company Secretary. Mr. Li Jiayan was the main contact person of the Bank. During the reporting period, Mr. Li Jiayan and Ms. Lee Mei Yi had participated in relevant vocational training for no less than 15 hours in compliance with Rule 3.29 of the *Hong Kong Listing Rules*.

XVII. SHAREHOLDERS' RIGHTS

i. **Shareholders who individually or jointly hold more than 10 percent of the voting shares of the Bank shall have the right to request the Board of Directors to convene an extraordinary general meeting. Such request shall be made in writing to the Board of Directors.**

ii. **Shareholders who individually or jointly hold more than 3 percent of voting shares of the Bank may provide an interim proposal and submit it in writing to the Board of Directors 12 days before the shareholders' general meeting is convened. The Board of Directors shall issue a supplementary notice for the shareholders' general meeting within 2 days upon receipt of the proposal and submit such proposal to the shareholders' general meeting for approval.**

iii. **An extraordinary Board meeting shall be convened and presided over by the Chairman within 10 days since it is proposed by the shareholders who individually or jointly hold more than 10 percent of the voting shares of the Bank.**

iv. Unless there are specified provisions regarding the rights of the holders of preference shares in laws, regulations, rules, regulatory documents and the *Articles of Association* of the Bank, all the shareholders of the Bank shall have the following rights:

1. Collecting dividends and other forms of benefits distributed on the basis of the number of shares held by them;

2. Attending or entrusting proxy to attend meetings of shareholders and exercise the voting rights;

3. Supervising business operation of the Bank and putting forward recommendations or inquiries accordingly;

4. Transferring shares in accordance with laws, regulations, rules, regulatory documents, relevant regulations of the securities regulatory authority of the jurisdiction where shares of the Bank are listed and the *Articles of Association* of the Bank;

5. Obtaining relevant information according to the *Articles of Association* of the Bank, including the Bank's financial and accounting statements; status of share capital of the Bank; minutes of the shareholders' general meetings, resolutions of meetings of Board of Directors and resolutions of meetings of the Board of Supervisors, etc.;

6. Participating in the distribution of the Bank's residual assets in proportion to the number of shares held by the shareholders when the Bank is terminated or liquidated.

v. Holders of preference shares of the Bank shall be entitled to the following special rights:

1. Rights to dividends in priority to holders of ordinary shares;

2. Rights to distribution of residual assets of the Bank upon liquidation in priority to holders of ordinary shares;

3. Rights to attend and vote at shareholders' general meetings upon occurrence of prescribed events;

4. Upon occurrence of prescribed events, to have its voting rights restored.

Please refer to the *Articles of Association* of the Bank for more details about shareholders' rights.

As to the contact details for shareholders to communicate with and enquire of the Board, please refer to "Section Two Company Profile" of this Report.

XVIII. STATEMENT OF COMPLIANCE WITH THE *BANKING (DISCLOSURE) RULES*

The Bank has prepared the 2020 H-share financial statements in accordance with the *Banking (Disclosure) Rules* by the Hong Kong Monetary Authority.

XIX. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE *HONG KONG LISTING RULES*

Since its listing on the HKEX, the Bank has applied the principles as stipulated in Appendix 14 to the *Hong Kong Listing Rules* (the *Corporate Governance Code*). The Bank has fully complied with all the Code provisions during the reporting period.

XX. INTERNAL CONTROL ASSESSMENT REPORT

Based on the outcome of the review of material defects in the internal control over financial reporting of the Bank, the Bank, as at the reference date (i.e. 31 December 2020) for the internal control assessment report, had not discovered any material deficiencies in the internal control over financial reporting, and had maintained an effective internal control over financial reporting in accordance with the standards for enterprise internal control in all material aspects.

Based on the outcome of the review of internal control unrelated to financial reporting of the Bank, the Bank, as at the reference date (i.e. 31 December 2020) for the internal control assessment report, had not discovered any material defects in internal control unrelated to financial reporting.

From the reference date of internal control assessment report to the date of release of the internal control assessment report, there was no factor which may affect the assessment conclusion of the effectiveness of internal control.

The full text of the *2020 Internal Control Assessment Report* of the Bank has been published on the websites of SSE, HKEX (in the form of overseas regulatory announcement) and the Bank.

The internal control policy system of the Bank is primarily based on the *Articles of Association* of the Bank and is divided into three tiers including general policy, specific policies and evaluation policies. The policy system covers seven major business lines such as corporate banking, retail banking, financial market, risk management and internal control, financial operation, comprehensive management and IT, and covers various aspects including the management of businesses, risk control, supervision and evaluation.

Through three successive phases of internal control standardization projects, the Bank continuously improved its internal control standards, procedures, tools and systems, and established an internal control compliance management system with clarified responsibilities, clear procedures and effective control. The first is the organizational system. The Bank continuously improved the layered organizational structure of compliance management, and made clear the organizational structure and division of responsibilities of the Board of Directors, the Senior Management and institutions at all levels. The second is the responsibility system. The Bank clarified the internal control and compliance responsibilities of the internal institutions, streamlined the relationship between responsibilities and rights in business management of the Head Office, branches and institutions, and made a reasonable division of their responsibilities. The third is the policy system. The Bank adhered to the principle of policy first, strengthened the management of internal and external rules and regulations, and formed a classified and layered policy system that is based on the *Articles of Association* of the Bank and covers fields such as business management, risk control, supervision and evaluation. The fourth is the monitoring and pre-warning system. The Bank developed and improved the monitoring and pre-warning system, and strengthened the off-site monitoring and the handling and tracking of major pre-warning signals by applying big data. The fifth is the supervision and inspection system. The Bank leveraged the inspection function of the three defences of internal control, and comprehensively strengthened the monitoring of business and management activities through routine supervisory inspection, review inspection and audit supervision. The sixth is the legal case prevention system. The Bank continuously improved the organizational structure for legal case prevention, improved the case prevention policy system, deepened the implementation of responsibilities of the persons/institutions responsible for case prevention, and strictly investigated and punished violations against rules and regulations. The seventh is the evaluation and assessment system. The Bank formulated a scientific and reasonable evaluation and assessment mechanism, guided the whole bank to strengthen internal control and adhere to compliance operation, and hence improved the effectiveness of internal control and compliance management. The eighth is the education and training system. Through continuously strengthening compliance publicity, the Bank introduced the concepts of "compliance creates value", "compliance starts from senior executives" and "compliance is everyone's responsibility" and made them take roots in the mind of the staff.

Such system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Please refer to “Section Six Discussion and Analysis on the Operations” for the details of information relevant to the risk management system of the Bank and work during the reporting period.

The Board of Directors of the Bank, responsible for the corporate governance, risk management and internal control of the Bank, periodically reviewed and assessed the corporate governance, risk management and internal control of the Bank. The Board of Directors deemed that the system of corporate governance, risk management and internal control of the Bank was sufficient and effective during the reporting period.

XXI. AUDIT REPORT ON INTERNAL CONTROL

Ernst & Young Hua Ming LLC audited the internal control of the Bank and issued an audit opinion. As of 31 December 2020, the Bank maintained an effective internal control over financial reporting in all material aspects in accordance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. The full text of the audit opinion has been published on the websites of SSE, HKEX (in the form of overseas regulatory announcement) and the Bank.

XXII. MAJOR CHANGES IN THE *ARTICLES OF ASSOCIATION* OF THE BANK DURING THE REPORTING PERIOD

During the reporting period, there were no revisions to the *Articles of Association* of the Bank.

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Independent Auditor's Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights; • Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2020, gross loans and advances to customers amounted to RMB3,017.968 billion, representing 56.22% of total assets, and impairment allowance for loans and advances to customers amounted to RMB76.127 billion), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note III 1, Note V 16 and Note V50 (a) to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • In response to the macroeconomic changes, the COVID-19 pandemic implications and the supporting policies from government authorities, assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and any significant increase in credit risk. • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and the weight of multiple macroeconomic scenarios; and • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and • Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2020, financial assets and financial liabilities measured at fair value amounted to RMB652.100 billion and RMB25.782 billion respectively, representing 12.15% and 0.53% of total assets and total liabilities, respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 56.98% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 1.72% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of, and disclosures about, structured entities	
The Group has established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter. Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2020 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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 Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2020	2019
Interest income		221,475	210,044
Interest expense		(110,778)	(108,126)
Net interest income	1	110,697	101,918
Fee and commission income		27,005	25,977
Fee and commission expense		(2,682)	(2,808)
Net fee and commission income	2	24,323	23,169
Net trading gains	3	484	585
Dividend income		15	42
Net gains arising from investment securities	4	5,203	4,878
Net gains on derecognition of financial assets measured at amortised cost		591	22
Net foreign exchange gains		310	1,339
Other net operating income		1,082	986
Operating income		142,705	132,939
Operating expenses	5	(40,271)	(38,429)
Credit impairment losses	8	(56,733)	(48,965)
Other impairment losses		(199)	(382)
Operating profit		45,502	45,163
Losses on investment of joint ventures		(5)	–
Profit before tax		45,497	45,163
Income tax	9	(7,592)	(7,722)
Net profit		37,905	37,441
Net profit attributable to:			
Equity shareholders of the Bank		37,824	37,354
Non-controlling interests		81	87
		37,905	37,441
Earnings per share			
Basic earnings per share (in RMB/share)	10	0.68	0.68
Diluted earnings per share (in RMB/share)	10	0.61	0.62

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2020	2019
Net profit		37,905	37,441
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		22	(180)
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		2	6
– Related income tax effect	23(b)	–	(2)
Subtotal		24	(176)
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		(636)	3,158
– Changes in allowance for expected credit losses		(219)	409
– Reclassified to the profit or loss upon disposal		(774)	(1,982)
– Related income tax effect	23(b)	406	(374)
– Exchange differences on translation of financial statements		(148)	48
Subtotal		(1,371)	1,259
Other comprehensive income, net of tax		(1,347)	1,083
Total comprehensive income		36,558	38,524
Total comprehensive income attributable to:			
Equity shareholders of the Bank		36,480	38,436
Non-controlling interests		78	88
		36,558	38,524

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2020	31 December 2019
Assets			
Cash and deposits with the central bank	11	360,287	364,340
Deposits with banks and other financial institutions	12	46,059	31,358
Precious metals		9,353	10,826
Placements with banks and other financial institutions	13	69,290	60,270
Derivative financial assets	14	25,264	13,805
Financial assets held under resale agreements	15	43,592	6,835
Loans and advances to customers	16	2,942,435	2,644,136
Finance lease receivables	17	100,788	83,723
Financial investments	18	1,670,415	1,433,546
– Financial assets at fair value through profit or loss		304,908	211,406
– Debt instruments at fair value through other comprehensive income		222,807	180,005
– Equity instruments at fair value through other comprehensive income		875	623
– Financial investments measured at amortised cost		1,141,825	1,041,512
Investment in joint ventures	19	257	–
Property, plant and equipment	20	23,301	19,342
Right-of-use assets	21	11,137	11,684
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,587	16,306
Other assets	24	45,064	35,979
Total assets		5,368,110	4,733,431
Liabilities and equity			
Liabilities			
Due to the central bank	26	241,110	224,838
Deposits from banks and other financial institutions	27	469,345	444,320
Placements from banks and other financial institutions	28	161,879	166,225
Financial liabilities at fair value through profit or loss	29	4	100
Derivative financial liabilities	14	25,778	13,893
Financial assets sold under repurchase agreements	30	14,182	25,603
Deposits from customers	31	3,480,667	3,017,888
Accrued staff costs	32	15,169	13,667
Taxes payable	33	8,772	9,322
Lease liabilities	34	10,762	11,069
Debt securities issued	35	440,870	371,904
Other liabilities	36	44,574	48,548
Total liabilities		4,913,112	4,347,377

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2020	31 December 2019
Equity			
Share capital	37	54,032	52,489
Other equity instruments	38	109,062	70,067
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	–
Capital reserve	39	58,434	53,533
Other comprehensive income	40	1,393	2,737
Surplus reserve	41	26,245	26,245
General reserve	41	67,702	59,417
Retained earnings		136,581	120,494
Total equity attributable to equity shareholders of the Bank		453,449	384,982
Non-controlling interests		1,549	1,072
Total equity		454,998	386,054
Total liabilities and equity		5,368,110	4,733,431

Approved and authorised for issue by the board of directors on 26 March 2021.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Yao Zhongyou
Vice president in charge of Finance
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

2020		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note V	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2020		52,489	64,906	–	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054
Changes in equity for the year:													
Net profit		–	–	–	–	–	–	–	–	37,824	37,824	81	37,905
Other comprehensive income	40	–	–	–	–	–	(1,344)	–	–	–	(1,344)	(3)	(1,347)
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	400	400
Capital contribution by other equity instrument holders		–	–	39,993	–	–	–	–	–	–	39,993	–	39,993
Conversion of convertible bonds into share capital and capital reserve		1,543	–	–	(998)	4,901	–	–	–	–	5,446	–	5,446
Appropriation of profit:	42												
– Appropriation to general reserve		–	–	–	–	–	–	–	8,285	(8,285)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	–	(11,233)	(11,233)	(1)	(11,234)
– Dividends to preference shareholders		–	–	–	–	–	–	–	–	(2,219)	(2,219)	–	(2,219)
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998

2019		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	40	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	42											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

