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定價補充文件發佈

兴业银行
INDUSTRIAL BANK CO.,LTD.

興業銀行股份有限公司香港分行

(於中華人民共和國註冊成立的股份有限公司)

(「發行人」)

根據興業銀行股份有限公司 5,000,000,000美元中期票據計劃(「計劃」)發行的 2025年到期之650,000,000美元年利率為3.25%的票據 (股份代號：5234) (「票據」)

本公告乃根據上市規則第37.39A條刊發。

請參閱日期為2021年6月2日與計劃相關的發售通函(詳見https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0603/2021060300312_c.pdf)以及本公告所附的日期為2022年5月11日與票據相關的定價補充文件(統稱「**上市文件**」)。如上市文件中所披露，根據計劃發行的票據僅向專業投資者(定義見香港聯合交易所有限公司證券上市規則第37章)發行並按該基準於香港聯合交易所上市。

香港，2022年5月19日

於本公告日期，興業銀行股份有限公司的董事為呂家進先生、陳逸超先生、李祝用先生、肖紅女士、陶以平先生及孫雄鵬先生；獨立董事為蘇錫嘉先生、賁聖林先生、徐林先生、王紅梅女士及漆遠先生。

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This document together with the Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Bank and the Issuer. The Bank and the Issuer accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

Pricing Supplement dated 11 May 2022

Industrial Bank Co., Ltd. Hong Kong Branch[1]

Issue of U.S.$650,000,000 3.25 per cent. Notes due 2025
under the U.S.$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 2 June 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

1	Issuer:		Industrial Bank Co., Ltd. Hong Kong Branch (The Issuer's legal entity identifier number is 3003007Y03W5HH1MXR96.)
2	(i)	Series Number:	013
	(ii)	Tranche Number:	001
3	Specified Currency or Currencies:		United States dollar ("**U.S.$**")
4	Aggregate Nominal Amount:		
	(i) Series:		U.S.$650,000,000
	(ii) Tranche:		U.S.$650,000,000

[1] a branch of Industrial Bank Co., Ltd., a joint stock company incorporated in the People's Republic of China with limited liability.

5	(i) Issue Price:	99.816 per cent. of the Aggregate Nominal Amount
	(ii) Gross proceeds:	U.S.$648,804,000
	(iii) Use of proceeds:	The net proceeds will be used for the financing and/or refinancing of Eligible Green Assets in relation to wind and solar power generation projects as defined under the "Renewable Energy" and electrified rail and metro projects under the "Low Carbon and Low Emission Transportation" categories of the Green Bond Framework for Industrial Bank Co., Ltd (Version 2020 .10).
6	(i) Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii) Calculation Amount:	U.S.$1,000
7	(i) Issue Date:	18 May 2022
	(ii) Interest Commencement Date:	Issue date
	(iii) Trade Date:	11 May 2022
8	Maturity Date:	18 May 2025
9	Interest Basis:	3.25 per cent. Fixed Rate (further particulars specified below)
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable
13	Status of the Notes:	Senior Notes
14	Listing:	Hong Kong Stock Exchange (effective date of listing of the Notes is on or about 19 May 2022)
15	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions	Applicable
	(i) Rate of Interest:	3.25 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	18 May and 18 November in each year, commencing on 18 November 2022
	(iii) Fixed Coupon Amount(s):	U.S.$16.25 per Calculation Amount
	(iv) Broken Amount:	Not Applicable

	(v) Day Count Fraction (Condition 5(j)):	30/360
	(vi) Determination Date(s) (Condition 5(j)):	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
17	Floating Rate Note Provisions	Not Applicable
18	Zero Coupon Note Provisions	Not Applicable
19	Index Linked Interest Note Provisions	Not Applicable
20	Dual Currency Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21	Call Option	Not Applicable
22	Put Option	Not Applicable
23	Final Redemption Amount of each Note	U.S.$1,000 per Calculation Amount
24	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10(a) or 10(b)) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	Registered Notes Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate
26	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	New York City; Hong Kong
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29	Details relating to Instalment Notes:	Not Applicable
30	Redenomination, renominalisation and	Not Applicable

reconventioning provisions:

31	Consolidation provisions:	Not Applicable
32	Other terms or special conditions:	Not Applicable

DISTRIBUTION

33	(i) If syndicated, names of Managers:	Industrial Bank Co., Ltd. Hong Kong Branch Agricultural Bank of China Limited Hong Kong Branch Bank of China Limited Bank of Communications Co., Ltd. Hong Kong Branch BNP Paribas China Minsheng Banking Corp., Ltd., Hong Kong Branch Citigroup Global Markets Limited Credit Agricole Corporate and Investment Bank ABCI Capital Limited Agricultural Bank of China Limited Macao Branch Agricultural Bank of China Limited, Singapore Branch Bank of China (Hong Kong) Limited BOCOM International Securities Limited BOSC International Company Limited CCB International Capital Limited CEB International Capital Corporation Limited China CITIC Bank International Limited China Construction Bank (Asia) Corporation Limited China Construction Bank Corporation Singapore Branch China Construction Bank (Europe) S.A. China Everbright Bank Co., Ltd., Hong Kong Branch China Galaxy International Securities (Hong Kong) Co., Limited China Industrial Securities International Brokerage Limited China International Capital Corporation Hong Kong Securities Limited China Securities (International) Corporate Finance Company Limited China Zheshang Bank Co., Ltd. (Hong Kong Branch)

			Chiyu Banking Corporation Limited CLSA Limited CMB International Capital Limited CMB Wing Lung Bank Limited CMBC Securities Company Limited CNCB (Hong Kong) Capital Limited Emirates NBD Bank PJSC Guotai Junan Securities (Hong Kong) Limited Haitong International Securities Company Limited Huafu International Securities Limited Huatai Financial Holdings (Hong Kong) Limited Industrial and Commercial Bank of China (Asia) Limited Industrial and Commercial Bank of China Limited, London Branch Industrial and Commercial Bank of China Limited, Singapore Branch Natixis Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch Shenwan Hongyuan Securities (H.K.) Limited SPDB International Capital Limited Standard Chartered Bank The Bank of East Asia, Limited
	(ii)	Stabilisation Manager (if any):	Any Stabilisation Manager (other than China CITIC Bank International Limited) as defined below
34	If non-syndicated, name of Dealer:		Not Applicable
35	U.S. Selling Restrictions		Reg. S Category 1; TEFRA Not Applicable
36	Additional selling restrictions:		Not Applicable

OPERATIONAL INFORMATION

37	ISIN Code:	XS2447552089
38	Common Code:	244755208
39	CMU Instrument Number:	Not Applicable
40	Any clearing system(s) other than Euroclear, Clearstream, the CMU and the relevant identification number(s):	Not Applicable
41	Delivery:	Delivery against payment

42	Additional Paying Agents (if any):	No

GENERAL

43	The aggregate principal amount of Notes issued has been translated into US dollars, producing a sum of (for Notes not denominated in US dollars):	Not Applicable
44	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Citigroup Centre Canada Square Canary Wharf London E14 5LB
45	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
46	Private Bank Rebate/Commission:	Not Applicable
47	Regulatory Approval/Registration:	
	(i) NDRC pre-issue registration obtained	9 February 2022
	(ii) PBOC pre-issue approval obtained	Not Applicable
	(iii) CBIRC pre-issue approval obtained	Not Applicable
	(iv) NDRC post-issue reporting	Within 10 PRC business days after the Issue Date
48	Rating:	The Notes to be issued are expected to be rated: Baa2 by Moody's

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.

STABILISATION

In connection with the issue of any Tranche of Notes, one or more of the Dealers (other than China CITIC Bank International Limited) named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no obligation on the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) to do this. Such stabilisation if commenced may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

MATERIAL ADVERSE CHANGE STATEMENT

Except as disclosed in this document, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2021 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2021.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: ______________________________

Duly authorised

SCHEDULE 1

SUPPLEMENTAL DISCLOSURE OF THE BANK

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SUMMARY OF THE BANK

*The section "Summary of the Bank" in the offering circular dated 2 June 2021 in connection with the US$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd. (the "**Offering Circular**") shall be deleted in its entirety and replaced with the following:*

OVERVIEW

The Bank is an established, strongly competitive, nationwide joint-stock commercial bank incorporated on 22 August 1988 with its headquarters in Fujian Province, China. It was among the first batch of commercial banks approved by the State Council and PBOC at the state level. Through its nationwide and diversified distribution channels, the Bank provides a wide range of wholesale and personal banking and other financial products and services to its corporate and personal customers. In 2021, the Bank ranked 19th in terms of Tier 1 Capital, 28th in terms of total assets and 24th in terms of brand value among the "Top 500 Global Bank Brands in 2021" by the British magazine *The Banker*. The Bank was listed on the Shanghai Stock Exchange under stock code "601166" in February 2007.

Over the past few decades, the Bank has developed a comprehensive and universal banking platform licensed to provide traditional banking, trust, futures, financial leasing, fund management, financing research and consultation services to its customers. The Bank believes that its strong capability to offer a broad range of comprehensive services to customers nationwide has transformed it from a regional bank into a national commercial bank with significant asset scale. As at 31 December 2019, 2020 and 2021, the Bank had total assets of RMB7,145,681 million, RMB7,894,000 million and RMB8,603,024 million, respectively, and its loans and advances to customers totalled RMB3,345,180 million, RMB3,867,321 million and RMB4,310,306 million, respectively.

The Bank serves its customers through its nationwide and diversified distribution channels, comprising physical branches and outlets and digital platforms. As at 31 December 2021, the Bank had 45 branches, including the Hong Kong Branch, 2,024 outlets and 4,759 ATMs in the PRC. As at the same date, the Bank had 1,002 correspondence banks across 95 countries and regions. Leveraging its advanced information technology, the Bank established an e-Banking network to provide all-time access to its services around the globe.

The Bank values innovation and is dedicated to developing innovative financial services and products to adapt to the evolving market environment and to meet the changing needs of its customers. The Bank has introduced a number of "first-of-its-kind" financial products that have received positive responses from its corporate and personal customers. In addition to traditional banking products and services, the Bank develops and provides green financing for its customers in renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment industries. In 2021, the Bank was awarded the "2020 China Outstanding Enterprise Award for Social Responsibility" (2020中國社會責任傑出企業獎) by the 2020 China Corporate Social Responsibility Cloud Summit. The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020. In 2019, the Bank was awarded the "Largest Green Bond Offering in Emerging Countries" by *The Climate Bonds Initiative*. Furthermore, the Bank places significant emphasis on social responsibility and was awarded the "Annual Best Financial Institution with Social Responsibility" (年度最具社會責任金融機構獎) for seven consecutive years from 2011 to 2017 and awarded the "2020 China Outstanding Enterprise Award for Social Responsibility" by 2020 China Corporate Social Responsibility Cloud Summit.

The Bank is dedicated to establishing and improving its risk management capabilities to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has set up a three-level risk management structure, comprising its business departments, functional and risk management department and internal audit office. In addition, the Bank has established procedures for independent credit assessment, approval and monitoring to identify and reduce its exposure to high credit risk areas and to improve the quality of its loan portfolio. As at 31 December 2021, the Bank's non-performing loan ratio was 1.10 per cent., which was lower than the average non-performing loan ratio of 1.73 per cent. of all PRC commercial banks reported by CBIRC.

With its international expansion strategy, the Bank established its Hong Kong Branch in January 2014. The Hong Kong Branch is positioned as the Bank's primary offshore investment and financing platform, offering comprehensive financial services to overseas and local Hong Kong customers. The Hong Kong Branch currently provides financial services including settlement of cross-border transactions, offshore merger and acquisition financing, syndicated loans and private banking services.

The Bank's financial performance and strengths have steadily developed over the past decades. For the years ended 31 December 2019, 2020 and 2021, the Bank's net profit was RMB66,702 million, RMB67,681 million, and RMB83,816 million, respectively. The Bank's total assets and net profit attributable to equity holders have more than doubled during the period from 2011 to 2021.

The tables below set forth certain key financial indicators of the Bank as at and for the periods ended as at the indicated dates:

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB in million, except for percentage)		
Net Profit	66,702	67,681	83,816
Return on average total assets (per cent.)[1]	0.96	0.90	1.02
Return on average equity (per cent.)[2]	14.02	12.62	13.94
Non-interest income to operating income (per cent.)[3]	32.55	29.35	34.15
Cost to income ratio (per cent.)[4]	26.03	24.16	25.68

Notes:

(1) Return on average total assets = net profit for the period/average total assets. Average total assets = (total assets at the beginning of the period + total assets at the end of the period)/2.

(2) Return on average equity = net profit attributable to ordinary shareholders of the Bank for the period/average equity attributable to ordinary shareholders of the Bank.

(3) Non-interest income to operating income = non-interest income/operating income.

(4) Cost to income ratio = (total operating expenses — business tax and levies — impairment loss)/operating income.