The notes form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	2020	2019
Cash flows from operating activities		
Net profit	37,905	37,441
Adjustments for:		
Credit impairment losses	56,733	48,965
Other impairment losses	199	382
Depreciation and amortisation	5,164	4,664
Unwinding of discount	(767)	(828)
Dividend income	(15)	(42)
Unrealised foreign exchange losses/(gains)	503	(112)
Net gains on investment securities	(57,032)	(54,632)
Net gains on derecognition of financial assets measured at amortised cost	(591)	(22)
Losses on investments of joint ventures	5	–
Net gains on disposal of trading securities	(733)	(1,021)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(139)	2,162
Interest expense on debt securities issued	11,669	15,221
Interest expense on lease liabilities	487	489
Net losses on disposal of property, plant and equipment	23	25
Income tax	7,592	7,722
	61,003	60,414
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank, banks and other financial Institutions	1,990	(42,733)
Net decrease in placements with banks and other financial institutions	5,781	20,549
Net increase in financial assets held for trading	(13,763)	(6,928)
Net increase in loans and advances to customers	(349,060)	(331,235)
Net (increase)/decrease in financial assets held under resale agreements	(36,770)	30,913
Net increase in other operating assets	(26,405)	(35,775)
	(418,227)	(365,209)
Changes in operating liabilities		
Net increase/(decrease) in deposits from banks and other financial institutions	25,957	(45,587)
Net (decrease)/increase in placements from banks and other financial institutions	(3,699)	13,820
Net decrease in financial assets sold under repurchase agreements	(11,451)	(14,793)
Net increase/(decrease) in amounts due to the central bank	17,271	(41,570)
Net increase in deposits from customers	452,197	446,317
Income tax paid	(11,297)	(10,239)
Net increase in other operating liabilities	5,403	21,947
	474,381	369,895
Net cash flows from operating activities	117,157	65,100
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	702,616	637,019
Investment income received	55,630	59,415
Proceeds from disposal of Property, plant and equipment and other assets	13	305
Payments on acquisition of investments	(924,959)	(766,714)
Payments on acquisition of Property, plant and equipment, intangible assets and other long-term assets	(6,860)	(4,448)
Net cash flows from investing activities	(173,560)	(74,423)

The notes form an integral part of these consolidated financial statements.

	Note V	2020	2019
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		400	–
Proceeds from issuance of other equity instrument holders		39,993	34,959
Proceeds from insurance of debts		514,774	224,259
Repayments of debts issued		(439,051)	(292,293)
Interest paid on debt securities issued		(12,981)	(15,732)
Dividends paid		(13,453)	(9,902)
Other net cash flows from financing activities		(2,924)	(2,744)
Net cash flows used in financing activities		86,758	(61,453)
Effect of foreign exchange rate changes on cash and cash equivalents		(2,778)	595
Net increase/(decrease) in cash and cash equivalents	46 (a)	27,577	(70,181)
Cash and cash equivalents as at 1 January		117,499	187,680
Cash and cash equivalents as at 31 December	46 (b)	145,076	117,499
Interest received		163,990	161,077
Interest paid (excluding interest expense on debt securities issued)		(90,899)	(93,880)

The notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China (the "PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 19) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"),the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 26 March 2021.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note III.

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the Conceptual Framework for Financial Reporting 2018 and the following new standards, amendments and interpretations.

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

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2020 (continued)

The amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the yaer of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

IFRS 16 Amendment provides for rent relief during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020, and earlier adoption is permitted. The Group has adopted the amendments from 1 January 2020.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

		Effective for annual periods beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	*Interest Rate Benchmark Reform – Phase 2*	1 January 2021
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	*Accounting policies disclosures*	1 January 2023
IAS 8 Amendments	*Definition of accounting estimates*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 (issued in May 2020)	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*	1 January 2022

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address the accounting issues that arise when financial instruments that reference Interbank Offered Rates ("IBOR") transition to nearly RFRs. The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is "separately identifiable" to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Additional disclosures are required for adoption.

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (continued)

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments to IAS 1 *Presentation of Financial Statements* and IFRS *Practice Statement 2* provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 8 introduces a new definition of 'accounting estimates'. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

IFRS 17 *Insurance Contracts* and IFRS 17 amendments replaced IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (continued)

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2018-2020 were issued in May 2020, including an amendment to IFRS 9 *Financial Instruments*, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the "10 per cent" test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 *Leases*, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

The adoption of the above standards, amendments and interpretations will have no material impact on the financial statements.

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation (continued)

2.1 Subsidiaries (continued)

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

2.2 Joint Ventures

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, 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.

4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi 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 at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

Assets and liabilities of foreign operations are translated to Renminbi at the spot exchange rates at the end of the year. Equity items, excluding "Retained Earnings", are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders' equity with respect to a foreign operation are transferred to profit or loss in the year when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

(1) the contractual rights to the cash flows from the financial asset expire; or

(2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flows collected to a third party in full and on time under the "pass-through agreement" and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in a conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished - that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial asset (continued)

Business models

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, 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 subsequent measurement of financial assets depends on the classification:

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in "other comprehensive income", except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when an accounting mismatch can be eliminated or significantly reduced, financial assets can be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as a financial asset designated at fair value through profit or loss, it cannot be reclassified as other financial asset; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swaps to manage the associated interest rate risk.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss, other financial liabilities or designated as effective hedging instruments at initial recognition. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial liabilities, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

Other financial liabilities

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

5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 50(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

(1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk);

(2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognised definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Gains or losses arising from hedging instruments are recognised in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognised in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortised cost, the adjustment of the book value of the hedged item should be amortised by the effective interest rate method during the remaining period of the hedge and recognised in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognised hedge gains or losses are amortised in the same way and recognised in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortised fair value is recognised in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedge

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognised in other comprehensive income, and the ineffective part shall be recognised in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognised in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognised in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to share capital is recognised in capital surplus under "Capital reserve".

5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined at the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the year of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are not reported as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Property, plant and equipment

Property, plant and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's property, plant and equipment mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

8 Property, plant and equipment (continued)

8.1 Premises, electronic equipment and others

Property, plant 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, plant and equipment are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value(%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

8.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

8.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

9 Leases

9.1 Lease classification

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.2 Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes the periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise the corresponding option.

9.3 As lessee

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. In calculating the present value of the lease payments after modification, the revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For the impact on the adjustments of a lease liability, the Group accounts for the remeasurement by:

(1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease or shorten the lease term, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.3 As lessee (continued)

The incremental borrowing rate of lessee

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

9.4 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.5 Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises:

(1) the amount of the initial measurement of the lease liability;

(2) any lease payments made at or before the commencement date of the lease less any lease incentives received;

(3) any initial direct cost incurred when the Group is a lessee; and

(4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

9.6 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

11 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 13). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

12 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

13 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: property, plant and equipment, right-of-use assets, construction in progress, intangible assets, goodwill and investments in subsidiaries and joint ventures.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

13 Provision for impairment losses on non-financial assets (continued)

A 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 Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group'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 Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognise the impairment loss in the statement of profit or loss. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through 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.

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 if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

14.1 Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing funds, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

14.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Employee benefits (continued)

14.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

14.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

15 Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group 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 Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group 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 amounts. No provision for impairment loss is made for entrusted loans.

17 Other equity instruments

Preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payable are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

Perpetual bonds

The perpetual bonds issued by the Group do not include the contractual obligations to pay cash or other financial assets to other parties or exchange financial assets or financial liabilities with other parties under potential adverse conditions; and perpetual bonds issued includes no terms and arrangement that the bonds must or will alternatively be settled in the Group's own equity instruments. The perpetual bonds issued by the Group are divided into equity instruments. The handling fees and commissions incurred in issuing the perpetual bonds are divided into equity instruments, and the transaction costs are deducted from equity. The interest on perpetual bond is recognized as profit distribution at the time of declaration.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

18 Income recognition

The income should be recognised when the Group's performance obligation in the contract is fulfilled, which refers the revenue is recognised when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

18.1 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. 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 Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees 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.

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

18.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

18.3 Other income

Other income is recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

19 Expenses recognition

19.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

19.2 Other expenses

Other expenses are recognised on an accrual basis.

20 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

21 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

22 Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

23 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- management overlay
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values of 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. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure that the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group 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 utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets 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) cannot be obtained reliably, the fair value of the asset cannot 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 the discount 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

Property, plant and equipment and intangible assets 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 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.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax: value-added tax is charged at 6% and 13% on taxable added value.

(b) City construction tax: city construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge: education surcharge is calculated as 3% of business tax.

(d) Income tax: the income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A."), the Luxembourg subsidiary, is 19%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2020	2019
Interest income arising from			
Deposits with the central bank		5,073	5,020
Deposits with banks and other financial institutions		616	1,470
Placements with banks and other financial institutions		1,083	3,208
Loans and advances to customers	(a)		
– Corporate loans and advances		76,214	70,854
– Personal loans and advances		77,477	72,578
– Discounted bills		2,295	2,020
Finance lease receivables		5,524	4,444
Financial assets held under resale agreements		964	2,377
Investments		52,229	48,073
Subtotal		221,475	210,044
Interest expenses arising from			
Due to the central bank		6,414	8,012
Deposits from banks and other financial institutions		10,271	12,712
Placements from banks and other financial institutions		4,270	6,520
Deposits from customers			
– Corporate customers		58,045	47,074
– Individual customers		19,643	16,880
Financial assets sold under repurchase agreements		466	1,707
Debt securities issued		11,669	15,221
Subtotal		110,778	108,126
Net interest income		110,697	101,918

Note:

(a) The interest income arising from impaired financial assets for the year ended 31 December 2020 amounted to RMB767 million (2019: RMB828 million).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2020	2019
Fee and commission income		
Bank card service fees	12,245	14,163
Agency services fees	3,288	2,744
Wealth management service fees	2,518	634
Settlement and clearing fees	1,701	1,538
Underwriting and advisory fees	1,626	1,909
Custody and other fiduciary business fees	1,614	1,446
Acceptance and guarantee fees	1,529	1,360
Others	2,484	2,183
Subtotal	27,005	25,977
Fee and commission expense		
Bank card transaction fees	1,842	1,908
Settlement and clearing fees	150	144
Others	690	756
Subtotal	2,682	2,808
Net fee and commission income	24,323	23,169

3 Net trading gains

	2020	2019
Trading financial instruments		
– Derivatives	(369)	(355)
– Debt securities	836	920
Subtotal	467	565
Financial instruments designated at fair value through profit or loss	(2)	(1)
Precious metal contracts	19	21
Total	484	585

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	2020	2019
Net gains arising from financial investments at fair value through profit or loss	5,016	4,622
Net losses arising from debt instruments at fair value through other comprehensive income	(785)	(1,915)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	198	189
Net revaluation gains reclassified from other comprehensive income on disposal	774	1,982
Total	5,203	4,878

5 Operating expenses

	Note	2020	2019
Staff costs			
– Salaries and bonuses		13,003	12,759
– Pension and annuity		1,611	2,167
– Housing allowances		991	881
– Staff welfares		574	443
– Supplementary retirement benefits		154	110
– Others		2,910	2,041
Subtotal		19,243	18,401
Premises and equipment expenses			
– Depreciation of right-of-use assets		2,677	2,429
– Depreciation of Property, plant and equipment		1,651	1,485
– Amortisation of intangible assets		524	400
– Rental and property management expenses		492	565
– Interest expense on lease liabilities		487	489
– Amortisation of other long-term assets		312	350
Subtotal		6,143	5,718
Tax and surcharges		1,483	1,400
Other general and administrative expenses	(a)	13,402	12,910
Total		40,271	38,429

Note:

(a) *Auditors' remuneration for the year ended 31 December 2020 was RMB9.90 million (2019: RMB9.50 million).*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

		2020							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
Lu Hong		–	1,520	740	–	2,260	46	111	2,417
Liu Jin	(i)	–	298	223	–	521	12	111	644
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Wu Lijun	(ii)	–	–	–	–	–	–	–	–
Liu Chong		–	–	–	–	–	–	–	–
Yu Chunling		–	–	–	–	–	–	–	–
Independent non-executive directors									
Li Yinquan	(ii)	–	215	–	–	215	–	–	215
Xu Hongcai		–	430	–	–	430	–	–	430
Wang Liguo		–	420	–	–	420	–	–	420
Shao Ruiqing		–	426	–	–	426	–	–	426
Hong Yongsen		–	430	–	–	430	–	–	430
Supervisors									
Li Xin		–	1,600	660	–	2,260	46	111	2,417
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		330	–	–	–	330	–	–	330
Qiao Zhimin		340	–	–	–	340	–	–	340
Xu Keshun		–	734	1,572	–	2,306	46	111	2,463
Sun Jianwei		–	736	1,095	–	1,831	46	111	1,988
Shang Wencheng		–	704	1,280	–	1,984	44	111	2,139

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

		2020							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former non-executive directors									
Cai Yunge	(ii)	–	–	–	–	–	–	–	–
Wang Xiaolin	(ii)	–	–	–	–	–	–	–	–
Shi Yongyan	(ii)	–	–	–	–	–	–	–	–
Dou Hongquan	(ii)	–	–	–	–	–	–	–	–
He Haibin	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive directors									
Fok Oi Ling	(ii)	215	–	–	–	215	–	–	215
Feng Lun	(ii)	360	–	–	–	360	–	–	360

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2019							
			Discretionary bonuses			Contributions to social pension schemes	Other welfares	Total
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	RMB'000	RMB'000	RMB'000
Executive director								
Lu Hong	–	952	1,228	–	2,180	44	126	2,350
Non-executive directors								
Li Xiaopeng	–	–	–	–	–	–	–	–
Cai Yunge	–	–	–	–	–	–	–	–
Wang Xiaolin	–	–	–	–	–	–	–	–
Shi Yongyan	–	–	–	–	–	–	–	–
Dou Hongquan	–	–	–	–	–	–	–	–
He Haibin	–	–	–	–	–	–	–	–
Liu Chong	–	–	–	–	–	–	–	–
Yu Chunling	–	–	–	–	–	–	–	–
Independent non-executive directors								
Fok Oi Ling	370	–	–	–	370	–	–	370
Xu Hongcai	271	–	–	–	271	–	–	271
Wang Liguo	360	–	–	–	360	–	–	360
Shao Ruiqing	150	–	–	–	150	–	–	150
Hong Yongmiao	93	–	–	–	93	–	–	93
Supervisors								
Li Xin	–	984	1,195	–	2,179	44	126	2,349
Yin Lianchen	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Wu Gaolian	–	–	–	–	–	–	–	–
Wang Zhe	290	–	–	–	290	–	–	290
Qiao Zhimin	75	–	–	–	75	–	–	75
Xu Keshun	–	363	570	–	933	21	64	1,018
Sun Jianwei	–	364	456	–	820	18	64	902
Shang Wencheng	–	348	519	–	867	21	64	952

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2019							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former executive director								
Ge Haijiao	–	200	150	–	350	16	105	471
Former non-executive directors								
Fu Dong	–	–	–	–	–	–	–	–
Zhao Wei	–	–	–	–	–	–	–	–
Former independent non-executive director								
Qiao Zhimin	284	–	–	–	284	–	–	284
Xie Rong	216	–	–	–	216	–	–	216
Feng Lun	343	–	–	–	343	–	–	343
Former Supervisors								
Sun Xinhong	–	348	570	–	918	–	–	918
Jiang Ou	–	349	456	–	805	–	–	805
Huang Dan	–	264	519	–	783	–	–	783
Yu Erniu	–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

Notes:

(i) On 25 March 2020, the CIRC approved Mr. Liu Jin's qualification as an executive director of the Bank.

(ii) On 25 March 2020, the CIRC approved Mr. Wu Lijun's qualifications as a director and the vice chairman of the Bank.

On 26 March 2020, Mr. Li Yinquan was elected as an independent director of the Bank at the First Extraordinary Shareholders' General Meeting in 2020, and on 11 June 2020, the CIRC approved his qualification as an independent director.

On 23 September 2020, due to work adjustment, Mr. Cai Yunge resigned as a non-executive director, a member of the risk Management Committee of the board of directors and a member of the Audit Committee of the board of directors.

On 28 July 2020, Mr. Wang Xiaolin resigned as a non-executive director of the Bank, the chairman and a member of the risk Management Committee of the board of directors, a member of the Strategy Committee of the board of directors and a member of the Compensation Committee of the board of directors due to the change of equity and personal work adjustment of the Bank.

On July 28 2020, Mr. Shi Yongyan resigned as a non-executive director, a member of the Nomination Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to the change of equity and personal work adjustment of the Bank.

On 28 July 2020, Mr. Dou Hongquan resigned as a non-executive director, a member of the Strategy Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to the change of equity and personal work adjustment of the Bank.

On 27 July 2020, Mr. He Haibin resigned as a non-executive director, a member of the Audit Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to work adjustment.

On 11 June 2020, Ms. Fok Oi Ling ceased to be an independent director, the chairman and a member of the Connected Transaction Control Committee of the board of directors, a member of the Audit Committee of the board of directors, a member of the Nomination Committee of the board of directors and a member of the Remuneration Committee of the board of directors due to the expiration of her term of office.

On 30 July 2019, after the election of the Second Interim Shareholders' General Meeting of the bank in 2019, Mr. Feng Lun was no longer an independent director of the bank. Mr. Feng Lun continued to perform his duties until his qualification for replacing his independent director was approved by the CBRC.

(iii) The total compensation package for these directors and supervisors for the year ended 31 December 2020 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2020.

The above directors' and supervisors' emoluments for the year ended 31 December 2020 were calculated in accordance with their actual tenure.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	2,492	1,899
Discretionary bonuses	23,092	27,512
Contributions to pension schemes	205	248
Others	499	488
Total	26,288	30,147

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2020	2019
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	1	–
RMB4,500,001-5,000,000	2	2
RMB5,000,001 and above	2	3

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

8 Credit impairment losses

	2020	2019
Loans and advances to customers		
– measured at amortised cost	53,197	47,821
– measured at fair value through other comprehensive income	156	(35)
Debt instruments at fair value through other comprehensive income	(334)	439
Financial investments measured at amortised cost	772	(314)
Finance lease receivables	973	752
Others	1,969	302
Total	56,733	48,965

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax

(a) Income tax:

	Note V	2020	2019
Current tax		10,917	13,727
Deferred tax	23(b)	(2,876)	(5,887)
Adjustments for prior year	9(b)	(449)	(118)
Total		7,592	7,722

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2020	2019
Profit before tax		45,497	45,163
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		11,374	11,291
Effect of different tax rates applied by certain subsidiaries		(10)	(5)
Non-deductible expenses			
– Staff costs		136	88
– Impairment losses on assets		982	527
– Others		321	309
Subtotal		1,439	924
Non-taxable income	(i)	(4,762)	(4,370)
Subtotal		8,041	7,840
Adjustments for prior year		(449)	(118)
Income tax		7,592	7,722

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Basic and diluted earnings per ordinary share

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

	2020	2019
Net profit attributable to equity holders of the Bank	37,824	37,354
Less: Dividends on preference shares declared	2,219	1,450
Net profit attributable to ordinary shareholders of the Bank	35,605	35,904
Weighted average number of ordinary shares in issue (in million shares)	52,746	52,489
Basic earnings per share (in RMB/share)	0.68	0.68

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

	2020	2019
Issued ordinary shares as at 1 January	52,489	52,489
Add: Weighted average number of new issued ordinary shares in current year	257	–
Weighted average number of ordinary shares in issue	52,746	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2020	2019
Net profit attributable to ordinary shareholders of the Bank	35,605	35,904
Add: Interest expense on convertible bonds, net of tax	850	899
Net profit used to determine diluted earnings per share	36,455	36,803
Weighted average number of ordinary shares in issue (in million shares)	52,746	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,313	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,059	59,753
Diluted earnings per share (in RMB/share)	0.61	0.62

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Cash and deposits with the central bank

	Notes	31 December 2020	31 December 2019
Cash on hand		4,471	4,355
Deposits with the central bank			
– Statutory deposit reserves	(a)	293,540	297,528
– Surplus deposit reserves	(b)	56,132	57,546
– Foreign currency risk reserves	(c)	2,305	3,732
– Fiscal deposits		3,693	1,050
Subtotal		360,141	364,211
Accrued interest		146	129
Total		360,287	364,340

Notes:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2020	*31 December 2019*
Reserve ratio for RMB deposits	*9.00%*	*10.50%*
Reserve ratio for foreign currency deposits	*5.00%*	*5.00%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2020, the foreign currency risk reserve ratio was 0% (31 December 2019: 20%).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Deposits in Mainland China		
– Banks	29,185	12,868
– Other financial institutions	314	528
Deposits outside Mainland China		
– Banks	16,980	18,399
Subtotal	46,479	31,795
Accrued interest	59	6
Total	46,538	31,801
Less: Provision for impairment losses	(479)	(443)
Net balances	46,059	31,358

13 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Placements in Mainland China		
– Banks	14,502	4,160
– Other financial institutions	17,702	29,777
Placements outside Mainland China		
– Banks	37,216	26,291
Subtotal	69,420	60,228
Accrued interest	179	213
Total	69,599	60,441
Less: Provision for impairment losses	(309)	(171)
Net balances	69,290	60,270

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting

Derivative financial instruments included forward, swap, and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure that the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

(a) Analysed by nature of contract

	31 December 2020		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	1,110,897	5,821	(6,340)
Currency derivatives			
– Foreign exchange forwards	21,022	523	(610)
– Foreign exchange swap and cross-currency interest rate swaps	1,055,992	18,144	(18,499)
– Foreign exchange options	20,981	774	(246)
Credit derivatives	1,405	2	(83)
Total	2,210,297	25,264	(25,778)

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivative			
– Interest rate swaps	1,298,443	3,655	(3,680)
Currency derivatives			
– Foreign exchange forwards	29,168	229	(197)
– Foreign exchange swap and cross-currency interest rate swaps	1,365,001	9,483	(9,557)
– Foreign exchange options	78,260	392	(386)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	31 December 2020	31 December 2019
Counterparty default risk-weighted assets		
– Interest rate derivatives	2,504	492
– Currency derivatives	4,808	3,449
– Credit derivatives	21	317
Credit value adjustment risk-weighted assets	2,277	1,710
Total	9,610	5,968

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment ("CVA"). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 31 December 2020, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB3,286 million (31 December 2019: RMB14 million), in the above hedging instrument, derivative financial assets was RMB2 million (31 December 2019: Nil), derivative financial liabilities was RMB118 million (31 December 2019: RMB95 thousands).

In 2020, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting (continued)

(d) IBOR Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the year of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform.

The Group has fair value hedge accounting relationships that are exposed to the US dollar LIBOR. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships may be entered into, while others may survive the market-wide benchmarks reform. The hedge items that are affected by the adoption of the temporary exceptions in hedge accounting relationships are presented in the statement of financial position as"Financial investments".

As at 31 December 2020, the notional amount of interest rate derivatives designated in fair value hedge accounting relationships represent the extent of the fair value hedge accounting's risk exposure managed by the Group that is directly affected by market-wide benchmark reform and impacted by the temporary exceptions is RMB3.286 billion.

In August 2020, IASB issued Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2. The Group will adopt the amendments from 1 January 2021.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Banks	13,262	2,000
– Other financial institutions	30,331	4,702
Outside Mainland China		
– Other financial institutions	5	126
Subtotal	43,598	6,828
Accrued interest	3	8
Total	43,601	6,836
Less: Provision for impairment losses	(9)	(1)
Net balances	43,592	6,835

(b) Analysed by type of security held

	31 December 2020	31 December 2019
Bonds		
– Government bonds	20,074	2,062
– Other debt securities	23,524	4,766
Subtotal	43,598	6,828
Accrued interest	3	8
Total	43,601	6,836
Less: Provision for impairment losses	(9)	(1)
Net balances	43,592	6,835

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers

(a) Analysed by nature

	31 December 2020	31 December 2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,627,339	1,463,630
Discounted bills	652	488
Personal loans and advances		
– Personal housing mortgage loans	492,444	414,211
– Personal business loans	171,336	158,871
– Personal consumption loans	173,565	140,545
– Credit cards	445,935	443,881
Subtotal	1,283,280	1,157,508
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	29,938	26,403
Discounted bills	68,273	64,175
Subtotal	98,211	90,578
Total	3,009,482	2,712,204
Accrued interest	8,486	8,160
Gross loans and advances to customers	3,017,968	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)	(76,228)
Net loans and advances to customers	2,942,435	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)	(438)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 25(a).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	313,427	10.41%	106,816
Water, environment and public utility management	294,595	9.79%	121,503
Real estate	224,450	7.46%	154,223
Leasing and commercial services	189,785	6.31%	66,502
Wholesale and retail trade	127,522	4.24%	49,657
Construction	107,987	3.59%	32,520
Finance	97,132	3.23%	4,765
Transportation, storage and postal services	88,535	2.94%	37,660
Agriculture, forestry, husbandry and fishery	54,100	1.80%	17,062
Production and supply of electricity, gas and water	45,532	1.51%	12,163
Others	114,212	3.79%	36,048
Subtotal of corporate loans and advances	1,657,277	55.07%	638,919
Personal loans and advances	1,283,280	42.64%	653,526
Discounted bills	68,925	2.29%	65,161
Total	3,009,482	100.00%	1,357,606
Accrued interest	8,486		
Gross loans and advances to customers	3,017,968		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)		
Net loans and advances to customers	2,942,435		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)		

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Transportation, storage and postal services	87,226	3.22%	36,653
Finance	76,907	2.84%	12,380
Production and supply of power, gas and water	45,948	1.69%	13,517
Agriculture, forestry, husbandry and fishery	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at 31 December 2020 and for the year ended 31 December 2020, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2020					
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Impairment charged during the year	Written-off during the year
Manufacturing	13,608	(3,378)	(5,591)	(6,106)	2,689	1,816

(c) Analysed by type of collateral

	31 December 2020	31 December 2019
Unsecured loans	941,130	852,885
Guaranteed loans	710,746	637,315
Secured loans		
– By tangible assets other than monetary assets	1,017,960	862,021
– By monetary assets	339,646	359,983
Total	3,009,482	2,712,204
Accrued interest	8,486	8,160
Gross loans and advances to customers	3,017,968	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)	(76,228)
Net loans and advances to customers	2,942,435	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)	(438)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	31 December 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	652,565	21.69%	266,093
Central	532,348	17.69%	296,164
Pearl River Delta	396,086	13.16%	263,189
Bohai Rim	387,332	12.87%	223,419
Western	373,595	12.41%	212,662
Northeastern	117,580	3.91%	80,952
Overseas	98,819	3.28%	9,916
Head Office	451,157	14.99%	5,211
Total	3,009,482	100.00%	1,357,606