	As at 31 December		
	2019	**2020**	**2021**
	(RMB in million, except for percentage)		
Total assets	7,145,681	7,894,000	8,603,024
Total liabilities	6,596,029	7,269,197	7,908,726
Gross loans and advances to customers	3,441,451	3,965,674	4,428,183
Tier 1 Capital Adequacy Ratio (per cent.)	10.56	10.85	11.22
Core Tier 1 Capital Adequacy Ratio (per cent.)	9.47	9.33	9.81
Non-performing loan ratio	1.54	1.25	1.10
Provision coverage ratio	199.13	218.83	268.73

AWARDS

Over the years, the Bank and its financial services have received numerous honours and awards, including, among others:

2021

- Ranked 50th among "China Top 500" and 196th among "Global Top 500" by *Fortune*;
- "Sustainable Development and Inclusion Award" awarded by *CAIJING*, an influential magazine in China;
- "2020 China Outstanding Enterprise Award for Social Responsibility" awarded by 2020 China Corporate Social Responsibility Cloud Summit;
- Ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by *The Banker*;
- Ranked 19th in terms of Tier 1 Capital by *The Banker*;
- "Best Service Custodian Bank of the Year 2020" by *The China Times*;
- "Best Digital Wealth Planning Private Bank in Asia" by *The Banker*;
- "ESG Responsible Enterprise of the Year" by *China Business News (中國經營報)*;
- "2021 Chinese Bank of the Year" by *The Banker*; and
- "Outstanding Digital Bank" awarded by FinTech Index Forum.

2020

- Ranked fourth in terms of a combination of various indicators including growth rate, profitability, cost-to-income ratio and asset quality among "Top Performance PRC Banks" by *The Banker*;
- Ranked 57th among "Forbes Global 2000" by *Forbes*;
- Ranked seventh in terms of Core Tier-1 Capital among "Top 100 PRC Banks" by China Banking Association;
- "Best Supply Chain Finance Bank" and "Best Green Finance Bank" awarded by *Asia Money*;
- "Best Sustainable Bank in China" among the Finance Asia's Country Awards by *FinanceAsia*;
- Ranked first among 2020 Green Debt Financing Instrument Investors by the China Interbank Dealers Association;
- "Best Innovative Poverty Alleviation Organisation in 2020" awarded by Tencent News;
- Ranked 27th in terms of total assets by *The Banker*;
- Ranked 21st in terms of Tier 1 Capital by *The Banker*;
- "Best Joint-Stock Commercial Bank" by *Financial Times*; and
- "Enterprise of the Year" awarded by *People's Daily.*

2019

- Ranked 55th among "Forbes Global 2000" by *Forbes*;
- Ranked seventh among "China Top 100 Banks" by China Banking Association;
- "Best Performance Private Bank" by *The Banker* and *Professional Wealth Management*;
- "Best Green Finance Commercial Bank" and "Best Green Bond Bank" by *Asia Money*;
- "Best Joint-Stock Commercial Bank" by *Financial Times*;
- Ranked 28th in terms of total assets by *The Banker*;
- Ranked 23rd in terms of Tier 1 Capital by *The Banker*; and
- "Best Green Bank in China" and "Best Retail Bank in China" by *Global Banking & Finance Review*.

HISTORY AND MILESTONES

The following are the milestone events in the history of the Bank:

Year	Milestone
1988	The Bank was established with the approval of the State Council and PBOC at the state level under the name "Fujian Industrial Bank".
1996	The Bank set up branches in Shanghai, Shenzhen, Changsha, Beijing and Hangzhou under stock code "601166".
2003	The Bank was officially renamed as "Industrial Bank".
2004	Three international strategic investors, namely Hang Seng Bank Limited, International Finance Corporation and Tetrad Ventures Pte Ltd., invested in the Bank.
2007	The Bank was listed on the Shanghai Stock Exchange under stock code "601166".
2010	The Bank completed a RMB17.86 billion A-share placing, the largest placing in the PRC at that time. The Bank obtained the approval to establish Industrial Bank Financial Leasing Co., Ltd.
2011	The Bank acquired Union Trust Limited and renamed it "China Industrial International Trust Limited".
2013	The Bank set up CIB Fund Management Co., Ltd., China Industrial Guoxin Asset Management Co., Ltd. and Industrial Wealth Asset Management Co., Ltd.
2014	The Bank set up the Hong Kong Branch to implement its international business expansion.
	The Bank issued its first tranche of preference shares in a total amount of RMB13 billion in the PRC.
	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB20 billion in the PRC.
2015	Industrial Digital Financial Service Co., Ltd. and Industrial Economy Research Consultation Co., Ltd. were established.

Year	Milestone
	The Bank issued its second tranche of preference shares in a total principal amount of RMB13 billion in the PRC.
2016	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB30 billion in the PRC.
	The Bank established a US$5,000,000,000 Medium Term Note Programme in September 2016. The Bank issued US$700 million 2.000 per cent. notes due 2019 and US$300 million 2.375 per cent. notes due 2021 under the MTN Programme.
2017	The Bank issued 1.72 billion in A-shares totalling a principal amount of RMB26.0 billion in April 2017.
2018	The Bank renewed the MTN Programme in February 2018.
2019	Industrial Bank Wealth Management Co., Ltd. was established.
	The Bank was one of the first banks signing the Principles for Responsible Banking issued by the United Nations Environment Programme.
	The Bank entered into a green development cooperation agreement with Yunnan Provincial Government to provide green financing services to enterprises in Yunnan Province.
2020	The Bank entered into a green finance strategic cooperation agreement with Fujian Provincial Governmental Ecology and Environmental Bureau to provide indicative financing credits to the environmental protection industry of Fujian Province.
	The Bank set up its London branch to implement its international business expansion.
2021	The Bank issued a US$600 million 0.875 per cent. notes due 2024 and a HK$2.5 billion 0.750 per cent. notes due 2024 under the MTN Programme.
	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB75 billion in the PRC.
	As at the date of this Offering Circular, the Bank had issued US$2.95 billion, €250 million and HK$2.5 billion notes under the MTN Programme in eight tranches, including US$700 million 2.00 per cent. notes due 2019, US$300 million 2.375 per cent. notes due 2021, US$600 million 3.50 per cent. notes due 2021, US$250 million 3.75 per cent. notes due 2023, US$500 million floating rate notes due 2023, €250 million floating rate notes due 2021, US$600 million 0.875 per cent. notes due 2024 and HK$2.5 billion 0.750 per cent. notes due 2024.

COMPETITIVE STRENGTHS

The Bank believes that the following represents its competitive strengths:

- An established and strongly competitive national commercial bank with innovation capabilities;
- A universal banking platform providing comprehensive modern financial services and synergy to grow its business and improve its profitability;
- A leader in providing services to financial institutions;
- A bank with strong cost control capability;
- A bank with prudent and comprehensive risk management and solid asset quality;

- Significant business growth and solid capital base with strong support from its largest shareholder;
- An experienced management team; and
- A bank with a clear strategic objective.

BUSINESS STRATEGIES

The Bank aims to transform itself into a modern financial services institution with its comprehensive financial licences. The Bank aims to strengthen its risk management and focus on business innovation to attain sustainable development to realise increased profitability and solid asset quality. The Bank intends to achieve these through the following strategies:

- Enhancing intra-bank synergy to satisfy customers' increasingly diversified needs for integrated financial services;
- Adhering to the Bank's globalisation strategy;
- Continuing to improve business and operating model to achieve sustainable growth;
- Proactively addressing customers' need, by continuing its focus on product and business model innovation;
- Continuing to strengthen the risk management system to maintain solid asset quality;
- Continuing to invest in information technology infrastructure and to utilise advanced technology to support the Bank's growing business; and
- Effectively allocating strategic resources and advance key components of the Bank's business.

RECENT DEVELOPMENTS

Proposed Change of Largest Shareholder

On 18 March 2022, the Bank's largest shareholder, Fujian Provincial Department of Finance (福建省財政部), proposed to transfer for nil consideration its 16.91 per cent. equity interest in the Bank to Fujian Provincial Financial Investment Company Limited (福建省金融投資有限公司), a wholly-owned subsidiary of Fujian Provincial Department of Finance. After the proposed transfer, Fujian Provincial Financial Investment Company Limited will become the largest shareholder of the Bank with 16.91 per cent. equity interest in the Bank and Fujian Provincial Department of Finance's equity interest in the Bank will be reduced to 1.94 per cent. As parties acting in concert, Fujian Provincial Department of Finance and Fujian Provincial Financial Investment Company Limited will together own 18.85 per cent. equity interest in the Bank.

The proposed transfer is pending approval from the CBIRC and the Shanghai Stock Exchange.

Proposed Appointment of Vice President

On 6 May 2022, the Bank passed a board resolution and appointed Mr. Zhang Min as a vice president of the Bank. Mr. Zhang's appointment will become effective upon confirmation from the CBIRC and his résumé can be viewed on the Shanghai Stock Exchange.

Unaudited Quarterly Results of the Group

The Bank published the unaudited condensed consolidated results of the Group ("**Unaudited Quarterly Results**") for the three months ended 31 March 2022 ("**3M 2022**") together with the comparative figures for the corresponding period in 2021 ("**3M 2021**") on the Shanghai Stock Exchange on 29 April 2022. The Unaudited Quarterly Results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. For the three months ended 31 March 2022, the Bank's total operating income increased steadily as compared to the corresponding period in 2021, mainly attributable to the significant increase in non-interest income. The increase in total operating income for the three months ended 31 March 2022 was partially offset by the significant increase in operating and management expense. As at 31 March 2022, the Bank's total assets increased steadily as compared to 31 December 2021, mainly attributable to the substantial increase in loans and advances to customers.

The Unaudited Quarterly Results have not been reviewed or audited by independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. None of the Issuer, the Bank, the Arrangers, the Dealers and the Agents, nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person makes any representation, warranty or undertaking, express or implied or accepts any responsibility or liability with respect to the Unaudited Quarterly Results. The Unaudited Quarterly Results are historical in nature and past performance is not a guarantee of future performance. The Unaudited Quarterly Results are not included in and do not form part of this Offering Circular. See also "*Risks relating to the Bank's Business — Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information*."

Issue of Onshore Debt Securities

On 6 April 2022, the Bank issued RMB11.5 billion three-year-term financial bonds with an interest rate of 2.94 per cent. on the Inter-bank Bond Market of the PRC.

On 14 March 2022, the Bank issued RMB40 billion three-year-term financial bonds on the Inter-bank Bond Market of the PRC. The bonds were issued in two tranches. Tranche 1 included RMB10 billion bonds with an interest rate of 3.00 per cent. Tranche 2 includes RMB30 billion bonds with an interest rate of 2.96 per cent.

On 14 January 2022, the Bank issued RMB25 billion 10-year-term Tier 2 Capital bonds on the Inter-bank Bond Market of the PRC. The interest rate of the bonds was 3.45 per cent. The Bank has the option to redeem the bonds on the fifth year.

SUMMARY HISTORICAL FINANCIAL INFORMATION OF THE BANK

The following tables set forth the summary consolidated financial information of the Bank as at and for the periods indicated.

The Bank's consolidated financial information as at and for the years ended 31 December 2019, 2020 and 2021 was derived from the Audited Financial Statements which have been prepared and presented in accordance with PRC GAAP. The Bank's Audited Financial Statements have been audited by KPMG Huazhen LLP, in accordance with Auditing Standards for Certified Public Accountants in China. The Bank's summary consolidated financial information as at and for the years ended 31 December 2019, 2020 and 2021 should be read in conjunction with the Financial Statements Translation and the notes thereto included elsewhere in this Offering Circular. PRC GAAP differs in certain respects from IFRS. See "Summary of Certain Differences Between PRC GAAP and IFRS".

Summary Consolidated Statements of Comprehensive Income

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB in million) *(restated[1])*	**(RMB in million)**	**(RMB in million)**
Interest income	288,978	303,478	315,158
Interest expense	(166,689)	(159,963)	(169,479)
Net interest income	**122,289**	**143,515**	**145,679**
Fee and commission income	34,333	42,477	47,567
Fee and commission expense	(3,955)	(4,767)	(4,887)
Net fee and commission income	**30,378**	**37,710**	**42,680**
Investment income	24,992	26,154	28,478
Gains (losses) from changes in fair values	1,622	(6,267)	2,178
Foreign exchange gains	851	813	1,001
Income (Losses) from asset disposal	38	3	(10)
Other income	**363**	**510**	**613**
Other operating income	775	699	617
Operating income	**181,308**	**203,137**	**221,236**
Operating expenses	(107,042)	(126,590)	(126,037)
Operating profit	74,266	76,547	95,199
Non-operating income	368	295	286
Non-operating expenses	(131)	(205)	(175)
Profit before tax	**74,503**	**76,637**	**95,310**
Income tax expense	(7,801)	(8,956)	(11,494)
Net profit	**66,702**	**67,681**	**83,816**
Attributable to:			
— Equity holders of the Bank	65,868	66,626	82,680
— Non-controlling interests	834	1,055	1,136

Note:

(1) For the years ended 31 December 2020 and 2021, the Group reclassified its credit card instalment business income from fee and commission income to interest income. The relevant financial figures in 2019 have been restated.