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	5,383	(9,100)	(2,930)	(3,140)
Central	5,225	(5,561)	(3,418)	(3,006)
Bohai Rim	6,160	(2,592)	(2,499)	(3,355)
Western	3,365	(3,400)	(3,326)	(1,786)
Pearl River Delta	4,699	(4,955)	(3,685)	(2,843)
Total	24,832	(25,608)	(15,858)	(14,130)

	31 December 2019			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

For the definition of regional divisions, see Note V 49(b).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue years

	31 December 2020				
	Overdue within three months or less (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	14,474	12,760	1,200	30	28,464
Guaranteed loans	5,221	2,964	3,535	582	12,302
Secured loans					
– By tangible assets other than monetary assets	10,367	5,765	4,176	1,386	21,694
– By monetary assets	1,287	284	564	1	2,136
Subtotal	31,349	21,773	9,475	1,999	64,596
Accrued interest	276	–	–	–	276
Total	31,625	21,773	9,475	1,999	64,872
As a percentage of gross loans and advances to customers	1.05%	0.72%	0.31%	0.07%	2.15%

	31 December 2019				
	Overdue within three months or less (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	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
–By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	31 December 2020				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,837,009	124,772	47,701	3,009,482	1.59%
Accrued interest	6,649	1,374	463	8,486	
Gross loans and advances to customers	2,843,658	126,146	48,164	3,017,968	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,192)	(21,037)	(23,304)	(75,533)	
Net loans and advances to customers	2,812,466	105,109	24,860	2,942,435	

	31 December 2019				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1	(2,112)	2,049	63	–
Transfer to Stage 2	988	(1,072)	84	–
Transfer to Stage 3	216	10,315	(10,531)	–
Charge for the year	(9,488)	(7,133)	(42,506)	(59,127)
Release for the year	3,260	2,378	292	5,930
Disposal	–	–	20,310	20,310
Write-off and transfer out	–	–	36,013	36,013
Recovery of loans and advances written off	–	–	(3,202)	(3,202)
Unwinding of discount on allowance	–	–	767	767
Exchange fluctuation and others	4	–	–	4
As at 31 December 2020	(31,192)	(21,037)	(23,304)	(75,533)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1	(2,089)	2,038	51	–
Transfer to Stage 2	742	(787)	45	–
Transfer to Stage 3	156	2,233	(2,389)	–
Charge for the year	(3,899)	(10,693)	(38,804)	(53,396)
Release for the year	4,365	899	311	5,575
Disposal	–	–	13,826	13,826
Write-off and transfer out	–	–	26,576	26,576
Recovery of loans and advances written off	–	–	(2,428)	(2,428)
Unwinding of discount on allowance	–	–	828	828
As at 31 December 2019	(24,060)	(27,574)	(24,594)	(76,228)

Note:

(i) The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2020, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB594 million (31 December 2019: RMB438 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2020	31 December 2019
Rescheduled loans and advances to customers	7,659	11,888
Of which: Rescheduled loans and advances to customers overdue more than 90 days	245	898

17 Finance lease receivables

	31 December 2020	31 December 2019
Minimum finance lease receivables	118,247	99,825
Less: Unearned finance lease income	(15,442)	(14,662)
Present value of minimum lease receivable	102,805	85,163
Accrued interest	1,128	936
Less: Impairment losses	(3,145)	(2,376)
Net balance	100,788	83,723

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2020	31 December 2019
Less than 1 year (inclusive)	32,149	23,619
1 year to 2 years (inclusive)	25,745	20,418
2 years to 3 years (inclusive)	20,825	17,123
3 years to 4 years (inclusive)	15,752	12,628
4 years to 5 years (inclusive)	11,420	9,745
More than 5 years	12,356	16,292
Total	118,247	99,825

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments

	Notes	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss	(a)	304,908	211,406
Debt instruments at fair value through other comprehensive income	(b)	222,807	180,005
Equity instruments at fair value through other comprehensive income	(c)	875	623
Financial investments measured at amortised cost	(d)	1,141,825	1,041,512
Total		1,670,415	1,433,546

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

	Notes	31 December 2020	31 December 2019
Debt instruments held for trading	(i)	33,040	18,602
Financial assets designated at fair value through profit or loss	(ii)	1	4
Other financial assets at fair value through profit or loss	(iii)	271,867	192,800
Total		304,908	211,406

(i) Debt instruments held for trading

	Notes	31 December 2020	31 December 2019
Issued by the following governments or institutions:			
In Mainland China			
– Government		80	132
– Banks and other financial institutions		9,291	4,975
– Other institutions	(1)	19,985	9,436
Outside Mainland China			
– Banks and other financial institutions		1,770	2,624
– Other institutions		1,914	1,435
Total	(2)	33,040	18,602
Listed	(3)	4,391	4,716
Of which: listed in Hong Kong		2,194	1,703
Unlisted		28,649	13,886
Total		33,040	18,602

Notes:

(1) At the end of the year, debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(2) At the end of the year, some of the debt instruments held for trading were pledged for repurchase agreements. See Note V 25(a).

(3) Listed investments include debt instruments traded on a stock exchange.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

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

	31 December 2020	31 December 2019
Fixed interest rate personal mortgage loans	1	4

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the reporting year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Fund investments	212,937	159,760
Equity instruments	2,620	2,019
Others	56,310	31,021
Total	271,867	192,800

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	31 December 2020	31 December 2019
In Mainland China			
– Government		59,441	40,880
– Banks and other financial institutions	(1)	75,493	51,640
– Other institutions	(2)	51,310	56,371
Outside Mainland China			
– Government		349	98
– Banks and other financial institutions		12,535	7,574
– Other institutions		19,786	19,777
Subtotal		218,914	176,340
Accrued interest		3,893	3,665
Total	(3)(4)	222,807	180,005
Listed	(5)	50,534	43,019
Of which listed in Hong Kong		33,872	29,884
Unlisted		168,380	133,321
Subtotal		218,914	176,340
Accrued interest		3,893	3,665
Total		222,807	180,005

Notes:

(1) *Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.*

(2) *Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.*

(3) *As at 31 December 2020, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximated to RMB456 million (31 December 2019: RMB826 million).*

(4) *At the end of the year, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note V 25(a).*

(5) *Listed investments include debt instruments traded on a stock exchange.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(708)	–	(118)	(826)
Transfer to Stage 3	1	–	(1)	–
Net charge for the year	(292)	–	(15)	(307)
Reversal for the year	543	–	98	641
Exchange fluctuation and others	36	–	–	36
As at 31 December 2020	(420)	–	(36)	(456)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Net charge for the year	(343)	–	(116)	(459)
Reversal for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2020	31 December 2019
Equity instruments at fair value through other comprehensive income	(i)	875	623
Listed	(ii)	23	21
Of which: listed in Hong Kong		–	–
Unlisted		852	602
Total		875	623

Notes:

(i) *The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2020, the fair value was RMB875 million (31 December 2019: RMB623 million). For the year ended 31 December 2020, the Group has received dividends of RMB14 million from the above equity instruments (2019: RMB11 million).*

(ii) *Listed investments include equity instruments traded on a stock exchange.*

(d) Financial investments measured at amortised cost

	Notes	31 December 2020	31 December 2019
Debt securities and asset-backed instruments	(i)	921,967	773,460
Others	(ii)	207,486	256,649
Subtotal		1,129,453	1,030,109
Accrued interest		17,510	15,786
Total		1,146,963	1,045,895
Less: Provision for impairment losses		(5,138)	(4,383)
Net balance		1,141,825	1,041,512
Listed	(iii)	159,519	139,562
Of which: listed in Hong Kong		21,710	20,905
Unlisted		964,796	886,164
Subtotal		1,124,315	1,025,726
Accrued interest		17,510	15,786
Net balance		1,141,825	1,041,512

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	31 December 2020	31 December 2019
In Mainland China			
– Government		386,220	340,733
– Banks and other financial institutions	(1)	333,697	228,028
– Other institutions	(2)	168,370	183,628
Outside Mainland China			
– Government		4,777	1,891
– Banks and other financial institutions		23,141	5,486
– Other institutions		5,762	13,694
Subtotal		921,967	773,460
Accrued interest		15,621	13,140
Total	(3)	937,588	786,600
Less: Provision for impairment losses		(1,937)	(1,657)
Net balance		935,651	784,943
Fair value		944,985	796,461

Notes:

(1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.

(2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note V 25(a).

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial Investments (continued)

(d) Financial investments measured at amortised cost (continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(30)	30	–	–
Transfer to Stage 2	179	(179)	–	–
Transfer to Stage 3	6	47	(53)	–
Charge for the year	(1,003)	(323)	(1,017)	(2,343)
Release for the year	1,412	54	105	1,571
Exchange fluctuation and others	17	–	–	17
As at 31 December 2020	(1,932)	(472)	(2,734)	(5,138)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 2	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Charge for the year	–	(98)	(723)	(821)
Release for the year	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investment in subsidiaries and joint ventures

(a) Investments in subsidiaries

	31 December 2020	31 December 2019
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	–
Total	12,983	12,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd.	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd (Note i)	Beijing	1,000	60%	60%	Banking business	Incorporated company

(i) In August 2020, the bank established its subsidiary, Beijing Sunshine Consumer Finance Co., Ltd. ("Sunshine Consumer Finance"), with a registered capital of RMB1 billion. The bank contributed RMB600 million, accounting for 60% of all the equity.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investment in subsidiaries and joint ventures (continued)

(b) Investments in joint ventures

	2020
As at 1 January 2020	–
Increased investment	262
Investment losses under the equity method	(5)
As at 31 December 2020	257

20 Property, plant and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2020	12,949	5,657	2,210	6,667	4,498	31,981
Additions	276	3,117	405	1,959	488	6,245
Transfers in/(out)	301	(170)	(301)	–	–	(170)
Disposals	–	–	–	(378)	(196)	(574)
Foreign currency conversion difference	–	(477)	–	(1)	(1)	(479)
As at 31 December 2020	13,526	8,127	2,314	8,247	4,789	37,003
Accumulated depreciation						
As at 1 January 2020	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Charge for the year	(402)	(223)	–	(578)	(448)	(1,651)
Transfer out	–	12	–	–	–	12
Disposals	–	–	–	372	169	541
Foreign currency conversion difference	–	37	–	1	1	39
As at 31 December 2020	(4,506)	(582)	–	(5,100)	(3,351)	(13,539)
Provision for impairment						
As at 1 January 2020	(159)	–	–	–	–	(159)
Charge for the year	(4)	–	–	–	–	(4)
As at 31 December 2020	(163)	–	–	–	–	(163)
Net book value						
As at 31 December 2020	8,857	7,545	2,314	3,147	1,438	23,301

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Property, plant and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

Notes:

(i) As at 31 December 2020, title deeds were not yet finalised for the premises with a carrying amount of RMB42 million (31 December 2019: RMB45 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.

(ii) As at 31 December 2020, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB7,545 million (31 December 2019: RMB5,249 million). As at the end of the year, part of the finance lease receivables was pledged for borrowings from banks. See Note V 25(a).

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	31 December 2020	31 December 2019
Held in Mainland China		
– Medium term leases (10 to 50 years)	8,547	8,454
– Short term leases (less than 10 years)	310	232
Total	8,857	8,686

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Right-of-use Assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2020	14,023	66	14,089
Additions	2,524	12	2,536
Charge for the year	(937)	(14)	(951)
Foreign currency conversion difference	(13)	–	(13)
As at 31 December 2020	15,597	64	15,661
Accumulated depreciation			
As at 1 January 2020	(2,388)	(17)	(2,405)
Charge for the year	(2,662)	(15)	(2,677)
Reduction for the year	548	9	557
Foreign currency conversion difference	1	–	1
As at 31 December 2020	(4,501)	(23)	(4,524)
Net book value			
As at 31 December 2020	11,096	41	11,137

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Goodwill

	31 December 2020	31 December 2019
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed the "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank's cash flow forecast is 12% (2019: 13%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

23 Deferred tax assets and liabilities

(a) Analysed by nature

	31 December 2020		31 December 2019	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	78,350	19,587	65,221	16,306
Deferred income tax liabilities	–	–	(6)	(1)
Total	78,350	19,587	65,215	16,305

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2020	14,664	(243)	1,884	16,305
Recognised in profit or loss	2,594	40	242	2,876
Recognised in other comprehensive income	66	340	–	406
31 December 2020	17,324	137	2,126	19,587

	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

Notes:

(i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(ii) *Fair value changes of financial instruments are subject to tax when realised.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Other assets

	Notes	31 December 2020	31 December 2019
Other receivables	(a)	30,903	24,288
Accrued interest		4,661	2,988
Intangible assets		2,160	1,646
Refundable Deposits		1,698	1,326
Long-term deferred expense		896	871
Property, plant and equipment purchase prepayment		703	795
Repossessed assets		390	478
Land use rights		89	88
Others		3,564	3,499
Total		45,064	35,979

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

25 Pledged assets

(a) Assets pledged as collateral

The Group's financial assets as collateral for liabilities include discounted bills, debt securities and property, plant and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks.The carrying amount of the financial assets pledged as securities as at 31 December 2020 is RMB79.936 billion (31 December 2019: RMB86.158 billion)

(b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2020. As at 31 December 2020, the Group's collateral received from banks and other financial institutions has expired (31 December 2019: Nil). As at 31 December 2020, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2019: Nil). These transactions are conducted under standard terms in the normal course of business.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Due to the central bank

	31 December 2020	31 December 2019
Due to the central bank	238,751	221,480
Accrued interest	2,359	3,358
Total	241,110	224,838

27 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Deposits in Mainland China		
– Banks	149,996	170,505
– Other financial institutions	317,300	269,224
Deposits outside Mainland China		
– Banks	226	1,836
Subtotal	467,522	441,565
Accrued interest	1,823	2,755
Total	469,345	444,320

28 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Placements in Mainland China		
– Banks	115,334	89,480
– Other financial institutions	1,004	1,004
Placements outside Mainland China		
– Banks	45,072	74,625
Subtotal	161,410	165,109
Accrued interest	469	1,116
Total	161,879	166,225

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Financial liabilities at fair value through profit or loss

	31 December 2020	31 December 2019
Short position in debt securities	4	100
Total	4	100

30 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Banks	7,047	23,064
– Other financial institutions	930	–
Outside Mainland China		
– Banks	5,895	2,390
– Other financial institutions	298	131
Subtotal	14,170	25,585
Accrued interest	12	18
Total	14,182	25,603

(b) Analysed by collateral

	31 December 2020	31 December 2019
Debt securities	9,958	14,771
Bank acceptances	4,212	10,814
Subtotal	14,170	25,585
Accrued interest	12	18
Total	14,182	25,603

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Deposits from customers

	31 December 2020	31 December 2019
Demand deposits		
– Corporate customers	850,381	783,859
– Individual customers	274,087	217,892
Subtotal	1,124,468	1,001,751
Time deposits		
– Corporate customers	1,530,885	1,262,657
– Individual customers	526,723	466,413
Subtotal	2,057,608	1,729,070
Pledged deposits	251,964	232,522
Other deposits	3,182	21,682
Subtotal deposits from customers	3,437,222	2,985,025
Accrued interest	43,445	32,863
Total	3,480,667	3,017,888

32 Accrued staff costs

	Notes	31 December 2020	31 December 2019
Salary and welfare payable	(a)	12,626	11,929
Pension payable	(b)	1,310	620
Supplementary retirement benefits payable	(c)	1,233	1,118
Total		15,169	13,667

Notes:

(a) List of salary and welfare payable

As at 31 December 2020, the group reclassified salary and welfare payable and restated the comparative figures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Accrued staff costs (continued)

Notes: (continued)

(b) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(c) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Wills Towers Watson Management Consulting (Shenzhen) Co.,Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2020	31 December 2019
Present value of supplementary retirement benefits liability	1,233	1,118

(ii) Movements of SRB of the Group are as follows:

	2020	2019
As at 1 January 2020	1,118	843
Current service costs	110	77
Interest costs	44	33
Recalculation part of the defined benefit plan	(22)	180
Payments made	(17)	(15)
As at 31 December 2020	1,233	1,118

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 40.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Accrued staff costs (continued)

Notes: (continued)

(c) Supplementary retirement benefits ("SRB") (continued)

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2020	31 December 2019
Discount rate	4.00%	4.00%
Medical cost trend rate	6.00%	5.88%
Average expected future lifetime	22.80	22.80

As at 31 December 2020 and 31 December 2019, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

(iv) Sensitivity analysis:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2020	
	Increases	Decreases
Discount rate (1% movement)	(575)	631
Medical cost trend rate (1% movement)	653	(461)

	31 December 2019	
	Increases	Decreases
Discount rate (1% movement)	(301)	330
Medical cost trend rate (1% movement)	356	(251)

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (b) and (c) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Taxes payable

	31 December 2020	31 December 2019
Income tax payable	5,617	6,446
Value added tax payable	2,705	2,446
Others	450	430
Total	8,772	9,322

34 Lease liabilities

	31 December 2020	31 December 2019
Within 1 year (inclusive)	2,636	2,611
1 year to 2 years (inclusive)	2,305	2,283
2 years to 3 years (inclusive)	1,893	1,937
3 years to 5 years (inclusive)	2,601	2,711
More than 5 years	2,916	3,292
Total undiscounted lease liabilities	12,351	12,834
Lease liabilities	10,762	11,069

35 Debt securities issued

	Notes	31 December 2020	31 December 2019
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	5,795	55,782
Tier-two capital bonds issued	(c)	41,430	39,983
Convertible bonds issued	(d)	22,884	27,547
Interbank deposits issued	(e)	313,045	199,057
Certificates of deposit issued	(f)	31,762	19,249
Medium term notes	(g)	17,412	20,428
Subtotal		439,028	368,746
Accrued interest		1,842	3,158
Total		440,870	371,904

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(a) Subordinated debts issued

	Notes	31 December 2020	31 December 2019
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) *Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.*

(ii) *As at 31 December 2020, the fair value of the total subordinated debts issued approximated to RMB6,871 million (31 December 2019: RMB6,998 million).*

(b) Financial bonds issued

	Notes	31 December 2020	31 December 2019
Financial fixed rate bonds maturing in February 2020	(i)	–	27,999
Financial fixed rate bonds maturing in July 2020	(ii)	–	21,995
Financial fixed rate bonds maturing in November 2021	(iii)	4,996	4,990
Financial fixed rate bonds maturing in January 2022	(iv)	799	798
Total		5,795	55,782

Notes:

(i) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(ii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iii) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.*

(iv) *Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.*

(v) *As at 31 December 2020, the fair value of the total financial bonds issued approximated to RMB5,840 million (31 December 2019: RMB56,058 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(c) Tier-two capital bonds issued

	Notes	31 December 2020	31 December 2019
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,990	27,988
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,995	11,995
Tier-two capital fixed rate bonds maturing in September 2030	(iii)	1,445	–
Total		41,430	39,983

Notes:

(i) *Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(ii) *Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iii) *Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 15 September 2025 at the nominal amount.*

(iv) *As at 31 December 2020, the fair value of the total tier-two capital bonds issued approximated to RMB41,935 million (31 December 2019: RMB40,935 million).*

(d) Convertible bonds issued

	31 December 2020	31 December 2019
Fixed rate six years convertible bonds issued in March 2017	22,884	27,547

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 38	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2020		2,786	–	2,786
Accumulated conversion amount as at 1 January 2020		(1)	–	(1)
Balance as at 1 January 2020		27,547	5,161	32,708
Amortisation during the year		783	–	783
Conversion amount during the year	(iv)	(5,446)	(998)	(6,444)
Balance as at 31 December 2020		22,884	4,163	27,047

Notes:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the year ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2020, the conversion price is RMB3.76 per share.*

(iv) *As at 31 December 2020, a total of RMB5,801million (31 December 2019: RMB965,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 1,542,813,979 shares (31 December 2019: 228,101 shares).*

(v) *In 2020, a total of RMB300 million interests on the convertible bonds has been paid by the Bank (2019: RMB150 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(e) Interbank deposits issued

In 2020, 329 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB508,600 million (2019: RMB216,490 million). The carrying amount of interbank deposits due in 2020 was RMB392,400 million (2019: RMB285,690 million). As at 31 December 2020, the fair value of its outstanding interbank deposits issued was RMB310,619 million (31 December 2019: RMB196,493 million).

(f) Certificates of deposit issued

As at 31 December 2020, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branchm, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

(g) Medium term notes

	Notes	31 December 2020	31 December 2019
Medium term notes with fixed rate maturing in 8 March 2020	(i)	–	3,472
Medium term notes with floating rate maturing in 13 June 2020	(ii)	–	3,484
Medium term notes with floating rate maturing in 13 June 2021	(iii)	2,407	2,342
Medium term notes with floating rate maturing in 13 June 2021	(iv)	1,958	2,091
Medium term notes with floating rate maturing in 19 September 2021	(v)	1,958	2,083
Medium term notes with floating rate maturing in 24 June 2022	(vi)	3,262	3,484
Medium term notes with floating rate maturing in 11 December 2022	(vii)	3,262	3,472
Medium term notes with floating rate maturing in 3 August 2023	(viii)	4,565	–
Total		17,412	20,428

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(g) Medium term notes (continued)

Notes:

(i) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.*

(ii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.*

(iii) *Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.*

(iv) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.*

(v) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.*

(vi) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.*

(vii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.*

(viii) *Floating rate medium term notes of USD700 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.*

(ix) *As at 31 December 2020, the fair value of the medium term notes approximated to RMB17,432 million(31 December 2019:RMB20,478 million)*

36 Other liabilities

	Notes	31 December 2020	31 December 2019
Deferred income	(a)	5,222	6,710
Bank loans	(b)	14,302	17,597
Finance leases payable		6,034	4,876
Provisions	(c)	4,280	2,751
Payment and collection clearance accounts		3,364	1,761
Dormant accounts		421	354
Dividend payables		21	21
Others		10,930	14,478
Total		44,574	48,548

Notes:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 31 December 2020, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB14,302 million (31 December 2019: RMB17,597 million).*

(c) *As at 31 December 2020, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB126 million (31 December 2019: RMB255 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Share capital

The Bank's shareholding structure as at the end of the reporting year is as follows:

	31 December 2020	31 December 2019
Ordinary shares listed in Mainland China (A share)	41,353	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	54,032	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

38 Other equity instruments

	Note V	31 December 2020	31 December 2019
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	35 (d)	4,163	5,161
Perpetual bonds (Notes (d), (e))		39,993	–
Total		109,062	70,067

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
Subtotal				65,000	
Less:					
Issuing costs				(94)	
Book value				64,906	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(b) Main clauses

(i) *Dividend*

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) *Conditions to distribution of dividends*

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) *Dividend blocker*

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

(iv) *Order of distribution and liquidation method*

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

(v) *Mandatory conversion trigger events*

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a non-viability triggering event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(b) Main clauses (continued)

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant year.

(c) Changes in preference shares outstanding

	1 January 2020		Additions for the year		31 December 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	350	34,959	650	64,906

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instrument (continued)

(d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the "Bonds") which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

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

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

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

(e) Interests attributable to equity instruments' holders

Items	31 December 2020	31 December 2019
Total equity attributable to equity shareholders of the Bank	453,449	384,982
– Equity attributable to ordinary shareholders of the Bank	348,550	320,076
– Equity attributable to preference shareholders of the Bank	64,906	64,906
– Equity attributable to Perpetual bonds of the Bank	39,993	–
Total equity attributable to non- controlling interests	1,549	1,072
– Equity attributable to non-controlling interests of ordinary shares	1,549	1,072
– Equity attributable to non-controlling interests of preference shares	–	–
– Equity attributable to non-controlling interests Perpetual bonds	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Capital reserve

	31 December 2020	31 December 2019
Share premium	58,434	53,533

40 Other comprehensive income

	31 December 2020	31 December 2019
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	16	14
Remeasurement of a defined benefit plan	(281)	(303)
Subtotal	(265)	(289)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	1,739	2,959
– Net change in fair value	928	1,998
– Net change in expected credit loss	811	961
Exchange differences on translation of financial statements	(81)	67
Subtotal	1,658	3,026
Total	1,393	2,737

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

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the previous year	904	307	4	47	(180)	1,082
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the year	(1,070)	(150)	2	(148)	22	(1,344)
As at 31 December 2020	928	811	16	(81)	(281)	1,393

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

42 Appropriation of profits

(a) At the Board Meeting held on 26 March 2021, the Board of Directors approved the following profit appropriations for the year ended 31 December 2020:

– The accumulated amount of withdrawal has reached 50% of the Bank registered capital; According to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;

– Appropriated RMB7,492 million to general reserve;

– The 2021 annual dividend of RMB1,680 million should be paid to the Third preference shareholders in cash dividend RMB4.80 per share before tax base on the copon dividend yield of 4.8%; and

– Declared cash dividends of RMB11,347 million to all ordinary shareholders of 54,032 million shares as at 31 December 2020, representing RMB2.10 per 10 shares before tax.

(b) At the Annual General Meeting of shareholders held on 5 June 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

– Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;

– Appropriated RMB5,380 million to general reserve; and

– Declared cash dividends of RMB11,233 million to all ordinary shareholders' shares, representing RMB2.14 per 10 shares before tax.

(c) At the Board Meeting held on 27 March 2020, the dividend distribution of the Everbright P3 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB769 million before tax, representing RMB2.20 per share before tax, accruing from 18 July 2019, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Appropriation of profits (continued)

(d) At the Board Meeting held on 5 June 2020, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB1,060 million before tax, representing RMB5.30 per share before tax, accruing from 25 June 2019, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(e) At the Board Meeting held on 30 July 2020, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB390 million before tax, representing RMB3.90 per share before tax, accruing from 13 August 2019, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

43 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. 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 and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2020		31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	211,085	211,085	159,760	159,760
– Asset management plans	30,282	30,282	18,686	18,686
Financial investments measured at amortised cost				
– Asset management plans	205,206	205,206	256,569	256,569
– Asset-backed securities	149,205	149,205	119,439	119,439
Total	595,778	595,778	554,454	554,454

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group 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 Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2020, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 31 December 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB836,273 million (31 December 2019: RMB778,837 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2020 but matured before 31 December 2020 was PMB200 million (2019: RMB771 million).