Summary Consolidated Statements of Financial Position

	As at 31 December		
	2019	2020	2021
	(RMB in million)	(RMB in million)	(RMB in million)
Assets:			
Cash and balances with central bank	486,444	411,147	447,446
Deposits from banks and other financial institutions	87,260	95,207	66,251
Precious metals	401	4,947	156
Placements with banks and other financial institutions	231,475	191,939	351,822
Derivative financial assets	32,724	59,396	34,460
Financial assets held under resale agreements	41,861	123,350	141,131
Loans and advances to customers	3,345,180	3,867,321	4,310,306
Financial investment:			
Trading assets	652,034	823,927	909,794
Debt investments	1,444,176	1,550,131	1,601,030
Other debt investments	599,382	516,368	484,624
Other equity investments	1,929	2,388	3,148
Finance lease receivables	106,273	100,616	103,957
Long-term equity investments	3,413	3,549	3,732
Fixed assets	24,641	26,414	26,060
Construction in progress	3,463	1,935	2,775
Right-of-use assets	—	—	9,581
Intangible assets	647	712	883
Goodwill	532	532	532
Deferred tax assets	40,799	45,513	49,146
Other assets	43,047	68,608	56,190
Total assets	**7,145,681**	**7,894,000**	**8,603,024**
Liabilities:			
Borrowing from Central Bank	168,259	290,398	95,777
Deposits from banks and other financial institutions	1,233,937	1,487,079	1,710,879
Placements from banks and other financial institutions	192,310	180,171	173,778
Trading liabilities	4,214	16,062	47,830
Derivative financial liabilities	31,444	61,513	38,847
Financial assets sold under repurchase agreements	193,412	123,567	265,576
Deposits from customers	3,794,832	4,084,242	4,355,748
Employee benefits payable	17,738	20,204	24,783
Tax payable	14,476	12,304	12,767
Provisions	6,253	5,397	4,085
Debt securities issued	899,116	947,393	1,120,116
Leasing liabilities	—	—	9,053
Deferred tax liabilities	—	74	163
Other liabilities	40,038	40,793	49,324
Total liabilities	**6,596,029**	**7,269,197**	**7,908,726**

	As at 31 December		
	2019	2020	2021
	(RMB in million)	(RMB in million)	(RMB in million)
Shareholders' equity:			
Share capital	20,774	20,774	20,774
Other equity instruments	55,842	85,802	88,960
Including: preferred stock	55,842	55,842	55,842
Capital reserve	74,914	74,914	74,914
Other comprehensive income	3,232	(749)	2,859
Surplus reserve	10,684	10,684	10,684
General risk reserve	78,525	87,535	97,944
Retained earnings	297,389	336,626	387,976
Equity attributable to equity holders of the Bank	541,360	615,586	684,111
Non-controlling interests	8,292	9,217	10,187
Total shareholders' equity	**549,652**	**624,803**	**694,298**
Total liabilities and shareholders' equity	**7,145,681**	**7,894,000**	**8,603,024**

Capital Ratio Data of the Bank

	As at 31 December		
	2019	2020	2021
Capital Adequacy Indicators			
Calculated in accordance with the Capital Regulations: [1]			
Capital Adequacy Ratio (per cent.)	13.36	13.47	14.39
Tier 1 Capital Adequacy Ratio (per cent.)	10.56	10.85	11.22
Core Tier 1 Capital Adequacy Ratio (per cent.)	9.47	9.33	9.81

Note:

(1) Ratios as at 31 December 2019, 2020 and 2021 are calculated in accordance with the Capital Management Rules and other relevant regulations. See "*Banking Regulation and Supervision in the PRC*".

Other Financial Indicators (1)

	As at 31 December			
	Regulatory standard	2019	2020	2021
Loan-to-deposit ratio (converted to RMB) (2)	≤75	85.76	92.54	95.60
Liquidity ratio (converted to RMB)	≥25	75.07	67.39	56.26
Percentage of loans to the largest single customer (3)	≤10	1.38	1.67	1.52
Percentage of loans to the top 10 customers (4)	≤50	11.00	10.61	9.53
Migration ratio of pass loans	—	2.38	2.07	2.27
Migration ratio of special mention loans	—	38.81	31.23	25.56
Migration ratio of substandard loans	—	79.55	62.42	50.97
Migration ratio of doubtful loans	—	36.12	18.03	30.12

Notes:

(1) Data in this table are those before consolidation, and data of Industrial Bank Financial Leasing Co., Ltd., China Industrial International Trust Limited, CIB Fund Management Co., Ltd. and Industrial Consumer Finance Co., Ltd. are not included in this table. Data in this table are calculated based on data reported to regulatory authorities.

(2) Calculated by dividing total loans and advances to customers by due to customers.

(3) Calculated by dividing loans and advances to the 10 largest customers by net capital base.

(4) Calculated by dividing loans to top 10 customers by net capital base.

RISK FACTORS

The principal risk factors that may affect the ability of the Bank to fulfil its obligations in respect of the Notes are discussed under "Risk Factors" in the Offering Circular. The sub-sections "Risk Factors — Risks Relating to the Bank's Loan Portfolio", "Risk Factors — Risks Relating to the Bank's Business", "Risk Factors — Risks Relating to the Banking Industry in China" in the Offering Circular shall be replaced and supplemented with the following:

RISKS RELATING TO THE BANK'S LOAN PORTFOLIO

The Bank has a concentration of loans to certain industries, regions and customers, and if the conditions of these regions or these industries, or the financial conditions of these customers deteriorate significantly, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As at 31 December 2021, the Bank's loans to China's (i) manufacturing, (ii) leasing and commercial services, (iii) real estate and (iv) retail and wholesale industries represented approximately 9.89 per cent., 8.55 per cent., 7.61 per cent. and 5.59 per cent., respectively, of its total loans. Any significant downturn in these industries may lead to a significant increase in the non-performing loans of the Bank, and negatively affect the level of new lending or refinancing of existing loans to borrowers in those industries. This may in turn, materially and adversely affect the Bank's asset quality, financial condition and results of operations. As China has experienced a slowdown in its manufacturing industry and economic growth in recent years, the Bank's non-performing loans in the manufacturing industry, leasing and commercial services, real estate and the retail and wholesale industry have fluctuated. The Bank's ratio of nonperforming loans in the real estate industry increased from 0.92 per cent. as at 31 December 2020 to 1.08 per cent. as at 31 December 2021 and the Bank's ratio of nonperforming loans in the retail and wholesale industries increased from 3.74 per cent. as at 31 December 2020 to 4.51 per cent. as at 31 December 2021. Deterioration in the performance of the abovementioned industries may further increase the Bank's non-performing loan ratio and adversely affect its overall asset quality.

In recent years, the PRC central and local governments have introduced a large number of policies and measures to control the over-development of certain industries with excess capacity, such as wind power equipment, steel, cement, coal, chemical and flat glass. Many enterprises operating in these industries have experienced increasing financial stress or difficulty due to their deteriorating financial condition and cash flow and increasing competition in the relevant industries. Although the Bank closely monitors its lending to companies in the relevant industries, there is no guarantee that the Bank's overall asset quality will not be affected.

The Bank's overall asset quality is also affected by the performance of the PRC's real estate market due to its home mortgages and other loans secured by real property collateral granted to real estate developers and retail property purchasers. As at 31 December 2021, the Bank's loans to the real estate industry, which were primarily granted to real estate developers represented 7.61 per cent., of its total loans and its non-performing ratio of these loans was 1.08 per cent. As at 31 December 2021, the Bank's home mortgage loans represented 59.64 per cent. of its outstanding balance of personal loans. Any measures imposed by the PRC government aimed at cooling down the PRC real estate market may adversely affect the growth and quality of the Bank's loans to the real estate industry and the Bank's home mortgage loans. On the other hand, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and its ability to generate new loans, which in turn could have a material adverse effect on the Bank's asset quality, financial condition and results of operations.

As at 31 December 2021, 25.94 per cent. of the Bank's total outstanding loans originated in Western and Central China. Although the Bank believes that these regions currently benefit from favourable government policies, the economic conditions in these regions are poorer compared to those in the coastal regions of Eastern China and Southern China, and their economic growth has been slower compared to other regions in China. These favourable economic policies may change or discontinue in the future and they may not be as effective as the Bank anticipates. Any significant economic downturn in any of these regions, or any inaccurate assessment or failure in the management of the credit risks relating to loans granted to borrowers located or operating in such regions, whether due to changes in government policies or otherwise, may materially and adversely affect the Bank's asset quality, particularly its non-performing loans, and thus its financial condition and results of operations.

As at 31 December 2021, the Bank's loans to its top 10 customers totalled RMB78.2 billion, which represented 1.76 per cent. of its total loan portfolio and all of these loans were classified as performing. If any of the performing loans to the top 10 customers deteriorates or becomes non-performing, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Bank also provides loans to small and medium-sized enterprises ("**SMEs**"). The Bank's loans to SMEs are, compared to its other loans, generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. The Bank adopted a number of measures to manage these risks, such as imposing stricter requirements on approving credit applications and charging higher interest rates, but there can be no assurance that these measures will effectively reduce or eliminate the risks relating to such customers. If the Bank's loans to SMEs deteriorate, its asset quality, financial condition and results of operations may be materially and adversely affected.

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

As at 31 December 2019, 2020 and 2021, the Bank's non-performing loans amounted to RMB53.0 billion, RMB49.7 billion and RMB48.7 billion, respectively, and the Bank's nonperforming loan ratio was 1.54 per cent., 1.25 per cent. and 1.10 per cent., respectively. From 2019 to 2021, the Bank's non-performing loans and non-performing loan ratio decreased steadily due to the Bank's adoption of a number of measures to manage risks, including imposing heightened monitoring of asset quality and establishing an asset control system for risky projects, as well as a result of macroeconomic policies introduced by the PRC government to deleverage and reshape the structure of certain industries. However, there is no guarantee that such decrease would sustain in the future.

The quality of the Bank's loan portfolio may deteriorate in the future due to various reasons, including factors beyond the Bank's control, such as reform of the PRC economy, the PRC government's initiative to control overcapacity in certain industries, a slowdown in the PRC or global economies, a relapse of the global credit crisis, adverse macroeconomic trends in China and other parts of the world and the occurrence of natural disasters, all of which could impair the ability of the Bank's borrowers to service their outstanding debt. Inflation in China may cause rising costs and negatively impact the profitability of the Bank's corporate customers, which in turn may lead to significant increases in the Bank's allowance made for impaired loans. Any actual or perceived deterioration in creditworthiness of counterparties, declines in property prices in many third- and fourth-tier cities in China and resulting reduction in collateral values, higher unemployment rates or reduced profitability of corporate borrowers may also cause the Bank's asset quality to deteriorate and in turn lead to significant increases in allowance made for impaired loans. If the Bank's non-performing loans or the allowance made for impaired loans increase in the future, the results of its operations and financial condition may be materially and adversely affected. In addition, the Bank's ability to maintain its growth also depends largely on its ability to effectively manage its credit risk and maintain or improve the quality of its loan portfolio. There is no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in its non-performing loans and adversely affect the quality of its loan portfolio.

The Bank's allowance for impairment losses may not be sufficient to cover the actual losses on its loan portfolio in the future.

As at 31 December 2019, 2020 and 2021, the Bank's allowance for impairment losses on loans was RMB105.6 billion, RMB108.7 billion and RMB130.9 billion, respectively. For the same periods, the ratio of its allowance for impairment losses to total loans was 3.1 per cent., 2.7 per cent. and 3.0 per cent., respectively and the ratio of its allowance for impairment losses to non-performing loans was 199.13 per cent., 218.83 per cent. and 268.73 per cent., respectively. The allowance for impairment losses is based on the Bank's current assessment of, and expectations concerning, various factors affecting the quality of its loan portfolio. These factors include, among other things, borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the ability of the guarantors of the borrowers to fulfil their obligations and the implementation of the Bank's credit policies, as well as China's economy, macroeconomic policies, interest rates, exchange rates, and legal and regulatory environments. Many of these factors are beyond the Bank's control, and therefore its assessment and expectations of these factors may differ from future developments. The adequacy of the Bank's allowance for impairment losses depends on the reliable application of its risk assessment system to estimate these potential losses, as well as its ability to accurately collect, process and analyse the relevant statistical data. If the Bank's assessment of, and expectations concerning, the factors that affect the quality of its loan portfolio differ from actual developments, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may reduce its profit and therefore materially and adversely affect its asset quality, financial conditions and results of operations.

The collateral and guarantees securing the Bank's loans may not be sufficient, and the Bank may be unable to realise the full value of the collateral and guarantees in a timely manner or at all.

A significant portion of the Bank's loans is secured by collateral or guarantees. As at 31 December 2021, 38.87 per cent. and 7.08 per cent. of its total loans were secured by mortgages and pledges, respectively, and 19.79 per cent. of its total loans were guaranteed.

The pledged collateral securing the Bank's loans includes, among other things, bonds or equity securities. The mortgages securing the Bank's loans primarily comprise real properties and other assets located in China. The value of the collateral securing its loans may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy. For example, a downturn in China's real estate market may result in a decline in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal and interest balances of such loans. Any decline in the value of such collateral may reduce the amounts the Bank can recover from such collateral and increase its impairment losses.

Some of the Bank's loans were guaranteed by the borrowers' affiliates. A significant deterioration in the financial condition of the guarantors could significantly decrease the amounts the Bank recovers under the relevant guarantees. Moreover, a court or other judicial or governmental authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amounts guaranteed in respect of its loans.

In China, the procedures for liquidating or otherwise realising the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of such collateral. For example, in accordance with Provisions of the Supreme People's Court on Several Issues Concerning the Handling of Enforcement Opposition and Reconsideration Cases by People's Courts (最高人民法院關於人民法院辦理執行異議和復議案件若干問題的規定), effective from 5 May 2015, the PRC courts cannot evict a borrower or his or her dependents from his or her residence during the three-month grace period after a court approves a bank's petition to foreclose. In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights.

As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing non-performing loans. If the Bank is unable to liquidate the assets of borrowers and guarantors or if guarantors fail to fully perform their guarantee obligations on a timely basis, its business, financial condition and results of operations may be materially and adversely affected.

The Bank's loan classification and provisioning policies may be different in certain respects from those applicable to banks in certain other countries or regions.