In 2020, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB2,518 million (2019: RMB634 million).

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 31 December 2020, the balance of above transactions was Nil (31 December 2019: RMB9,106 million, included in "placements with banks and other financial institutions"). In 2020, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note V 44 for the interests in the unconsolidated structured entities of asset securitization transactions held by the Group as at 31 December 2020. In 2020, the Group's income from these structured entities was immaterial.

In July 2020, the regulatory authorities made a decision on extending the transition period for the Guiding Opinions on Regulating Asset Management Business of Financial Institutions to the end of 2021 and encouraged orderly disposal of legacy assets in a variety of ways such as undertaking by new wealth management products, market-based transfer, and transferring assets back to the statement of financial position. According to the regulatory requirements, the Group has promoted the disposal of the legacy wealth management business in a pragmatic, efficient, actively and orderly way in order to achieve a smooth transition and stable development of the wealth management business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Involvement with structured entities (continued)

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

44 Transferred financial assets

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

Credit assets backed securitization

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

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was Nil as at 31 December 2020 (31 December 2019: RMB13 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2020, the Group has no continuing involvement in credit asset-backed securities (31 December 2019: Nil).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Transferred financial assets(continued)

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2020, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2020, loans with an original carrying amount of RMB1,998 million (31 December 2019: RMB2,590 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2020, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2019: RMB614 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC 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 systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

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 collateral 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 counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements are as follows:

	31 December 2020	31 December 2019
Total common equity tier-one capital	349,479	320,793
Share capital	54,032	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	63,990	61,431
Surplus reserve	26,245	26,245
General reserve	67,702	59,417
Retained earnings	136,581	120,494
Qualifying portions of non-controlling interests	929	717
Common equity tier-one capital deductions	(3,457)	(2,930)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(2,160)	(1,646)
Net deferred tax assets arising from operating losses that depend on future profits	(16)	(3)
Net common equity tier-one capital	346,022	317,863
Additional tier-one capital	105,023	65,002
Additional tier-one capital instruments	104,899	64,906
Qualifying portions of non-controlling interests	124	96
Tier-one capital net	451,045	382,865
Tier-two capital	82,485	82,640
Qualifying portions of tier-two capital instruments issued and share premium	44,525	46,683
Excess loan loss provisions	36,566	35,766
Qualifying portions of non-controlling interests	1,394	191
Net capital base	533,530	465,505
Total risk-weighted assets	3,837,489	3,456,054
Common equity tier-one capital adequacy ratio	9.02%	9.20%
Tier-one capital adequacy ratio	11.75%	11.08%
Capital adequacy ratio	13.90%	13.47%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	31 December 2020	31 December 2019
Cash and cash equivalents as at 31 December	145,076	117,499
Less: Cash and cash equivalents as at 1 January	117,499	187,680
Net increase/(decrease) in cash and cash equivalents	27,577	(70,181)

(b) Cash and cash equivalents

	31 December 2020	31 December 2019
Cash on hand	4,471	4,355
Deposits with the central bank	56,132	57,546
Deposits with banks and other financial institutions	40,483	26,581
Placements with banks and other financial institutions	43,990	29,017
Total	145,076	117,499

47 Related party relationships and transactions

(a) Related parity relationships

(i) The ultimate parent company and its subsidiaries

The ultimate parent of the Group is China Investment Corporation set up in China.

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through the China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the group and the ultimate parent company and its subsidiaries are listed in Note V 47(b).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(ii) Affiliated companies

The immediate parent of the Group is China Everbright Group Ltd. ("China Everbright Group"). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note V 47(b).

The affiliated companies that have related party transactions with the Group are as follows:

Related party
– China Everbright Limited (Everbright Limited)
– Everbright Securities Co., Ltd. (Everbright Secrities)
– China Everbright Group Limited
– China Everbright industry (Group) Co., Ltd
– Everbright Financial Holdings Asset Management Co., Ltd
– Everbright Life Insurance Co., Ltd
– Everbright Xinglong Trust Co., Ltd
– Everbright Prudential Fund Management Co., Ltd
– Everbright Futures Co., Ltd
– Everbright Fortune Investment Co., Ltd
– Everbright Capital Investment Co., Ltd
– Everbright happiness International Leasing Co., Ltd
– Everbright Yongming Asset Management Co., Ltd
– China Everbright international Trust and Investment Corporation
– Everbright Jinou Asset Management Co., Ltd
– Everbright Securities Financial Holding Co., Ltd
– China CYTS Group Corporation
– Cachet Pharmaceutical Co., Ltd
– Everbright Technology Co., Ltd
– Everbright happiness international commercial factoring Co., Ltd
– Everbright sunshine Asset Management Co., Ltd
– Hangzhou Jinou Asset Management Co., Ltd
– Guokaitai Industrial Development Co., Ltd
– Zhongqing Chuangyi Investment Management Co., Ltd
– Shenzhen Qianhai Everbright Investment Management Co., Ltd
– Everbright Securities Asset Management Co., Ltd
– Guanghang No. 2 (Tianjin) Leasing Co., Ltd
– Beijing Everbright Jinhui 360 Investment Management Center
– Everbright tesilian (Beijing) Culture Technology Co., Ltd
– Everbright photonics Investment Management Co., Ltd
– Guanghang No. 1 (Tianjin) Leasing Co., Ltd
– Shanghai Guiyun Asset Management Co., Ltd
– China Everbright pension Health Industry Co., Ltd
– Everbright Cultural Investment Co., Ltd
– Everbright Development Investment Co., Ltd
– Everbright Cloud Payment Technology Co., Ltd
– Beijing Everbright Huichen Pension Service Co., Ltd

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, and shareholders holding more than 5% shares of the Group.

The other related parties that have related party transactions with the Group are as follows:

Other related parties
– Overseas Chinese Town Holding Company
– China Shipping (Group) Company
– Orient Securities Co., Ltd. Henan Zhongyuan Chemical Co., Ltd
– Jilin TuoCheng Construction Engineering Co., Ltd
– China UnionPay Co., Ltd
– Orient Securities Co., Ltd
– Konka Group Co., Ltd
– China Pacific Property Insurance Co., Ltd
– China Pacific Life Insurance Co., Ltd
– Shenergy Group Co., Ltd.
– COSCO Shipping Development Co., Ltd
– China Ocean Shipping Group Co., Ltd
– Shenneng (Group) Co., Ltd
– Bohai Securities Co., Ltd
– Shanghai gas (Group) Co., Ltd
– China Marine Fuel Co., Ltd
– Shenzhen weipin Zhiyuan Information Technology Co., Ltd
– Shanghai Zhongbo Enterprise Management Development Co., Ltd
– Shanghai Insurance Exchange Co., Ltd
– Beijing Jingneng clean energy power Co., Ltd
– Shijiazhuang Hualin Food Co., Ltd
– Zhengzhou Chemical Light Industry Co., Ltd
– China Eastern Airlines Group Co., Ltd
– Huadian Fuxin Energy Co., Ltd
– Fujian Bofang Technology Co., Ltd
– China Cinda Asset Management Co., Ltd
– Zhongke Zhiyuan Technology Co., Ltd
– Shanghai international port (Group) Co., Ltd
– CYTS Holding Co., Ltd

The amount and balance of transactions between the Group and other related parties are shown in Notes V 47(b).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions

(i) The ultimate parent company and its subsidiaries

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	2020	2019
Interest income	1,521	1,051
Interest expense	(3,411)	(3,548)

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	31 December 2020	31 December 2019
Deposits with banks and other financial institutions	13,098	9,552
Precious metals	–	51
Placements with banks and other financial institutions	22,233	13,909
Derivative financial assets	7,047	3,764
Financial assets held under resale agreements	15,505	997
Loans and advances to customers	2,599	694
Financial investments	221,493	170,418
Financial assets at fair value through profit or loss	56,471	36,270
Debt instruments at fair value through other comprehensive income	39,852	27,611
Financial investments measured at amortised cost	125,170	106,537
Other assets	3,548	419
Deposits from banks and other financial institutions	98,208	81,621
Placements from banks and other financial institutions	56,025	70,629
Derivative financial liabilities	9,072	3,678
Financial assets sold under repurchase agreements	6,523	2,970
Deposits from customers	51,476	14,586
Other liabilities	249	30

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows:

	China Everbright Group (Note V 47(a))	Affiliated companies	Others	Total
Transactions with related parties for year ended 31 December 2020:				
Interest income	–	422	1,242	1,664
Interest expense	(127)	(339)	(444)	(910)
Balances with related parties as at 31 December 2020:				
Placements with banks and other financial institutions	–	3,200	1,000	4,200
Derivative financial assets	–	–	21	21
Financial assets held under resale agreements	–	385	1,900	2,285
Loans and advances to customers	–	5,523	15,356	20,879
Financial investments	105	40,613	2,948	43,666
Financial assets at fair value through profit or loss	–	8,527	1,982	10,509
Debt instruments at fair value through other comprehensive income	105	40	213	358
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	32,046	655	32,701
Other assets	–	5	2,633	2,638
Total	105	49,726	23,858	73,689
Deposits from banks and other financial institutions	–	17,173	9,769	26,942
Derivative financial liabilities	–	–	23	23
Deposits from customers	4,284	9,815	39,412	53,511
Total	4,284	26,988	49,204	80,476
Significant other sheet items with related parties as at 31 December 2020:				
Guarantee granted (Note)	180	–	–	180

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows: (continued)

	China Everbright Group (Note V 47(a))	Affiliated companies	Others	Total
Transactions with related parties for the year ended 31 December 2019:				
Interest income	–	533	501	1,034
Interest expense	(159)	(371)	(331)	(861)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial investment	178	8,112	98	8,388
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

Note: As at 31 December 2020, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2019: RMB180 million) due to one of the state-owned commercial banks.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iv) Remuneration of directors, supervisors and senior management

	2020 RMB'000	2019 RMB'000
Remuneration	30,687	30,970
Retirement benefits	1,015	1,037
– Basic social pension insurance	486	567

The total compensation packages for senior management of the Group for the year ended 31 December 2020 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2020 financial statements.

(v) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	8,708	8,867
Maximum aggregate amount of relevant loans outstanding during the year	8,738	8,994

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Statement of financial position of the Bank

	Note V	31 December 2020	31 December 2019
Assets			
Cash and deposits with the central bank		360,131	364,184
Deposits with banks and other financial institutions		40,231	28,648
Precious metals		9,353	10,826
Placements with banks and other financial institutions		74,769	60,466
Derivative financial assets		25,262	13,754
Financial assets held under resale agreements		43,587	6,709
Loans and advances to customers		2,939,071	2,642,764
Financial investments		1,658,026	1,425,223
– Financial assets at fair value through profit or loss		299,768	207,634
– Debt instruments at fair value through other comprehensive income		216,324	175,565
– Equity instruments at fair value through other comprehensive income		870	618
– Financial investments measured at amortised cost		1,141,064	1,041,406
Investment in subsidiaries	19	12,983	12,383
Property, plant and equipment		15,698	14,041
Right-of-use assets		11,096	11,599
Goodwill		1,281	1,281
Deferred tax assets		18,444	15,446
Other assets		43,593	34,243
Total assets		5,253,525	4,641,567

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Statement of financial position of the Bank (continued)

	31 December 2020	31 December 2019
Liabilities and equity		
Liabilities		
Due to the central bank	241,059	224,758
Deposits from banks and other financial institutions	473,926	450,716
Placements from banks and other financial institutions	89,948	108,045
Derivative financial liabilities	25,694	13,821
Financial assets sold under repurchase agreements	10,115	24,542
Deposits from customers	3,478,730	3,016,555
Accrued staff costs	14,874	13,494
Taxes payable	7,708	8,729
Lease liabilities	10,723	10,986
Debts securities issued	433,749	366,061
Other liabilities	18,698	22,558
Total liabilities	4,805,224	4,260,265
Equity		
Share capital	54,032	52,489
Other equity instrument	109,062	70,067
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	–
Capital reserve	58,434	53,533
Other comprehensive income	1,509	2,617
Surplus reserve	26,245	26,245
General reserve	66,015	58,523
Retained earnings	133,004	117,828
Total equity	448,301	381,302
Total liabilities and equity	5,253,525	4,641,567

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group 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 and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial 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, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group'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". 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. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	22,059	57,769	30,869	–	110,697
Internal net interest income/ (expense)	29,615	(15,583)	(14,032)	–	–
Net interest income	51,674	42,186	16,837	–	110,697
Net fee and commission income	6,929	16,331	1,063	–	24,323
Net trading gains	–	–	484	–	484
Dividend income	–	–	1	14	15
Net (losses)/gains arising from investment securities	(56)	7	5,225	27	5,203
Net gains on derecognition of financial assets measured at amortised cost	–	–	591	–	591
Foreign exchange gains/(losses)	268	69	(27)	–	310
Other net operating income	818	85	51	128	1,082
Operating income	59,633	58,678	24,225	169	142,705
Operating expenses	(16,312)	(22,115)	(1,676)	(168)	(40,271)
Credit impairment losses	(22,497)	(33,617)	(619)	–	(56,733)
Other impairment losses	(205)	11	(5)	–	(199)
Losses on investments of joint ventures	–	–	–	(5)	(5)
Profit before tax	20,619	2,957	21,925	(4)	45,497
Other segment information					
– Depreciation and amortisation	2,377	2,583	204	–	5,164
– Capital expenditure	2,675	3,921	264	–	6,860