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in a year using the five-category classification system. When making relevant assessments, before 1 January 2019, the Bank determined and recognised provisions by using the concept of impairment under China Accounting Standard 22 (the "**CAS 22**"), while subsequent to 1 January 2019, the Bank began to apply Revised CAS 22 — Recognition and Measurement of Financial Instruments, which was issued by the Ministry of Finance of the PRC in March 2017 (the "**Revised CAS 22**") in determining provisions. The Bank is required to apply a new expected credit loss impairment model under the Revised CAS 22, which, as compared to the incurred loss model in CAS 22, uses more forward-looking information instead of objective evidence of impairment as a precondition for recognising credit losses. Although the Bank's loan classification criteria are in compliance with the guidelines set forth by the CBIRC, certain aspects of its loan classification criteria may not be the same as those adopted by other PRC commercial banks. As a result, the Bank's loan classification and impairment provisioning policies may differ from those reported by international banks incorporated in other countries or regions.

If the Bank does not maintain the growth of its loan portfolio, its business, prospects, financial condition and results of operations may be materially and adversely affected.

The Bank's gross loans and advances to customers have grown significantly in the past few years. As at 31 December 2019, 2020 and 2021, the Bank recorded gross loans and advances to customers of RMB3,441.5 billion, RMB3,965.7 billion and RMB4,428.2 billion, respectively, representing 48.2 per cent., 50.2 per cent. and 51.5 per cent. of total assets as at the respective dates. Although the gross loan to asset ratio rose consistently in recent years, there is no assurance such trend will continue. In addition, the growth in the Bank's loan portfolio in recent years was primarily attributable to its efforts to expand corporate and retail banking businesses. The growth of its loan portfolio may also be affected by various factors, such as China's macroeconomic policies and capital constraints. Therefore, there can be no assurance that the Bank will be able to maintain the growth rate of its loan portfolio in the future. In addition, in response to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of its loan portfolio and thereby materially and adversely affect its business, prospects, financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles to which the Bank extended loans may materially and adversely affect the Bank's asset quality, financial condition and results of operations.

Loans extended to the financing vehicles of local governments in China have been a part of the loan portfolio for China's commercial banks. According to the CBIRC, local government financing vehicles consist primarily of government-led vehicles and vehicles whose shares are controlled by the government. These vehicles primarily engage in infrastructure and urban development projects, economic development zones, industrial parks and other government investment related projects, of which the risks are highly correlated with the financial strength of the local governments. The Bank extends loans primarily to local government financing vehicles for infrastructure and urban development projects as well as those vehicles relating to land reserve centres, economic development zones, industry parks or state asset management companies. Within China's administrative division system, the recipients of these loans generally rank at or above the district city level. The Bank primarily issues loans to local government financing vehicles that have completed market-based restructuring in accordance with relevant PRC regulations. The loans are mainly invested in developed domestic economic regions or key development regions, such as the Yangtze River Delta, Fujian, Sichuan and Chongqing.

Recently, with the aim of reinforcing the risk management of loans to local government financing vehicles, the State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to local government financing vehicles and enhancing the mortgages and guarantees on such loans, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayments of these local government financing vehicles, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The Revised CAS 22 may require the Bank to change its provisioning practice.

The Bank historically assessed its loans and investment assets for impairment under CAS 22. The Ministry of Finance of the People's Republic of China (the "**MOF**"), which is responsible for developing and revising accounting standards under PRC GAAP, issued the revised CAS 22 recognition and measurement of Financial Instruments in March 2017 that, among others, introduced an expected loss impairment model. The new standard, which became effective on 1 January 2019 for an A-share listed company such as the Bank, requires an entity to change the accounting for financial liabilities if it elects to measure under the fair value option. With that change, gains and losses resulting from an entity's own credit risk will be recognised outside of profit or loss. The new standard also requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. It is not practicable to provide a reasonable estimate of the effect or quantify the impact on the Bank's operating results and financial position until it makes a detailed assessment as the new standard requires changes to systems and processes to collect necessary data. As an A-share listed company, the Bank applied the Revised CAS 22 to its reporting periods starting from 1 January 2019. The Revised CAS 22 has changed the Bank's current provisioning practice and may, as a result, adversely affect the Bank's business, financial condition and results of operations.

RISKS RELATING TO THE BANK'S BUSINESS

The Bank faces certain risks relating to its operational reform initiatives.

The Bank continues to develop and implement a number of operational reform initiatives in an effort to become more competitive and customer-oriented, including those relating to re-engineering its business process and organisational structure. For example, (i) the Bank has revamped its corporate banking products and services, targeting growth in value-added products and services such as asset management, cash management and investment banking business; (ii) it has prioritised the development of retail banking business, through implementing operational reform of branch outlets, streamlining business procedures and increasing investments in the distribution channels and IT system; and (iii) it has focused on product innovations in order to achieve greater customer satisfaction. There can be no assurance that the Bank will be able to achieve the results it expects in the future due to a number of factors, including the following:

- it may not have sufficient experience or expertise to successfully manage and continue implementing these operational reform initiatives;

- it may not have sufficient and effective management systems and information technology systems to support the implementation of these operational reform initiatives according to its contemplated schedule or at all; and

- changes in government policies or banking regulations may adversely affect the schedule for implementing, or the Bank's ability to implement, these operational reform initiatives.

There is no assurance that the Bank will be able to successfully implement these reform initiatives or, if implemented, these initiatives will achieve the benefits or within its schedule as expected, if at all. If the Bank is unable to control these risks associated with its reform initiatives, the Bank's business, prospects, financial condition and results of operations could be materially and adversely affected.

If the Bank is not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist with its risk management and internal control, its business and prospects may be materially and adversely affected.

The Bank has in the past suffered from credit-quality problems, lapses in credit approval and control processes, internal control deficiencies and operational problems as a result of weaknesses in its risk management controls. The Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhance its internal control. However, there can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. Some of these risks are yet to be identified by the Bank, and may be unforeseeable or higher than expected. In addition, given the short history of certain aspects of its risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures and fully measure the impact of, and evaluate the compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and there is no assurance that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, it may not be able to effectively monitor credit risk due to limited information resources or tools. In recent years, the Bank has introduced or refined certain risk management tools and systems to assist it in better managing risks, including the internal credit rating system, the assets and liabilities management system, the internal funds transfer pricing system, the treasury trading and risk management system and the Bank's credit management system. However, its ability to operate such systems and to monitor and analyse the effectiveness of such systems is still subject to continuous testing. The Bank is also still in the process of further developing information systems to manage certain aspects of risk management, such as automated systems for the collection of certain information relating to connected party transactions and group lending.

If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner or to the full extent, its asset quality, business, financial condition and results of operations may be materially and adversely affected.

The Bank's expanding range of products, services and business activities exposes it to new risks.

The Bank has been increasing its product development efforts and expanding the range of its products and services to meet the needs of its customers and to enhance its competitiveness.

Expansion of its business activities exposes the Bank to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services, which may prevent it from effectively competing in these areas;
- imitation or replication of its new products and services by its competitors;
- failure of its new products and services to be accepted by its customers or meet the expected targets;
- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;

- insufficient financial, operational, management and other human resources to support its expanded range of products and services;

- inability to obtain regulatory approvals for its new products or services; and

- unsuccessful attempts to enhance its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to successfully expand into or grow new products, services and related business areas due to these risks or to achieve the intended results with respect to the new products and services, its business, financial condition and results of operations may be materially and adversely affected.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy.

The Bank is required by the PRC Commercial Banking Law promulgated by the CBIRC to maintain a minimum Capital Adequacy Ratio of 8 per cent., and under the Measures on Capital Management Rules, the Bank's minimum common equity Core Tier 1 Capital Adequacy Ratio and Tier 1 Capital Adequacy Ratio are 5 per cent. and 6 per cent., respectively. In accordance with the Measures on Capital Management of Commercial Banks (Trial) (商業銀行資本管理辦法(試行)), the Bank's Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio were 9.81 per cent., 11.22 per cent. and 14.39 per cent., respectively, as at 31 December 2021.

In recent years, the CBIRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. Currently, the CBIRC is actively pushing forward the implementation of Basel III, the revised Based Capital Accord promulgated in December 2010. In April 2011, the CBIRC promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry (關於中國銀行業實施新監管標準的指導意見) to clarify the direction for future regulations and the requirement for prudent regulatory requirements. On 7 June 2012, the CBIRC promulgated the Capital Management Rules, which came into effect on 1 January 2013. The Capital Management Rules clarified and refined the categorisations and methods of measurement in respect of the capital instruments of commercial banks. According to the Capital Management Rules, the regulatory requirements on the capital adequacy ratio of commercial banks shall cover the requirements on the minimum capital, reserve capital and counter-cyclical capital, additional capital for systematically important banks, as well as second pillar capital, which shall be reached by commercial banks by the end of 2018. In order to smoothly implement the Capital Management Rules, on 30 November 2012, the CBIRC promulgated the Notice of Transitional Arrangement for the Implementation the Measures on Capital Management of Commercial Banks (Trial) (中國銀監會關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知) (the "**Notice of Transitional Arrangement**"), pursuant to which commercial banks shall reach the minimum capital requirement by 1 January 2013. Within the transitional period for reaching required targets, the Capital Management Rules and the Notice of Transitional Arrangement require commercial banks to formulate and implement feasible plans for reaching capital adequacy ratio targets step by step, and submit the same to the CBIRC for approval.

Furthermore, the PBOC and CBIRC issued the Provisions on the Additional Regulation of Systemically Important Banks (for Trial Implementation) (系統重要性銀行附加監管規定(試行)) on 30 September 2021, which provides that a systemically important bank shall satisfy certain additional capital requirements by Core Tier 1 capital, in addition to minimum capital requirements, reserve capital, and countercyclical capital requirements. The Bank, as one of the systemically important banks in the third group identified by the PBOC and CBIRC, is subject to additional capital requirement of 0.75 per cent.

Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank's compliance with capital adequacy ratios requirements, and it is possible that the Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy and that new requirements and regulations will also affect the Bank's funding needs.

In addition, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by the CBIRC and the changes in calculations of capital adequacy ratios by the CBIRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of the CBIRC.

In order to support its steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may issue any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. The Bank's capital-raising ability may be restricted by the Bank's future business, financial condition and results of operations, the Bank's credit rating, necessary regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital raising.

There is no assurance that the Bank will be able to detect money-laundering and other illegal or improper activities on a timely basis.

The Bank is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations in the jurisdictions where it has operations, primarily the PRC and Hong Kong. These laws and regulations require the Bank to adopt and implement "know-your-customer" policies and procedures and to report suspicious and large transactions to the regulatory authorities under relevant regulatory regimes. The Bank has adopted and implemented certain policies and procedures with an aim to detect and prevent the use of its business platforms to facilitate money-laundering activities and terrorist acts. Given the complexity of money-laundering activities and other illegal or improper activities and evolution of applicable regulatory regimes, there is no assurance that those policies and procedures can effectively ensure the Bank's compliance under applicable anti-money laundering and anti-terrorism laws and regulations at all times or in a timely manner. As the Bank implements its international business expansion, it expects that it will need to comply with additional and more stringent regulations in the jurisdictions into which it expects to expand. To the extent that the Bank fails to fully comply with such laws and regulations or if the policies and measures the Bank puts in place fail to promptly detect illegal or improper activities in a timely manner, the relevant regulatory authorities may impose fines, other penalties and punishments on the Bank.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties.

Fraud and other misconduct by employees or third parties may be difficult to detect and prevent and could subject the Bank to financial losses and sanctions imposed by governmental authorities and seriously harm its reputation. Types of possible misconduct by third parties against the Bank may include, among other things, fraud, theft and robbery. Types of misconduct by the Bank's employees in the past have included, among other things, improper extension of credit, unauthorised business transactions, business process in breach of the Bank's internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds, fraud and bribery. In addition, the Bank's employees may commit errors or take improper actions that could subject the Bank to financial claims as well as regulatory actions. There can be no assurance that all of the employees of the Bank will comply with its risk management and internal control policies and procedures and it is not always possible to detect or prevent such activities. In addition, there can be no assurance that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the reputation, results of operations and business prospects of the Bank, or that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

If the Bank fails to maintain the growth rate in its customer deposits or if there is a significant decrease in customer deposits, its business operations and liquidity may be materially and adversely affected.

Customer deposits are the Bank's primary source of funding. As at 31 December 2019, 2020 and 2021, the Bank's total customer deposits amounted to RMB3,794.8 billion, RMB4,084.2 billion and RMB4,355.7 billion, respectively. Although the Bank's customer deposits have been growing steadily since 2019, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, with the continuing development of China's capital markets, customers of the Bank may reduce their deposits and increase their investment in securities for a higher return.

If the Bank fails to maintain the growth rate in its deposits or if a substantial portion of its depositors withdraw their deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such events, the Bank may need to seek more expensive sources of funding and there can be no assurance that it will be able to obtain additional funding on commercially reasonable terms as and when required.

The business of the Bank is highly dependent on the proper functioning and improvement of its information technology systems.

The Bank depends on its information technology systems to process transactions on an accurate and timely basis, and to store and process its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to its business and ability to compete effectively. The Bank has built a dual disaster backup system with backup data recoverable from both the same city and a different city. The Bank satisfies the internationally recognised standards and the requirements of the PBOC in relation to disaster recovery. The Bank's business activities would be materially disrupted if there were a partial or complete failure of any of the information technology systems or communication networks. Such failure can be caused by various reasons, including natural disasters, extended power outages, breakdown of key hardware systems and computer viruses. The proper functioning of the information technology systems of the Bank also depends on accurate and reliable data input and other sub-system installation, which are subject to human error. Any failure or delay in recording or processing its transaction data could subject it to claims for losses and regulatory fines and penalties.