	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,135,482	1,409,348	1,801,709	703	5,347,242
Segment liabilities	2,755,106	859,093	1,295,799	3,093	4,913,091

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	25,445	55,890	20,583	–	101,918
Internal net interest income/ (expense)	21,510	(17,459)	(4,051)	–	–
Net interest income	46,955	38,431	16,532	–	101,918
Net fee and commission income	6,100	16,115	954	–	23,169
Net trading gains	–	–	585	–	585
Dividend income	–	–	–	42	42
Net (losses)/gains arising from Investment securities	(862)	6	5,638	96	4,878
Net gains on derecognition of financial assets measured at amortised cost	–	–	22	–	22
Foreign exchange gains	297	75	967	–	1,339
Other net operating income	785	56	67	78	986
Operating income	53,275	54,683	24,765	216	132,939
Operating expenses	(15,703)	(20,465)	(2,136)	(125)	(38,429)
Credit impairment losses	(20,562)	(28,306)	(97)	–	(48,965)
Other impairment losses	(340)	(15)	–	(27)	(382)
Profit before tax	16,670	5,897	22,532	64	45,163
Other segment information					
– Depreciation and amortisation	2,072	2,360	232	–	4,664
– Capital expenditure	2,284	1,976	188	–	4,448

	31 December 2019				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2020	31 December 2019
Segment assets		5,347,242	4,715,844
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,587	16,306
Total assets		5,368,110	4,733,431
Segment liabilities		4,913,091	4,347,355
Dividend payables	36	21	21
Deferred tax liabilities		–	1
Total liabilities		4,913,112	4,347,377

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include Property, plant and equipment, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(b) Geographical information (continued)

– "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

– "Overseas" refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and

– "Head Office" refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Head Office	Overseas	Total
2020	27,558	19,917	23,186	24,855	17,214	6,042	21,384	2,549	142,705
2019	23,837	18,419	20,936	22,031	15,912	6,638	22,908	2,258	132,939

	Non-current Asset (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Head Office	Overseas	Total
31 December 2020	3,813	2,968	3,410	11,137	3,077	1,393	10,395	494	36,687
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	8,489	566	32,760

Note:

(i) Including property, plant and equipment, right-of-use assets, intangible assets and land use rights.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with 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 Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre and Retail and Wealth Management Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of “Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution”.

– The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group’s credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower’s repayment ability are reported immediately, and actions are taken to mitigate the risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardized review and approval policies and process in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

Treasury business

The Group implemented differentiated risk access standards of investments, and ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group has set credit risk limits for different counterparties, taking into consideration factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement

Measurement of ECL
The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of the each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Management overlay
- Modification of contract cash flows

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk
The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtors' operation or financial status

- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk
The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;

- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;

- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;

- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;

- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement
According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)
Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information
The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, investment in property, plant and equipment.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Forward-looking information (continued)
In 2020, the key assumptions the Group has taken include the GDP growth rate, the CPI growth rate, the investment in property, plant and equipment growth rate.

- The GDP growth rate: the predicted value under the base economic scenario during the year of 2021 is 7.20%, the optimistic and pessimistic scenarios will fluctuate up and down 2.29 pct. on the basis of the predicted value in baseline scenario;

- The CPI growth rate: the predicted value under the base economic scenario during the year of 2021 is 3.25%, the optimistic and pessimistic scenarios will fluctuate up and down 1.94 pct. on the basis of the predicted value in baseline scenario;

- The investment in property, plant and equipment growth rate: the predicted value under the base economic scenario during the year of 2021 is 4.00%, the optimistic and pessimistic scenarios will fluctuate up and down 8.58 pct. on the basis of the predicted value in baseline scenario;

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario. The Group adjusted the weight of the pessimistic scenarios, with comprehensive consideration of the impact of the COVID-19 epidemic and other factors on the economic development trend.

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Management overlay
The business failure or default has not appeared given the deferral of loan payments offered to borrowers, and therefore, the potential risks arising from the COVID-19 epidemic may not yet be fully captured by the ECL model. The ECL allowance would reflect the ECL through management overlays by adjusting parameters on a disrupted portfolio basis.

Modification of contractual cash flows
A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1 and the impairment allowance is measured at an amount equal to the 12-months ECL instead of the lifetime ECL.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note V 53(a).

	31 December 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	360,287	–	–	–	360,287
Deposits with banks and other financial institutions	46,059	–	–	–	46,059
Placements with banks and other financial institutions	69,140	–	150	–	69,290
Financial assets held under resale agreements	43,592	–	–	–	43,592
Loans and advances to customers	2,812,466	105,109	24,860	–	2,942,435
Finance lease receivables	96,564	3,970	254	–	100,788
Financial investments	1,352,507	4,876	7,249	305,783	1,670,415
Others (Note)	33,530	–	–	25,264	58,794
Total	4,814,145	113,955	32,513	331,047	5,291,660

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2020	31 December 2019
Impaired		
Carrying amount	666	366
Provision for impairment losses	(516)	(366)
Subtotal	150	–
Overdue but not impaired		
– grade B to BBB	–	270
Subtotal	–	270
Neither overdue nor impaired		
– grade A to AAA	151,764	73,880
– grade B to BBB	1,123	5,879
– unrated (Note)	5,904	18,434
Subtotal	158,791	98,193
Total	158,941	98,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2020	31 December 2019
Impaired		
Carrying amount	1,904	1,662
Provision for impairment losses	(1,179)	(1,038)
Subtotal	725	624
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	24,208	1,033
– grade AA- to AA+	8,296	810
– grade A- to A+	31,773	25,497
– grade lower than A-	23,035	30,001
Subtotal	87,312	57,341
Other agency ratings		
– grade AAA	955,020	740,453
– grade AA- to AA+	105,717	63,240
– grade A- to A+	4,075	548
– grade lower than A-	2,508	2,119
– unrated	55,666	120,451
Subtotal	1,122,986	926,811
Total	1,211,023	984,776

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc.The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value.The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

Gap risk
Gap risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Basis risk
Basis risk, is caused by interest rates on different pricing basis on the on-and off- balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

Trading interest rate risk
Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year:

	31 December 2020						
	Effective interest rate (*)	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	1.44%	360,287	16,919	343,368	–	–	–
Deposits with banks and other financial institutions	1.03%	46,059	59	45,301	699	–	–
Placements with banks and other financial institutions	1.81%	69,290	179	55,669	11,305	2,137	–
Financial assets held under resale agreements	1.90%	43,592	3	43,589	–	–	–
Loans and advances to customers	5.37%	2,942,435	29,462	2,277,700	564,325	67,246	3,702
Finance lease receivables	5.89%	100,788	1,381	21,375	51,532	19,700	6,800
Financial investments	4.00%	1,670,415	67,190	315,202	209,932	681,052	397,039
Others	–	135,244	131,989	–	–	–	3,255
Total assets	4.59%	5,368,110	247,182	3,102,204	837,793	770,135	410,796
Liabilities							
Due to the central bank	3.23%	241,110	2,359	20,303	218,448	–	–
Deposits from banks and other financial institutions	2.27%	469,345	1,824	296,698	170,823	–	–
Placements from banks and other financial institutions	2.29%	161,879	475	91,453	69,951	–	–
Financial assets sold under repurchase agreements	1.90%	14,182	12	10,216	3,505	449	–
Deposits from customers	2.30%	3,480,667	50,225	2,008,963	561,854	859,601	24
Debt securities issued	3.04%	440,870	1,842	125,872	265,672	799	46,685
Others	–	105,059	90,129	10,214	3,625	1,091	–
Total liabilities	2.39%	4,913,112	146,866	2,563,719	1,293,878	861,940	46,709
Asset-liability gap	2.20%	454,998	100,316	538,485	(456,085)	(91,805)	364,087

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year (continued):

	31 December 2019						
	Effective interest rate (*)	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	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

* *The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2020, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB96 million (31 December 2019: decrease by RMB969 million), and equity to decrease by RMB5,603 million (31 December 2019: decrease by RMB5,039 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB125 million (31 December 2019: increase by RMB1,017 million), and equity to increase by RMB6,189 million (31 December 2019: increase by RMB5,316 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;

– An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the portfolio of asset and liability;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group'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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2020			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	350,913	7,130	2,244	360,287
Deposits with banks and other financial institutions	24,342	15,547	6,170	46,059
Placements with banks and other financial institutions	24,169	37,239	7,882	69,290
Financial assets held under resale agreements	43,587	1	4	43,592
Loans and advances to customers	2,783,150	101,459	57,826	2,942,435
Financial lease receivables	99,987	801	–	100,788
Financial investments	1,571,828	76,004	22,583	1,670,415
Others	128,376	5,527	1,341	135,244
Total assets	5,026,352	243,708	98,050	5,368,110
Liabilities				
Due to the central bank	241,110	–	–	241,110
Deposits from banks and other financial institutions	467,908	1,162	275	469,345
Placements from banks and other financial institutions	73,335	69,320	19,224	161,879
Financial assets sold under repurchase agreements	7,977	2,603	3,602	14,182
Deposits from customers	3,299,893	144,010	36,764	3,480,667
Debt securities issued	391,668	43,604	5,598	440,870
Others	99,325	2,009	3,725	105,059
Total liabilities	4,581,216	262,708	69,188	4,913,112
Net position	445,136	(19,000)	28,862	454,998
Off-balance sheet credit commitments	1,420,403	42,432	13,711	1,476,546
Derivative financial instruments (Note)	7,129	19,193	(25,909)	413

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposits from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2020	31 December 2019
Exchange rates against RMB for the HK dollar	0.8428	0.8949
Exchange rates against RMB for the US dollar	6.5337	6.9687

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2020, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB4 million (31 December 2019: increase by RMB7 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB4 million (31 December 2019: decrease by RMB7 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;

– At the end of the reporting year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;

– Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2020							
	Overdue/ Indefinite	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	Total
Assets								
Cash and deposits with the central bank	299,538	60,749	–	–	–	–	–	360,287
Deposits with banks and other financial institutions	–	40,161	1,100	4,098	700	–	–	46,059
Placements with banks and other financial institutions	150	–	45,942	9,673	11,351	2,174	–	69,290
Financial asset held under resale agreements	–	–	43,592	–	–	–	–	43,592
Loans and advances to customers	42,303	422,190	137,773	174,521	672,559	749,441	743,648	2,942,435
Finance lease receivables	197	67	3,382	4,918	18,663	62,723	10,838	100,788
Financial investments	21,283	214,456	45,807	49,441	210,493	717,712	411,223	1,670,415
Others	69,121	37,604	2,748	4,458	10,652	6,080	4,581	135,244
Total assets	432,592	775,227	280,344	247,109	924,418	1,538,130	1,170,290	5,368,110
Liabilities								
Due to the central bank	–	–	13,195	7,712	220,203	–	–	241,110
Deposits from banks and other financial institutions	–	154,114	70,330	72,828	172,073	–	–	469,345
Placements from banks and other financial institutions	–	6	44,194	47,445	70,234	–	–	161,879
Financial assets sold under repurchase agreements	–	–	7,132	3,093	3,508	449	–	14,182
Deposits from customers	–	1,303,947	289,829	447,446	568,955	870,466	24	3,480,667
Debt securities issued	–	–	5,450	81,580	270,937	34,772	48,131	440,870
Others	–	47,537	4,091	5,735	20,338	19,252	8,106	105,059
Total liabilities	–	1,505,604	434,221	665,839	1,326,248	924,939	56,261	4,913,112
Net position	432,592	(730,377)	(153,877)	(418,730)	(401,830)	613,191	1,114,029	454,998
Notional amount of derivative financial instruments	–	–	326,206	252,135	820,303	767,683	43,970	2,210,297

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2019							
	Overdue/ Indefinite	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	Total
Assets								
Cash and deposits with the central bank	301,750	62,590	–	–	–	–	–	364,340
Deposits with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial asset held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposits from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the year:

	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								
Due to the central bank	241,110	245,941	–	13,216	7,743	224,982	–	–
Deposits from banks and other financial institutions	469,345	473,815	154,386	70,407	73,938	175,084	–	–
Placements from banks and other financial institutions	161,879	164,280	6	44,239	47,871	72,164	–	–
Financial assets sold under repurchase agreements	14,182	14,205	–	7,132	3,099	3,523	451	–
Deposits from customers	3,480,667	3,527,109	1,303,948	294,044	454,407	578,814	895,866	30
Debt securities issued	440,870	469,431	–	6,838	85,830	272,371	51,483	52,909
Other financial liabilities	51,060	53,973	19,315	568	1,774	10,227	14,134	7,955
Total non-derivative financial liabilities	4,859,113	4,948,754	1,477,655	436,444	674,662	1,337,165	961,934	60,894
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(513)	–	2	(3)	(123)	(323)	(66)
Derivative financial instruments settled on gross basis								
– Cash inflow		1,076,507	–	301,281	213,938	514,515	5,694	41,079
– Cash outflow		(1,076,200)	–	(300,960)	(213,583)	(514,822)	(5,759)	(41,076)
Total derivative financial liabilities		307	–	321	355	(307)	(65)	3

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the year (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								
Due to the central bank	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2020			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	348,503	1,159	2,334	351,996
Guarantees, acceptances and other credit commitments	1,074,877	48,265	1,408	1,124,550
Total	1,423,380	49,424	3,742	1,476,546

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value

(a) Methods and assumptions for measurement of fair value

The Group 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 the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the year.