In addition, the secure transmission of confidential information is critical to the Bank's operations. Its networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that its existing security measures are able to prevent unforeseeable security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons that circumvent the security measures could use the Bank's or its clients' confidential information wrongfully. Any material security breach or other disruptions could expose the Bank to risk of loss and regulatory actions and harm its reputation.

The competitiveness of the Bank would to some extent depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by it through the existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the current operating environment. Any substantial failure to improve or upgrade the information technology systems effectively or on a timely basis could materially and adversely affect the competitiveness, financial condition and results of operations of the Bank.

The Bank is subject to credit risk with respect to certain off-balance sheet commitments.

In the normal course of its business, the Bank makes commitments which, under applicable accounting principles, are not reflected as liabilities on the Bank's consolidated statement of financial position, including bank acceptances, loan commitments, guarantees and letters of credit to guarantee the performance of the customers. The Bank is subject to credit risks associated with these off-balance sheet commitments and is required to provide funds when its customers are unable to honour their obligations. If a customer of letters of guarantee fails to fulfil its obligations as stated in the letters of guarantee to the beneficiaries of such guarantees, the Bank will be obliged to make payments in respect of such letters of guarantee. If the Bank is unable to recover payment from its customers in respect of the commitments that it is called upon to fulfil, the financial condition and results of operations of the Bank could be materially and adversely affected.

The Bank's investment assets may suffer significant losses or experience sharp declines in their returns, which could have a material adverse effect on the Bank's business, financial condition and results of operations.

Apart from its businesses of taking deposits, providing loans, granting credit and providing financial services, the Bank also engages in a range of investment activities, such as investments in investment products under trust schemes, investment products managed by securities companies, wealth management products issued by other PRC commercial banks and other debt securities issued by financial institutions. The Bank's returns on investment securities and other financial assets, and its profitability, may be materially and adversely affected by interest rates, foreign exchange rates, credit and liquidity conditions, asset values and macroeconomic and geopolitical conditions. Any significant deterioration in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment securities and other financial assets portfolio and could have a material adverse effect on its business, financial condition and results of operations. As the derivatives market in China is not as mature as that in some developed countries, there are limited risk management tools available to the Bank to reduce market risks relating to its investment portfolio.

If any of the issuers of investment securities or other financial assets or guarantors goes bankrupt, has poor operating performance, or becomes unable to service their debts for any other reasons, or if such investment securities or other financial assets lacks liquidity, or if there are adverse changes in macroeconomic environment and other factors, the value of such investment securities and other financial assets may decrease substantially. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank is subject to PRC and Hong Kong regulatory requirements, and its failure to fully comply with such requirements, if any, could materially and adversely affect its business, reputation, financial condition and results of operations.

The Bank is subject to the requirements and guidelines set forth by the PRC regulatory authorities. Its Hong Kong Branch is also subject to Hong Kong laws and regulations.

The PRC regulatory authorities include, among others, the MOF, the PBOC, the CBIRC, the CSRC, State Administration of Taxation of the PRC ("**SAT**"), National Audit Office of the PRC ("**NAO**"), State Administration for Market Regulation of the PRC ("**SAMR**"), the SAFE and Commission for Discipline Inspection of the Communist Party of China. These regulatory authorities carry out periodic supervision and spot checks of the Bank's compliance with laws, regulations and guidelines.

The Bank is subject to various PRC and Hong Kong regulatory requirements, and the PRC and Hong Kong regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. The Bank has in the past failed to meet certain requirements and guidelines set by the PRC regulatory authorities, and has been subjected to fines and other penalties in relation to its non-compliance. For example, a few branches of the Bank were subject to several administrative penalties and fines by PBOC, SAMR and CBIRC in the past three years. Such administrative penalties received by the Bank mainly focused on the service fees charged by the Group, non-compliance with regulatory rules, misappropriation of funds, non-compliance with settlement management regulations and unfair competition. There can be no assurance that the Bank will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the business, reputation, financial condition and results of operations of the Bank may be materially and adversely affected.

The uncertainties in the Chinese and global economies and the financial markets could materially and adversely affect the financial condition and results of operations of the Bank.

After emerging from the global financial crisis, some countries have started to withdraw or decrease the stimulus packages previously executed and to implement more moderate monetary policies. China has started to withdraw its economic stimulus plan implemented during the financial crisis, returning to its normal policy direction. The PRC government implemented stricter controlling measures on the real estate market, regulated the local government financing vehicles, cancelled the export tax refund policies for certain commodities and restarted the reform of Renminbi exchange rate.

The UK withdrew from the European Union (the "**EU**") on 31 January 2020 ("**Brexit**"), but continued to participate in certain EU organisations (such as the customs union) during a transition period that ended on 31 December 2020. With Brexit taking full effect, there remains uncertainty about the future relationship between the UK and the EU. Although a new trade and cooperation agreement between the UK and EU was agreed upon on 24 December 2020 and formally entered into effect on 1 May 2021, given the lack of precedent, it is unclear how Brexit and the implementation of the EU-UK trade and cooperation agreement would ultimately affect the fiscal, monetary and regulatory landscape within the UK, the EU and the rest of the world. In addition, COVID-19 and the Russo-Ukrainian conflict have led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. The outlook for the world economy and financial markets remains uncertain. Any volatility in the global markets and negative economic developments could, in turn, materially adversely affect the Bank's business, prospects, financial condition or results of operations. In addition, this could adversely affect the Bank's access to the international debt capital markets and may increase the Bank's funding costs, having a negative impact on the Bank's revenue and financial conditions. See "*Risks Relating to China — The slowdown of the PRC's economy caused in part by the recent challenging global economic conditions may adversely affect the Bank*" for further information. Any volatility or deterioration in the economic conditions in the United States, the UK, the EU, the PRC or elsewhere may have and may adversely affect the Group's business, financial condition and the results of its operations and its ability to access the capital markets. The uncertainties in the global economy coupled with uncertainties in China's economy may adversely affect the Bank's financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs, all of which would adversely affect its financial condition and results of operations;

- the increased regulation and supervision of the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs, which may adversely affect its business operations;

- the value of the Bank's investments in the debt securities issued by overseas governments and financial institutions may significantly decline, which may adversely affect its financial condition;

- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and

- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

There can be no assurance that China's economy or the global economy will maintain sustainable growth. If further economic downturn occurs or continues, the business, financial condition and results of operations of the Bank could be materially and adversely affected.

Any force majeure events, including natural disasters or outbreaks of contagious diseases in China, including the COVID-19 pandemic, may have a material adverse effect on the Bank's business operations, financial condition and results of operations.

Any future force majeure events, such as natural disasters or outbreaks of epidemics and contagious diseases, may materially and adversely affect the Bank's business and results of operations. An outbreak of an epidemic or contagious disease, including the outbreak of COVID-19 across China and around the world, could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. As a result of the continued impact of the COVID-19 pandemic, stringent measures, including mandatory quarantines and travel restrictions, were imposed in numerous regions across the PRC in an effort to contain the outbreak, causing a noticeable reduction in regional and national economic activities, especially in the manufacturing, wholesale and retail sector, which may have in turn heightened some of the Bank's customers' credit risks and affected the value of collateral securing the Bank's loans. The Bank's business operations, asset quality and financial condition may be materially and adversely affected due to deteriorating market outlook and sentiments, slowdown in regional and national economic growth, weakened liquidity and financial condition of the Bank's customers (especially micro and small enterprises), or other factors that are unforeseeable. As at 31 December 2021, the amount of overdue loans of the Group were RMB65.0 billion, an increase of RMB12.7 billion compared to RMB52.3 billion as at 31 December 2020. The increase in overdue loans was primarily due to the increased amount of overdue corporate loans and personal loans.

Government restrictions imposed around the world to limit the spread of COVID-19 resulted in a sharp contraction in global economic activity during 2020. At the same time, governments also took steps designed to soften the extent of the damage to investment, trade and labour markets. Economic activity recovered unevenly in the second half of 2020 as some jurisdictions imposed renewed restrictions in the fourth quarter in response to a resurgence in COVID-19 cases. While a number of vaccine candidates have announced high efficacy rates, raising hopes of widespread immunisation from COVID-19 and government restrictions being eased, the rollout of vaccination programmes could be uneven across markets, hampering the global pace of recovery even as individual markets return to pre-pandemic levels of activity. In July 2021, multiple cities in China reported new locally transmitted cases of the Delta strain of COVID-19. In November 2021, the World Health Organization declared that a new COVID-19 variant, Omicron, may be more infectious, lead to more severe symptoms or become more resistant to immunisation (including existing vaccines). China has reported locally transmitted infections of the Omicron variant in several provinces and municipalities. As a result, the PRC government imposed lockdowns, travel restrictions and airline travel cancellations policies, which have affected the Group's businesses.

The economic fallout from the COVID-19 pandemic risks increasing inequality across global markets that have already suffered from social unrest. This leaves the burden on governments and central banks to maintain or increase fiscal and monetary stimulus packages. After financial markets suffered a sharp fall in the early phases of the spread of COVID-19, they partially rebounded but still remain volatile. Depending on the degree to which global economic growth suffers permanent losses, financial asset prices may suffer a further sharp fall. Depending on the time taken for economic activity to return to previous levels, there could be further adverse impacts on the Bank's income due to lower lending and transaction volumes.

The Bank has duly implemented various policies issued by the central government, as well as requirements of the Notice on Further Enhancing Financial Support for the Prevention and Control of the Novel Coronavirus Pneumonia Outbreak (關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知), which was jointly published by the PBOC, the MOF, the CBIRC, the CSRC and the SAFE, and strengthened financial support for the prevention and control of the pandemic. COVID-19 has affected the operation of businesses in certain areas and industries to varying degrees, which may in turn affect the quality or the yields of the Bank's credit assets and other financial assets, the extent of which will depend on factors including the evolvement of the pandemic, macro policies, resumption of work and activities in enterprises. The Group is closely monitoring the evolvement of COVID-19, but there remain significant uncertainties in assessing the duration of the COVID-19 pandemic and its impact. A continued period of significantly reduced economic activity as a result of the impact of the COVID-19 pandemic could have a material adverse effect on the Bank's financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

Moreover, China has experienced natural disasters such as earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. In 2020, there were severe floods in various parts of China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business, particularly in light of the substantial portion of the Bank's banking business in counties that are more vulnerable to natural disasters. There is no guarantee that any future natural disasters or outbreaks of contagious diseases, or the response measures taken by the PRC government or other countries, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on the Bank's results of operations.

The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.

The Bank is often involved in legal and other disputes for various reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for such loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgements in any of the litigation in which the Bank is involved would be favourable to it or that it has made adequate provisions to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes going forward in the ordinary course of its business, which may subject it to additional risks and losses. These disputes may relate to, among other things, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statutes of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

The Bank is subject to counterparty risks in its derivative transactions.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and it currently has foreign currency forward and swap arrangements and interest rate swap arrangements with a number of domestic and international banks, other financial institutions and other entities. While the Bank believes that the overall credit quality of its counterparties is satisfactory, there can be no assurance that the Bank's counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

Changes in accounting standards applicable to the Bank's business and changes in judgements and assumptions in applying these accounting standards may have a material impact on the Bank's results of operation and financial position.

The Audited Financial Statements have been prepared and presented in accordance with the Accounting Standards for Business Enterprises in China. PRC GAAP differs in certain respects from International Financial Reporting Standards. See "*Summary of Certain Differences Between PRC GAAP and IFRS*".

Accounting standards applicable to the Bank's business may be changed or amended in the future from time to time. Any changes in these accounting standards may result in changes in the recognition, measurement and/or classification of the Bank's revenue, expenses, assets and liabilities, which could have a material impact on the Bank's results of operation and financial position. In addition, in applying these accounting standards, the Bank is required to make judgements, estimates and assumptions with respect to revenue, expenses, assets, liabilities and other factors that the Bank considers to be relevant. In addition, PRC GAAP may be revised and the interpretation on the application of PRC GAAP will also continue to develop. These factors may require the Bank to adopt new accounting policies in the future from time to time. The adoption of new accounting policies in the future could have a significant impact on our financial position and results of operations.

The Bank's historical financial information may not be directly comparable with its future financial information.

The historical financial information of the Bank is sometimes adjusted or restated to address subsequent changes in the Bank's accounting policies, accounting standards, and/or applicable laws and regulations with retrospective impact on the Bank's financial reporting, correction of an error recorded in the previous period or to reflect the comments provided by the Bank's independent auditors during the course of their audit or review in subsequent financial periods. Such adjustment or restatement may cause discrepancies between the financial information with respect to a particular period or date contained in the Bank's historical financial statements and that contained in its future financial statements. For example, pursuant to the "Notice on the Strict Implementation of Enterprise Accounting Standards to Effectively Strengthen the Annual Report of Enterprises in 2020 (Caikuai [2021] No.2)" issued by the MOF on 27 January 2021, the Bank reclassified its income from credit card instalment business from fee and commission income to interest income. As a result, the financial figures related to fee and commission income and interest income for the year ended 31 December 2019 have been restated. As such, the Bank's financial figures related to fee and commission income and interest income for the year ended 31 December 2019 may not be directly comparable with its historical financial information.

The Bank has expanded its business in Hong Kong and expects to expand its business in other jurisdictions, which has increased and will continue to further increase the complexity of the risks that it faces.

The Hong Kong Branch of the Bank was established in January 2014 and the Bank plans to establish more overseas branches in the future. The expansion into other jurisdictions outside of the PRC exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in other jurisdictions may result in mark-to-market and realised losses on the investment assets held by the overseas branches and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of its licences, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which the Bank has or plans to have operations in, could have an adverse impact on its growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside the PRC, its business, reputation, financial condition and results of operations may be materially and adversely affected.

The Bank may be affected by political and economic risks in Hong Kong.

The Bank operates a branch in Hong Kong. As a result, its results of operations and financial condition may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy. On 1 July 1997, the administration of Hong Kong was transferred from the UK to the PRC, and Hong Kong became a Special Administrative Region of the PRC (the "**HKSAR**").

As provided in the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law, which is Hong Kong's constitution, Hong Kong has a high degree of autonomy except in foreign and defence affairs. Under the Basic Law, Hong Kong has its own legislative, legal and judicial systems and full economic autonomy for 50 years from 1997. Nevertheless, there can be no assurance that such policies, including the interpretation and implementation of such policies, will not be significantly altered prior to 2047.

On 30 June 2020, the Standing Committee of the PRC National People's Congress passed the Law of the People's Republic of China on Safeguarding National Security in the HKSAR (the "**HK National Security Law**"). The law defines the duties and the government bodies of the HKSAR for the safeguarding of national security, categories of offences and their corresponding penalties. This law may change the way Hong Kong has been governed since the handover in 1997 and may have an adverse impact on the Bank's ability to conduct business as previously conducted. Moreover, on 14 July 2020, then US President Donald Trump signed into law the Hong Kong Autonomy Act, or HKAA, authorising the US administration to impose blocking sanctions against individuals and entities determined to "materially contribute" to the erosion of Hong Kong's autonomy. HKAA further authorises secondary sanctions, including the imposition of blocking sanctions, against foreign financial institutions that knowingly conduct a significant transaction with foreign persons sanctioned under this authority. HKAA may cause substantial market uncertainties, which could adversely affect the price of the Notes, and it is difficult to predict the full impact of HKAA on the Bank's operations and business at this stage.

Civil unrest and an uncertain political environment may impact the Hong Kong economy and result in an economic slowdown. For example, protests, demonstrations or rioting causing disruption to businesses and transportation, such as the protests in 2020 in anticipation of the HK National Security Law, may have a negative impact on the local economy, including the banking sector. Civil unrest is outside the control of the Bank and there can be no assurance that further large-scale protests will not occur in the future or as to the authorities' reactions to any such protests if they recur and the effect on the stability of the political and economic conditions of Hong Kong. Future economic, political and social developments in the PRC could also have significant effects on Hong Kong, which could materially adversely affect the Bank's business, results of operations and financial condition.

The Bank may be subject to penalties if it conducts transactions in violation of OFAC sanctions.

The United States currently imposes various economic sanctions, which are administered by the US Treasury Department's Office of Foreign Assets Control ("**OFAC**") and which apply to US persons and, in certain cases, to foreign subsidiaries of US persons or to transactions involving certain items subject to US jurisdiction. Similar sanctions are administered by the UK, the EU, United Nations Security Council and other applicable jurisdictions. These sanctions are intended to address a variety of policy concerns, including, among other things, denying certain countries, individuals and entities, the ability to support international terrorism and to pursue weapons of mass destruction and missile programmes. Countries which are currently subject to sanctions for varying reasons include but are not limited to the Russia, Crimea, the Luhansk and Donetsk regions of Ukraine, Cuba, Iran, Libya, North Korea, Syria and Sudan. The Bank does not believe that these sanctions are applicable to any of the Group's activities. However, if the Bank engages in any prohibited transactions by any means or it was otherwise determined that any of the Bank's transactions violated applicable sanctions regulations, the Bank could be subject to penalties and its reputation and ability to conduct future business in the US or other relevant jurisdictions or with US persons or other relevant persons could be adversely affected. As the Bank's business, financial condition and results of operations may be adversely affected, the Bank's ability to service the Notes and to satisfy its other obligations under the Notes may also be negatively affected.

Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information.

According to applicable PRC securities regulations and Shanghai stock exchange listing rules, listed companies must publish their annual financial information (audited), semi-annual financial information (reviewed or audited) and quarterly financial information (no audit or review is required). In addition, listed companies can also publish financial information such as preliminary results. Quarterly financial information and preliminary results published by the Bank in the PRC are derived from the Bank's management accounts which have not been audited or reviewed by its independent auditors, and therefore do not provide the same quality of information as reviewed or audited financial information and may deviate from any future audited information covering the same period. Investors should therefore not rely on the Bank's unaudited and unreviewed financial information from time to time published in the PRC when making their investment decision.

RISKS RELATING TO THE BANKING INDUSTRY IN CHINA

The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels.

The Bank faces competition from other commercial banks and financial institutions in all of its principal areas of business. It competes primarily with other Large Commercial Banks, Nationwide Joint-Stock Commercial Banks, city commercial banks and foreign banks in China.

Additionally, following the removal of regulatory restrictions on their geographical presence, customer base and operating licence in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased competition from foreign-invested commercial banks. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement and the Mainland and Macau Closer Economic Partnership Arrangement and the Cross-Straits Economic Co-operation Framework Agreement which permit Hong Kong, Macau and Taiwan banks to operate in China, have also increased competition in China's banking industry.

Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including, among others, with respect to interest rates and non-interest-based products and services, which are changing the basis on which the Bank competes with other banks for customers.

The Bank competes with many of its competitors for substantially the same loan, deposit and fee-based business customers. Such competition may adversely affect the Bank's business and future prospects by, for example:

- reducing its market share in its principal products and services;
- slowing down the growth of its loan or deposit portfolios and other products and services;
- decreasing its interest income or increasing its interest expenses, thereby reducing its net interest income;
- reducing its fee and commission income;
- increasing its non-interest expenses, such as marketing expenses;
- adversely affecting its asset quality; and
- increasing competition for senior management and qualified professional personnel.

The Bank may also face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of its customers choose alternative financing to fund their capital needs, the Bank's business, financial condition and results of operations may be adversely affected.

Moreover, the Bank may face competition from other forms of investment alternatives as the PRC capital markets continue to develop. As the PRC equity and bond markets continue to develop and become more viable and attractive investment alternatives, the Bank's deposit customers may elect to transfer their funds into equity and bond investments, which may reduce its deposit base and adversely affect its business, financial condition and results of operations.

The Bank's business and operations are highly regulated, and its business, financial condition, results of operations and future prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. Since its establishment as the primary banking industry regulator assuming the majority of the bank regulatory functions from the PBOC in 2003, the CBIRC has promulgated a series of banking regulations and guidelines. The banking regulatory regime in China is currently undergoing significant changes, most of which are applicable to the Bank and may result in additional costs or restrictions on its activities.

For instance, in March 2011, the CBIRC, the PBOC and the NDRC jointly issued a notice stipulating the cancellation of 34 service fees classified under 11 categories of domestic commercial banks effective from 1 July 2011. In February 2014, the NDRC and the CBIRC jointly issued the *Measures for the Administration of the Service Prices of Commercial Banks* (the "**Measure**"). According to the Measure, the prices of basic banking services that are widely used by clients and have significant influence on China's economic development shall be subject to the guidance or determination of the government. The NDRC and the CBIRC also jointly issued the *Circular on Printing and Distributing the Catalogue of Government-guided and Government-determined Prices for Services Provided by Commercial Banks* (the "**Catalogue**"). According to the Catalogue, the prices of the basic financial services provided by commercial banks for bank clients shall be subject to the government guided-prices and government pricing. Such basic financial services include parts of commercial banks' service items, such as wire transfer, remittance by cash, encashment and bills, and specific charge items and charging standards. On 27 September 2016, the CBIRC issued the *Banking Institutions Overall Risk Management Guidelines* (the "**Guidelines**"), which aimed to enhance overall risk management of PRC commercial banks. On 8 February 2021, the CBIRC issued the Measures for the Administration of Reputational Risk of Banking and Insurance Institutions (Trial) (銀行保險機構聲譽風險管理辦法(試行)), in order to improve the reputational risk management of banking and insurance institutions, effectively prevent and resolve reputational risk, and maintain financial stability and market confidence. On 23 March 2021, the Measures for the Liabilities Quality Management of Commercial Banks (商業銀行負債質量管理辦法) formulated by the CBIRC aimed to prompt commercial banks to improve the management of liabilities and safeguard the safe and sound operation of the banking system. On 2 June 2021, the CBIRC issued the Corporate Governance Standards for Banking or Insurance Institutions (銀行保險機構公司治理準則) which aimed to prompt banking or insurance institutions to improve the quality and efficiency of corporate governance and promote the scientific and sound development of such institutions. On 30 September 2021, the CBIRC further issued the Provisions on the Additional Regulation of Systemically Important Banks (for Trial Implementation) (系統重要性銀行附加監管規定(試行)) which aimed to specify additional regulatory requirements for systemically important banks including the Bank.

There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations nor can the Bank give any assurance that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant impact on its business, financial condition and results of operations.

The Bank is subject to changes in interest rate and other market risks, and the Bank's ability to hedge market risks is limited.

Similar to other commercial banks, a majority of the Bank's operating income is interest income derived from granting of loans and advances to its customers. For the years ended 31 December 2019, 2020 and 2021, the Bank's net interest income represented 67.4 per cent., 70.6 per cent. and 65.8 per cent., respectively, of its operating income. Interest rates of bank loans historically were highly regulated in China. In recent years, the PRC government has published a number of policies with an aim to increase the liberalisation of its monetary policies and the interest rates of bank loans of commercial banks. Under existing PBOC regulations, commercial banks in China cannot set interest rates above 150 per cent. of the relevant PBOC benchmark rate for Renminbi-denominated deposits. There used to be restrictions with respect to the lower limit of the interest rates for Renminbi-denominated deposits. However, the PBOC promulgated the Notice on Further Promoting the Market-oriented Reform of Interest Rates on 19 July 2013, eliminating such restriction on Renminbi-denominated loans, other than home mortgage loans. On 24 October 2015, the PBOC announced that it would no longer set a floating ceiling deposit interest rate for commercial banks, signifying the further liberalisation of controls on interest rates. In August 2019, the PBOC announced the reform of the mechanism used to establish the loan prime rate ("**LPR**"). The new LPR quotations will be published on a monthly basis based on rates of open market operations, primarily the PBOC's medium-term lending facility. According to the PBOC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates.

Furthermore, as a crucial step for liberalising interest rates in China, the Deposit Insurance Regulation was published on 17 February 2015 and came into effect on 1 May 2015. Under the Deposit Insurance Regulation, deposit insurance is subject to a certain reimbursement limit, with the maximum reimbursement limit set at RMB500,000. Where a depositor's total principal and interest in all insured deposit accounts at the same insured institution, calculated on a consolidated basis, is within the maximum reimbursement limit, such total amount will be reimbursed in full. Banks are required to pay premiums for the deposit insurance programme, which may increase its operating costs and adversely affect its financial condition and results of operations.

As a result of the gradual liberation of interest rates, commercial banks will have to make forecasts and judgements of interest rate fluctuation with higher precision. There can be no assurance that the Bank will be able to promptly adjust the composition of its asset and liability portfolios and its pricing mechanism to effectively respond to further liberalisation of interest rates. In addition, interest rate liberalisation may intensify competition in the PRC banking industry, as PRC commercial banks may seek to make loans and take deposits with more attractive interest rates, which could narrow the net interest margin of PRC commercial banks, thereby materially and adversely affecting the Bank's results of operations.

Any adjustments by the PBOC in the benchmark interest rates on loans or deposits may adversely affect the Bank's financial condition and results of operations in different ways. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets differently from the average cost on its interest-bearing liabilities and therefore may narrow its net interest margin and reduce its net interest income, which may materially and adversely affect its financial condition and results of operations. An increase in interest rates may result in increases in the finance costs of the Bank's customers and thus reduce overall demand for loans, and, accordingly, adversely affect the growth of the Bank's loan portfolio, as well as increase the risk of customer default. In a rising interest rate environment, the Bank's ability to adjust upwards the interest rates that it receives on its interest-bearing assets, mainly loans, may be limited, whether due to competition or other factors as the Bank's customers may repay existing loans prior to their maturity through other refinancing that may bear lower rates of interest. How the Bank manages interest rate volatility generally will determine, to a certain extent, the impact of such volatility on the Bank's net interest and dividend income, and there is no assurance that the Bank will be able to manage such volatility in a manner that does not adversely affect its business, financial conditions and results of operations.

The Bank also undertakes trading and investment activities involving certain financial instruments both in China and abroad. The Bank's income from these activities is subject to volatility caused by, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates generally have an adverse effect on the value of the Bank's fixed rate securities portfolio, which may materially and adversely affect its financial condition and results of operations. Furthermore, as the derivatives market has yet to mature in China, there are limited risk management tools available to enable the Bank to reduce market risks.

The Bank is subject to PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.

The Bank receives a substantial majority of its revenues in Renminbi, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's foreign currency obligations.