(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 the 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 the year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits 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.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortised cost, except for debt securities investments, are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note V 18.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss, derivative financial liabilities and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of year:

	Carrying value		Fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Financial assets				
Debt securities investments measured at amortised cost	935,651	784,943	944,985	796,461
Financial liabilities				
Debt securities issued	440,870	371,904	440,017	371,869

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

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

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg, Thomsom Reuters and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity and derivative contracts with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	19,441	–	19,441
– Interest rate derivatives	–	5,819	2	5,821
– Credit derivatives	–	2	–	2
Loan and advances to customers	–	98,211	–	98,211
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,391	28,649	–	33,040
– Financial assets designated at fair value through profit or loss	–	–	1	1
– Other financial assets at fair value through profit or loss	213,781	47,723	10,363	271,867
Debt instruments at fair value through other comprehensive income	51,111	171,696	–	222,807
Equity instruments at fair value through other comprehensive income	23	–	852	875
Precious metals	35	–	–	35
Total	269,341	371,541	11,218	652,100
Liabilities				
Financial liabilities at fair value through profit or loss	4	–	–	4
Derivative financial liabilities				
– Currency derivatives	–	19,355	–	19,355
– Interest rate derivatives	–	6,338	2	6,340
– Credit derivatives	–	83	–	83
Total	4	25,776	2	25,782

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

During the year, there were no significant transfers within the fair value hierarchy of the Group.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
– In profit or loss	1	65	–	66	(1)	(1)
Purchases	–	6,396	250	6,646	–	–
Settlements	(1)	(131)	–	(132)	2	2
31 December 2020	2	10,364	852	11,218	(2)	(2)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	1	65	–	66	(1)	(1)

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(5)	(725)	–	(730)	4	4

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	161,862	783,123	–	944,985
Financial liabilities				
Debt securities issued	25,558	414,459	–	440,017

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using cash flow discount model and market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2020, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2020	31 December 2019
Entrusted loans	125,827	139,790
Entrusted funds	125,827	139,790

53 Commitments and contingent liabilities

(a) Credit commitments

The Group'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 and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2020	31 December 2019
Loan commitments		
– Original contractual maturity within one year	16,758	19,855
– Original contractual maturity more than one year (inclusive)	7,939	13,732
Credit card commitments	327,299	290,156
Subtotal	351,996	323,743
Acceptances	769,458	609,169
Letters of guarantee	130,425	128,746
Letters of credit	224,482	225,653
Guarantees	185	185
Total	1,476,546	1,287,496

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	31 December 2020	31 December 2019
Credit risk-weighted amount of credit commitments	382,659	380,959

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2020	31 December 2019
Contracted but not paid		
– Purchase of property and equipment	1,962	1,100
Approved but not contracted for		
– Purchase of property and equipment	4,445	2,817
Total	6,407	3,917

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2020.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2020	31 December 2019
Redemption commitments	5,918	6,626

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Commitments and contingent liabilities (continued)

(e) Outstanding litigations and disputes

As at 31 December 2020, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,262 million (31 December 2019: RMB1,384 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note V 36). The Group considers that the provisions made are reasonable and adequate.

54 Subsequent Events

The Group has no significant subsequent event.

55 Comparative figures

In accordance with the presenting pattern of the financial statements, the Group has reclassified some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the Rules on *Liquidity Risk Management of Commercial Banks*, commercial banks' liquidity coverage ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2020
Liquidity coverage ratio	150.47%
High Quality Liquid Assets	704,706
Net cash outflows in 30 days from the end of the reporting period	468,333

Liquidity Ratio*

	As at 31 December 2020	Average for The year ended 31 December 2020	As at 31 December 2019	Average for The year ended 31 December 2019
RMB current assets to RMB current liabilities	66.07%	67.65%	72.63%	69.29%
Foreign current assets to foreign current liabilities	127.90%	107.74%	93.29%	79.43%

* *Liquidity ratio is calculated in accordance with the banking level.*

(Expressed in millions of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Leverage Ratio

	31 December 2020
Leverage Ratio	7.03%

Pursuant to the Leverage Ratio Management of Commercial Banks which has been effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure that commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 31 December 2020, the Group met the supervision requirement with the net stable funding ratio standing at 107.29%.

Indicators	31 December 2020
Available and stable funds	3,111,968
Required stable funds	2,900,616
Net stable funding ratio	107.29%

2 CURRENCY CONCENTRATIONS

	31 December 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	243,708	50,901	47,149	341,758
Spot liabilities	(262,708)	(47,896)	(21,292)	(331,896)
Forward purchases	545,777	11,904	4,789	562,470
Forward sales	(526,584)	(11,424)	(31,178)	(569,186)
Net long/(short) position	193	3,485	(532)	3,146
Net structural position	3	55	32	90

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	239,357	39,857	36,524	315,738
Spot liabilities	(286,959)	(33,950)	(22,202)	(343,111)
Forward purchases	759,868	20,366	7,268	787,502
Forward sales	(708,265)	(25,171)	(19,757)	(753,193)
Net long position	4,001	1,102	1,833	6,936
Net structural position	–	34	15	49

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include property, plant and equipment.

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group 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 central banks, deposits and placements with banks and other financial institutions and debt 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.

	As at 31 December 2020			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	99,166	7,470	41,939	148,575
– of which attributed to Hong Kong	28,097	2,107	15,229	45,433
Europe	17,617	40	27,957	45,614
North and South America	10,989	312	18,768	30,069
Total	127,772	7,822	88,664	224,258

	As at 31 December 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	69,367	2,868	32,485	104,720
– of which attributed to Hong Kong	19,907	537	15,350	35,794
Europe	9,874	39	32,268	42,181
North and South America	12,736	–	23,352	36,088
Total	91,977	2,907	88,105	182,989

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segment

	31 December 2020	31 December 2019
Northeastern	5,171	2,470
Bohai Rim	4,784	5,201
Yangtze River Delta	4,608	5,899
Central	3,598	3,687
Pearl River Delta	3,353	3,129
Western	2,586	4,550
Overseas	8	8
Head Office	9,139	8,963
Total	33,247	33,907

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue day

	31 December 2020	31 December 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)	8,048	8,851
– between 6 months and 1 year (inclusive)	13,725	13,642
– over 1 year	11,474	11,414
Total	33,247	33,907
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.27%	0.33%
– between 6 months and 1 year (inclusive)	0.45%	0.50%
– over 1 year	0.38%	0.42%
Total	1.10%	1.25%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(c) Collateral of loans and advances past due but not impaired

	31 December 2020	31 December 2019
Covered portion of loans and advances past due but not impaired	9,218	6,357
Uncovered portion of loans and advances past due but not impaired	18,705	18,947
Total loans and advances past due but not impaired	27,923	25,304
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	24,019	16,258

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in Mainland China. As at 31 December 2020, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

Address Book of Head Office and Branches

Name	Address	P.C.	Tel.	Fax
Head Office	China Everbright Center, No. 25 Taipingqiao Avenue, Xicheng District, Beijing	100033	010-63636363	010-63639066
Beijing Branch	No. 1 Xuanwumen Inner Street, Xicheng District, Beijing	100031	010-66567699	010-66567411
Shanghai Branch	No. 1118 Century Avenue, Pudong New Area, Shanghai	200120	021-63606360	021-23050088
Tianjin Branch	Annex Building of Zhonglian Building, No. 83 Qufu Avenue, Heping District, Tianjin	300041	022-23300167	022-23300229
Chongqing Branch	No. 168 Minzu Road, Yuzhong District, Chongqing	400010	023-63792773	023-63792764
Shijiazhuang Branch	No. 56 Yuhua East Road, Qiaodong District, Shijiazhuang	050000	0311-88628882	0311-88628883
Taiyuan Branch	No. 295 Yingze Street, Yingze District, Taiyuan	030001	0351-3839008	0351-3839108
Huhhot Branch	Tower D, Dongfangjunzuo, Chilechuan Street, Saihan District, Huhhot	010096	0471-4955882	0471-4955800
Dalian Branch	No. 4 Wuwu Road, Zhongshan District, Dalian	116001	0411-39037007	0411-39037015
Shenyang Branch	No. 156 Heping North Street, Heping District, Shenyang	110003	024-83255555	024-23283218
Changchun Branch	No. 2677 Jiefang Road, Chaoyang District, Changchun	130061	0431-88400080	0431-88400121
Heilongjiang Branch	No. 278 Dongdazhi Street, Nangang District, Harbin	150001	0451-53618775	0451-53618775
Nanjing Branch	No. 120 Hanzhong Road, Gulou District, Nanjing	210029	025-84787610	025-84712699
Suzhou Branch	No. 188 Xinghai Street, Industrial Park District, Suzhou	215021	0512-68662988	0512-68668766
Wuxi Branch	No. 1 Renmin Middle Road, Chong'an District, Wuxi	214023	0510-81802528	0510-81802535
Hangzhou Branch	Zheshang Times Building, No. 1 Miduqiao Road, Gongshu District, Hangzhou	310006	0571-87895358	0571-87895367
Ningbo Branch	Building 1, Hengfu Plaza, No. 828 Fuming Road, Jiangdong District, Ningbo	315040	0574-87300888	0574-87317230
Hefei Branch	No. 200 Changjiang West Road, Shushan District, Hefei	230001	0551-65101888	0551-65101726
Fuzhou Branch	Building 1, Zhengxiang Center, No. 153 Wuyi North Road, Gulou District, Fuzhou	350001	0591-87760707	0591-87835838
Xiamen Branch	No. 160 Hubin Middle Road, Siming District, Xiamen	361004	0592-2221666	0592-2237788
Nanchang Branch	No. 1333 Fenghezhong Avenue, Honggutan New Area, Nanchang	330006	0791-86662030	0791-86665448
Jinan Branch	No. 85 Jingqi Road, Shizhong District, Jinan	250001	0531-86155965	0531-86155800
Qingdao Branch	No. 69 Hongkong West Road, Shinan District, Qingdao	266071	0532-83893801	0532-83893800
Yantai Branch	No. 111 Nandajie Street, Zhifu District, Yantai	264000	0535-6658506	0535-6261796

Address Book of Head Office and Branches

Name	Address	P.C.	Tel.	Fax
Zhengzhou Branch	No. 18 Nongye Road, Jinshui District, Zhengzhou	450008	0371-65766000	0371-65766000
Wuhan Branch	No. 143-144 Yanjiang Avenue, Jiang'an District, Wuhan	430014	027-82796303	027-82801976
Changsha Branch	No. 142 Section 3 of Furong Middle Road, Tianxin District, Changsha	410015	0731-85363527	0731-85523677
Guangzhou Branch	No. 685 Tianhe North Road, Tianhe District, Guangzhou	510635	020-38730066	020-38730049
Shenzhen Branch	No. 18 Zizhuqi Avenue, Zhuzilinsi Road, Futian District, Shenzhen	518040	0755-83053388	0755-83242955
Nanning Branch	Oriental Mahatton Plaza, No. 52-1 Jinhu Road, Qingxiu District, Nanning	530021	0771-5568106	0771-5568100
Haikou Branch	Jinlong City Plaza Building, South of Jinlong Road, Longhua District, Haikou	570125	0898-68539999	0898-68520711
Chengdu Branch	No. 79 Dacisi Road, Jinjiang District, Chengdu	610017	028-86665566	028-86720299
Kunming Branch	No. 28 Renmin Middle Road, Wuhua District, Kunming	650021	0871-63111068	0871-63111078
Xi'an Branch	No. 33 Hongguang Street, Lianhu District, Xi'an	710002	029-87236013	023-87236010
Urumqi Branch	No. 165 Nanhu East Road, Shuimogou District, Urumqi	830063	0991-6765678	0991-6765678
Guiyang Branch	West Tower III, Financial Center, Zone B, Convention and Exhibition City, Changling North Road, Guanshanhu District, Guiyang	550081	0851-82590249	0851-82590335
Lanzhou Branch	No. 555 Donggang West Road, Chengguan District, Lanzhou	730030	0931-8688600	0931-8688701
Yinchuan Branch	No. 219 Jiefang West Road, Xingqing District, Yinchuan	750001	0951-8773000	0951-8773080
Xining Branch	No. 57-7 Wusi West Road, Chengxi District, Xining	810008	0971-6363263	0971-6236234
Lhasa Branch	Taihe International Culture Square, No. 7 Jinzhu Middle Road, Chengguan District, Lhasa	850000	0891-6597000	0891-6597000
Hong Kong Branch	23/F, Everbright Center, 108 Gloucester Road, Wan Chai, Hong Kong		00852-31239888	00852-21432188
Seoul Branch	23/F, Youngpoong Building, 41 Cheonggyecheon-ro, Jongro-ku, Seoul	03188	00822-37883700	00822-37883701
Luxembourg Branch	10 Avenue Emile Reuter, Luxembourg City	L-2420	00352-2666888	00352-266688124
Sydney Branch	28/F, International Tower 1, 100 Barangaroo Avenue, Sydney	NSW2000	0061-2-79238888	0061-2-79238800
Tokyo Representative Office	1 Chome-4-1 Marunouchi, Chiyoda City, Tokyo	100-0005	0081-8060886889	

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