The value of the Renminbi against the US dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC and international political and economic conditions and the PRC government's fiscal and currency policies. Any appreciation of the Renminbi against the US dollar or any other foreign currencies may result in the decrease in the value of the Bank's foreign currency-denominated assets. As at 31 December 2021, 4.8 per cent. of the Bank's financial assets and 4.9 per cent. of its financial liabilities were denominated in foreign currencies. The Bank recorded a net foreign exchange gain of RMB1,001 million and RMB813 million for the years ended 31 December 2020 and 2021, respectively. Although the Bank seeks to reduce its exchange rate risk through currency derivatives, there can be no assurance that it will be able to reduce its foreign currency risk exposure relating to its foreign currency-dominated assets. In addition, there are limited instruments available to the Bank to reduce its foreign currency risk exposure at reasonable costs. Any appreciation of the Renminbi against the US dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of the Bank's customers, particularly those deriving substantial income from exporting products or engaging in related businesses, and in turn affect their abilities to service their obligations to the Bank. Furthermore, the Bank is also currently required to obtain SAFE approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

The growth rate of China's banking industry may not be sustainable.

The Bank expects the banking industry in China to continue to grow as a result of anticipated growth in China's economy, increases in household income, further social welfare reforms, demographic changes and the opening of China's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of China's economic growth, China's implementation of its commitment to WTO accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system will affect China's banking industry. In addition, there can be no assurance that the banking industry in China is free from systemic risks. Consequently, there can be no assurance that the growth and development of China's banking industry will be sustainable.

The effectiveness of the Bank's credit risk management is affected by the quality and scope of information available in China.

The information infrastructure in China is relatively undeveloped. PRC national individual and corporate credit information databases developed by the PBOC commenced operation in 2006. However, due to their relative short operating history, these databases can only provide limited information. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases become more fully developed, the Bank has to rely on other publicly available resources and its internal resources, which are not as extensive nor as effective as a unified nationwide credit information system. As a result, the Bank's ability to effectively manage its credit risk and in turn, its asset quality, financial condition and results of operations may be materially and adversely affected.

There can be no assurance of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to China, its national or local economies or its banking industry.

Facts, forecasts and statistics in this Offering Circular relating to China, its national or local economies and financial conditions and its banking industry, including the Bank's market share information, are derived from various sources which are generally believed to be reliable.

However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with the information available from other sources, and may not be complete or up to date. The Bank has taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

RISKS RELATING TO NOTES BEING ISSUED AS GREEN BONDS

The Notes may not be a suitable investment for all investors seeking exposure to green, blue or equivalently labelled assets.

The Bank received from Sustainalytics on 26 October 2020 and from Hong Kong Quality Assurance Agency on 7 March 2022 independent opinions (the "**Second Party Opinion**") confirming that the Green Bond Framework is in compliance with the Green Bond Principles 2018 (GBP 2018), the International Capital Market Association (the "**ICMA Green Bond Principles**"), the Guidelines for Establishing the Green Financial System (Yinfa 2016 Doc No. 228) (PBOC, MOF, NDRC, Ministry of Environmental Protection, CBIRC and CSRC) (the "**Guidelines for Establishing the Green Financial System**"), the Green Industries Guidance Catalogue 2019 (綠色產業指導目錄) (NDRC, Ministry of Industry and Information Technology, Ministry of Natural Resources, Ministry of Ecology and Environment, Ministry of Housing and Urban-Rural Development, PBOC and National Energy Administration), the Catalogue of Projects Supported by Green Bonds (綠色債券支持項目錄) promulgated by PBOC on 15 December 2015 (the "**PBOC Green Bond Categories 2015**") and the green standards set in the China-EU "Common Ground Taxonomy ("**CGT**")" published by the International Platform on Sustainable Finance. The ICMA Green Bond Principles, the Guidelines for Establishing the Green Financial System, the Green Industries Guidance Catalogue 2019, the PBOC Green Bond Categories 2015 and the CGT are sets of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the green bonds market. The Notes, however, may not be a suitable investment for all investors seeking exposure to green, blue or equivalently labelled assets.

There is currently no market consensus on what precise attributes are required for a particular project to be defined as "blue", "green" or other equivalent label and, therefore, no assurance can be provided to potential investors that the relevant Eligible Green Assets (as defined in the section headed "*Green Bond Framework*" below) will continue to meet the relevant eligibility criteria. Although applicable blue, green or equivalently labelled projects are expected to be selected in accordance with the categories recognised by the ICMA Green Bond Principles, the Guidelines for Establishing the Green Financial System, the Green Industries Guidance Catalogue 2019 and the PBOC Green Bond Categories 2015 are expected to develop in accordance with applicable legislation and standards. There can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operation of any such blue, green or equivalently labelled projects. Where any negative impact is insufficiently mitigated, blue, green or equivalently labelled projects may become controversial and/or may be criticised by activist groups or other stakeholders.

Potential investors should be aware that any Second Party Opinion will not be incorporated into, and will not form part of, the Offering Circular or the Pricing Supplement relating to the Notes. Any such Second Party Opinion may not reflect the potential impact of all risks related to the Notes, their marketability, trading price or liquidity, or any other factors that may affect the price or value of the Notes. Any such Second Party Opinion is not a recommendation to buy, sell or hold securities and is only valid as at its date of issue. Further, although the Bank will use the net proceeds as described in "*Use of Proceeds*" above, it would not be an event of default under the Terms and Conditions of the Notes if (i) the Bank were to fail to comply with such obligations or were to fail to use the proceeds in the manner specified in the relevant Pricing Supplement and/or (ii) the Second Party Opinion were to be withdrawn. Any failure to use the net proceeds of the Notes in connection with blue, green or equivalently-labelled projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to the Notes may affect the value and/or trading price of the Notes, and/or may have consequences for certain investors with portfolio mandates to invest in blue, green or equivalently labelled assets.

None of the Bank or the Managers make any representation as to the suitability for any purpose of any Second Party Opinion or whether the Notes fulfil the relevant environmental criteria. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and the Pricing Supplements relating to the Notes regarding the use of proceeds and its purchase of the Notes should be based upon such investigation as it deems necessary.

CAPITALISATION AND INDEBTEDNESS

The section "Capitalisation and Indebtedness" in the Offering Circular shall be deleted in its entirety and replaced with the following:

The following table sets forth the consolidated indebtedness and capitalisation of the Bank as at 31 December 2021. Investors should read this table in conjunction with the Financial Statements Translation and the notes thereto as at and for the year ended 31 December 2021 included elsewhere in this Offering Circular.

	As at 31 December 2021			
	(RMB in million) *Actual*	**(RMB in million)** *As adjusted*	**(US$ in million)[(1)]** *Actual*	**(US$ in million)[(1)]** *As adjusted*
Debt				
Debt securities issued	1,120,116	1,120,116	175,771	175,771
Other borrowings [(2)]	6,788,610	6,788,610	1,065,281	1,065,281
Notes to be issued [(3)]	—	4,142	—	650
Total debt	**7,908,726**	**7,912,868**	**1,241,052**	**1,241,702**
Equity				
Share capital	20,774	20,774	3,260	3,260
Other equity instruments	88,960	88,960	13,960	13,960
Capital reserve	74,914	74,914	11,756	11,756
Other comprehensive income	2,859	2,859	449	449
Surplus reserves	10,684	10,684	1,677	1,677
General risk reserve	97,944	97,944	15,370	15,370
Retained earnings	387,976	387,976	60,882	60,882
Equity attributable to equity holders of the Bank	684,111	684,111	107,352	107,352
Non-controlling interests	10,187	10,187	1,599	1,599
Total equity	**694,298**	**694,298**	**108,951**	**108,951**
Total capitalisation [(4)]	**8,603,024**	**8,607,166**	**1,350,002**	**1,350,653**

Notes:

(1) For convenience only, all translations from Renminbi into US dollars or US dollars to Renminbi (as the case may be) are made at the rate of RMB6.3726 to US$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Bank System on 30 December 2021.

(2) Calculated as the difference between total debt and debt securities issued.

(3) Include US$650,000,000 notes to be issued by the Bank on 18 May 2022.

(4) Total capitalisation equals the sum of total debt and total equity.

On 6 April 2022, the Bank issued RMB11.5 billion three-year-term financial bonds with an interest rate of 2.94 per cent. on the Inter-bank Bond Market of the PRC.

On 14 March 2022, the Bank issued RMB40 billion three-year-term financial bonds on the Inter-bank Bond Market of the PRC. The bonds were issued in two tranches. Tranche 1 included RMB10 billion bonds with an interest rate of 3.00 per cent. Tranche 2 includes RMB30 billion bonds with an interest rate of 2.96 per cent.

On 14 January 2022, the Bank issued RMB25 billion 10-year-term Tier 2 Capital bonds on the Inter-bank Bond Market of the PRC. The interest rate of the bonds was 3.45 per cent. The Bank has the option to redeem the bonds on the fifth year.

Except as disclosed above, there has not been any material change in the consolidated indebtedness and capitalisation of the Bank since 31 December 2021.

GREEN BOND FRAMEWORK

As a branch of the Bank, the Issuer has adopted the Green Bond Framework of the Bank.

The Bank first published its green bond framework in November 2018 and updated the green bond framework in October 2020 (the "**Green Bond Framework**"). The Green Bond Framework was published and updated in accordance with:

i. the ICMA Green Bond Principles issued by the International Capital Market Association;

ii. the Guidelines for Establishing the Green Financial System issued by the PBOC, the MOF, NDRC, the Ministry of Environmental Protection, the CBIRC and the CSRC;

iii. the Green Industries Guidance Catalogue 2019 issued by the NRDC, the Minister of Industry and Information Technology, the Minister of Natural Resources, the Minister of Ecology and Environment, the Minister of Housing and Urban-Rural Development, the PBOC and the National Energy Administration; and

iv. the PBOC Green Bond Categories 2015 issued by the PBOC.

The Green Bond Framework is publicly available on the global website of the Bank at: **www.cib.com.cn**. The Green Bond Framework contains the following categories of Eligible Green Assets (as defined below):

Eligible Green Assets Categories

The net proceeds of the issuance of any relevant green bond will be allocated to finance and refinance Eligible Green Assets in one or more of the following categories (the "**Eligible Green Assets**"):

- **Renewable energy**: the generation, maintenance and transmission of renewable energy, including wind, solar, tidal, biomass from agricultural wastes or kitchen wastes for municipal wastes and hydropower, and the manufacture of components of renewable energy technology;

- **Energy efficiency**: the implementation, construction, maintenance and corresponding development that enhance energy efficiency of the underlying technology, product, building, asset or system, and achieve a minimum energy efficiency improvement of 20 per cent.;

- **Low carbon and low emission transportation**: the construction, operation, maintenance and corresponding provision of services of electric or hydrogen-powered transportation assets, systems and infrastructure and the manufacture of electric transportation vehicles and components including electric rail, tram, metro, bus rapid transit, electric vehicles and hydrogen vehicles;

- **Sustainable water and wastewater management**: the construction, operation and maintenance of wastewater treatment projects, including wastewater pipe and treatment plant facilities, water recycling systems and water/rainwater collection pipes and facilities; the construction and maintenance of sustainable urban drainage systems, river training and other forms of flooding mitigation, including urban drainage systems, dams and levees; and

- **Sustainable marine economy, marine environmental protection and coastal climate change adoption**: the construction, operation, maintenance and retrofits of shipment and port pollution treatment facilities and sea water desalinisation facilities which are powered at least 90 per cent. by renewable energy and the construction, operation and maintenance of sustainable water infrastructure, including wastewater treatment, urban drainage systems, river training and other forms of flooding mitigation for climate change adoption in coastal areas.

Asset Evaluation and Selection

The Bank will follow the procedures below to evaluate and select the Eligible Green Assets:

1. ***Preliminary Screening***

   Domestic and overseas branches of the Bank are responsible for a preliminary screening of potential assets in accordance with the criteria and standards set out in the Bank's internal regulations and the eligible green project categories as described above. The green finance product manager of each branch of the Bank, which conducts the preliminary screening, will receive specific trainings from the headquarters of the Bank on a periodic basis. Potential assets will be submitted to the headquarters of the Bank for review and approval.

2. ***Review and Approval***

   The Green Bond Working Group, which comprises green finance, environment and industry experts from the green finance department of the Bank's headquarters, will review all potential assets and determine their compliance with the Bank's internal regulation and the eligible green asset categories as described above, and form an eligible green asset list (the "**Eligible Green Asset List**"). The decision made by each expert of the Green Bond Working Group must be unanimous. Each expert enjoys a veto power to the final decision on the selection of any Eligible Green Assets.

3. ***Update and Maintenance***

   The Green Bond Working Group shall review the Eligible Green Asset List on a quarterly basis and determine if any changes are necessary (for example, if a project has amortised, been prepaid, sold or otherwise become ineligible). The Green Bond Working Group shall update the Eligible Green Asset List, including replacement, deletion or addition of projects.

Management of Proceeds

The Bank will allocate the net proceeds of the Notes to Eligible Green Assets across various domestic and overseas markets. The Bank has established an effective mechanism to manage the proceeds, ensuring that the proceeds of the Notes will be used to fund Eligible Green Assets.

1. ***Planning for Use of Proceeds***

   Prior to the issuance of the Notes, the Bank shall evaluate the recent and pipeline capital spending and develop a preliminary Eligible Green Asset List in accordance with the procedures described above to ensure that the proceeds of the Notes can be allocated to Eligible Green Assets in a timely manner.

2. ***Maintenance of Separate Ledger***

   The Bank shall establish a separate ledger (the "**Ledger**") to record the source and allocation of proceeds to ensure that all the net proceeds of the green bonds are used to fund Eligible Green Assets. The proceeds of each green bond issued by the Bank will be deposited in the general funding account and "earmarked" pending allocation.

   The Ledger shall contain detailed information of the green bonds issued, including:

   - details of green bond (including the ISIN and common code, the issue date, the maturity date, the issue amount, currency, the coupon rate);

   - fund allocation (including the name of Eligible Green Assets, the name of the borrower, the asset description, the asset category, the initial balance, the remaining balance, the release date(s), the repayment date, and the interest rate of the loan); and

- amount and use of proceeds of unallocated funds.

The Bank will review and update the Ledger on a quarterly basis.

3. Use of Unallocated Proceeds

The Bank commits to reallocate any remaining balance of unallocated proceeds to newly nominated and approved Eligible Green Assets in a timely manner.

Unallocated proceeds will be held in accordance with the Bank's prudent liquidity management policy. The unallocated proceeds could be temporarily invested in green bonds issued by non-financial institutions in domestic or international markets, and in money market instruments with good credit rating and market liquidity, until they are allocated to Eligible Green Assets. The unallocated proceeds shall not be invested in energy intensive, highly polluting or greenhouse gas intensive projects.

Reporting

Use of Proceeds Reporting

The Bank has committed to publishing an "Annual Green Bond Report" annually until full allocation or upon any material change of Eligible Green Assets allocated. The Green Finance Department of the Bank will be responsible for preparing the Annual Green Bond Report and the Bank's senior management will review and approve such report.

Information will be provided on amounts equal to the net proceeds of each green bond issued and:

(i) the aggregate amount and percentage allocated to various Eligible Green Asset categories;

(ii) the remaining balance of unallocated funds and the types of temporary investment (if applicable); and

(iii) description of significant Eligible Green Assets, defined as projects ranking in the top 10 per cent. in remaining balance of all Eligible Green Assets, or with remaining balance larger than RMB50 million, or with remaining balance larger than 10 per cent. of the outstanding balance of the green bond (subject to confidentiality disclosures).

Environmental Impact Reporting

Where possible, the Bank will report on the environmental impact resulting from Eligible Green Assets.

Subject to the categories of Eligible Green Assets and the availability of information, the Bank aims to include, but not be limited to, the following impact indicators:

- **Renewable Energy**: Kilowatt hours ("**kWh**") of power generated from renewable energy and the amount of carbon dioxide or standard coal equivalent avoided;

- **Energy Efficiency**: kWh of energy saved per year and the percentage of annual energy saved;

- **Low carbon and low emission transportation**: amount of carbon dioxide or standard coal equivalent avoided, kilometres of track or dedicated lanes built (applicable to rail tram, metro and bus rapid transit systems), number of passengers transported (applicable to rail tram, metro and bus rapid transit systems), number of vehicles built or served (applicable to electric vehicles and hydrogen vehicles);

- **Sustainable water and wastewater management**: amount of water saved or recycled and amount of wastewater treated; and

- **Sustainable marine economy, marine environmental protection and coastal climate change adoption**: amount of water saved or recycled, amount of waste water treated, sea water desalinisation capacity constructed, other types of pollution or waste treated (including but not limited to solid waste, dust or exhaust gas) and length of urban drainage systems, dams, levees and other forms of flooding mitigation constructed.

External Review

The Bank has engaged Sustainalytics and Hong Kong Quality Assurance Agency to provide Second Party Opinions for alignment of the Green Bond Framework with the ICMA Green Bond Principles and green standards set in the China-EU "Common Ground Taxonomy" published by the International Platform on Sustainable Finance.

The Bank has engaged an independent third party to provide assurance or annual review report (the "**Assurance Report**") on its Annual Green Bond Report covering information on allocation and impacts. The Assurance Report will be published on the Bank's official global website, www.cib.com.cn, together with the Annual Green Bond Report.

DESCRIPTION ON INDUSTRIAL BANK CO., LTD. HONG KONG BRANCH'S 2022 GREEN BONDS

In accordance with the Green Bond Framework, the Bank will evaluate and select Eligible Green Assets, conduct management of the proceeds of the Notes being issued as green bonds (the "**Green Bonds**"), and make and keep readily information on the use of proceeds and the environmental performance of the Eligible Green Assets endorsed on its official website (www.cib.com.cn). See "*Green Bond Framework*" section above for more information.

Eligible Green Asset List

The Eligible Green Assets selected are in line with the prudent green standards set in the China-EU CGT published by the International Platform on Sustainable Finance. The proposed offering will play an exemplary role in guiding cross-border climate investment and financing activities, broadening the financing channels towards renewable energy projects, and promoting the development of green finance. The bond proceeds will contribute to multiple UN Sustainable Development Goals established in 2015, including but not limited to goal 7 Affordable Clean Energy, goal 9 Industry, Innovation and Infrastructure, goal 11 Sustainable Cities and Communities and goal 13 Climate Action. Categories of eligible assets endorsed under the Green Bonds include:

- Low carbon and low emission transportation, including but not limited to the construction of rail transit; and

- Renewable energy, including but not limited to the development and construction of photovoltaic farms and offshore wind farms.

For the Green Bonds offering, the Bank reserved a total of RMB10.12 billion of Eligible Green Assets in low carbon and low emission transportation and renewable energy asset categories. The Bank undertakes periodic review of the Eligible Green Asset List, as described in "*Green Bond Framework — Asset Evaluation and Selection*" above. The existing nominated projects may change in the future.

The following table sets forth the breakdown of nominated projects by categories and by project location:

Eligible Green Categories	**Low Carbon and Low Emission Transportation**	**Renewable Energy**	**Total**
Project Type	• Construction of rail transit	• Development and construction of solar photovoltaic electricity generation project • Development and construction of offshore wind electricity generation project	
Applicable CGT Scenario	• Infrastructure for electric rail transport (Scenario 4: Identifiable overlap)	• Electricity generation using solar photovoltaic technology (Scenario 3: China criteria are more stringent and/or detailed) • Electricity generation from wind power (Scenario 1: EU criteria are more stringent and/or detailed)	
Number of Projects	3	2	5
Loan Amount (RMB billion)	7	3.12	10.12
Loan Amount (USD billion)	1.085	0.4836	1.5686

Project Location	**Percentage of Total Loans (per cent.)**
Yunnan Province	49
Zhejiang Province	19
Ningxia Autonomous Region	12
Fujian Province	10
Henan Province	10

DESCRIPTION OF THE HONG KONG BRANCH

The section "Description of the Hong Kong Branch" in the Offering Circular shall be deleted in its entirety and replaced with the following:

The Hong Kong Branch was established as the Bank's first overseas branch on 10 January 2014 with CBIRC's approval obtained in September 2012. The establishment of the Hong Kong Branch was an important step to implementing the Bank's overseas business expansion strategy. The Hong Kong Branch currently possesses a banking license issued by HKMA and is fully qualified to engage in the banking business under the laws of Hong Kong. The Hong Kong Branch has obtained licenses to carry out Type 1 regulated activities (Dealing in Securities) and Type 4 regulated activities (Advising on Securities) as set out in Schedule 5 to the Securities and Futures Ordinance of Hong Kong.

Business Activities

The Bank positions the Hong Kong Branch as its primary offshore investment and financing platform with a strategic vision to develop it into an offshore platform to offer comprehensive financial services to the Bank's overseas customers. To date, the Hong Kong Branch primarily provides the following financial services to overseas and Hong Kong local customers:

- settlement of cross-border transactions;
- corporate financing relating to offshore merger and acquisition financing and syndicated loans;
- comprehensive financing solutions; and
- private banking services.

Since its establishment, the Hong Kong Branch has achieved stable growth. As at the date of this Offering Circular, the Hong Kong Branch has established cooperative relationships with more than 420 financial institutions in China, Hong Kong, the United States, Europe, Japan and Australia to conduct treasury operations, such as inter-bank money market activities, foreign exchange transactions, forwards, futures transactions and interest rate swaps. Among the corporate customers of the Hong Kong Branch are many large "blue chip" enterprises in China, Hong Kong and overseas.

As at 31 December 2019, 2020 and 2021, the Hong Kong Branch's total assets were RMB189,899 million, RMB176,329 million and RMB179,401 million, respectively. For the years ended 31 December 2019 and 2021, the net profit of the Hong Kong Branch was RMB155 million and RMB2,172 million, respectively. For the years ended 31 December 2020, the net loss of the Hong Kong Branch was RMB1,246 million.

Senior Management of the Hong Kong Branch

Mr. Chen Caidong (陳才東) has been the acting chief executive of the Hong Kong Branch since January 2022. Mr. Chen previously served as the deputy chief executive of the Hong Kong Branch.

Hong Kong Regulatory Guidelines

The banking industry in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and to the powers and functions ascribed by the Banking Ordinance to HKMA. The Banking Ordinance provides that only banks which have been granted a banking license ("**license**") by HKMA, may carry on the banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks ("**licensed banks**").

The provisions of the Banking Ordinance are implemented by HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. HKMA supervises licensed banks through, among others, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches. HKMA has the right to allow returns to be made at less frequent intervals;

- HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as HKMA may require. HKMA may also require a report by the licensed bank's auditors (approved by HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;

- licensed banks may be required to provide information to HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;

- licensed banks are obliged to report to HKMA immediately when they are likely to become unable to meet their obligations;

- HKMA may direct a licensed bank to appoint an auditor to report to HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as HKMA may reasonably require; and

- HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by HKMA on a regular basis.

DESCRIPTION OF THE BANK

The section "Description of the Bank" in the Offering Circular shall be deleted in its entirety and replaced with the following:

OVERVIEW

The Bank is an established, strongly competitive, nationwide joint-stock commercial bank incorporated on 22 August 1988 with its headquarters in Fujian Province, China. It was among the first batch of commercial banks approved by the State Council and PBOC at the state level. Through its nationwide and diversified distribution channels, the Bank provides a wide range of wholesale and personal banking and other financial products and services to its corporate and personal customers. In 2021, the Bank ranked 19th in terms of Tier 1 Capital, 28th in terms of total assets and 24th in terms of brand value among the "Top 500 Global Bank Brands in 2021" by the British magazine *The Banker*. The Bank was listed on the Shanghai Stock Exchange under stock code "601166" in February 2007.

Over the past few decades, the Bank has developed a comprehensive and universal banking platform licensed to provide traditional banking, trust, futures, financial leasing, fund management, financing research and consultation services to its customers. The Bank believes that its strong capability to offer a broad range of comprehensive services to customers nationwide has transformed it from a regional bank into a national commercial bank with significant asset scale. As at 31 December 2019, 2020 and 2021, the Bank had total assets of RMB7,145,681 million, RMB7,894,000 million and RMB8,603,024 million, respectively, and its loans and advances to customers totalled RMB3,345,180 million, RMB3,867,321 million and RMB4,310,306 million, respectively.

The Bank serves its customers through its nationwide and diversified distribution channels, comprising physical branches and outlets and digital platforms. As at 31 December 2021, the Bank had 45 branches, including the Hong Kong Branch, 2,024 outlets and 4,759 ATMs in the PRC. As at the same date, the Bank had 1,002 correspondence banks across 95 countries and regions. Leveraging its advanced information technology, the Bank established an e-Banking network to provide all-time access to its services around the globe.

The Bank values innovation and is dedicated to developing innovative financial services and products to adapt to the evolving market environment and to meet the changing needs of its customers. The Bank has introduced a number of "first-of-its-kind" financial products that have received positive responses from its corporate and personal customers. In addition to traditional banking products and services, the Bank develops and provides green financing for its customers in renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment industries. In 2021, the Bank was awarded the "2020 China Outstanding Enterprise Award for Social Responsibility" (2020中國社會責任傑出企業獎) by the 2020 China Corporate Social Responsibility Cloud Summit. The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020. In 2019, the Bank was awarded the "Largest Green Bond Offering in Emerging Countries" by *The Climate Bonds Initiative*. Furthermore, the Bank places significant emphasis on social responsibility and was awarded the "Annual Best Financial Institution with Social Responsibility" (年度最具社會責任金融機構獎) for seven consecutive years from 2011 to 2017 and awarded "2020 China Outstanding Enterprise Award for Social Responsibility" by 2020 China Corporate Social Responsibility Cloud Summit.

The Bank is dedicated to establishing and improving its risk management capabilities to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has set up a three-level risk management structure, comprising its business departments, functional and risk management department and internal audit office. In addition, the Bank has established procedures for independent credit assessment, approval and monitoring to identify and reduce its exposure to high credit risk areas and to improve the quality of its loan portfolio. As at 31 December 2021, the Bank's non-performing loan ratio was 1.10 per cent., which was lower than the average non-performing loan ratio of 1.73 per cent. of all PRC commercial banks reported by CBIRC.

With its international expansion strategy, the Bank established its Hong Kong Branch in January 2014. The Hong Kong Branch is positioned as the Bank's primary offshore investment and financing platform, offering comprehensive financial services to overseas and local Hong Kong customers. The Hong Kong Branch currently provides financial services including settlement of cross-border transactions, offshore merger and acquisition financing, syndicated loans and private banking services.

The Bank's financial performance and strengths have steadily developed over the past decades. For the years ended 31 December 2019, 2020 and 2021, the Bank's net profit was RMB66,702 million, RMB67,681 million, and RMB83,816 million, respectively. The Bank's total assets and net profit attributable to equity holders have more than doubled during the period from 2011 to 2021.

The tables below set forth certain key financial indicators of the Bank as at and for the periods ended as at the indicated dates:

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB in million, except for percentage)		
Net Profit	66,702	67,681	83,816
Return on average total assets (per cent.)[1]	0.96	0.90	1.02
Return on average equity (per cent.)[2]	14.02	12.62	13.94
Non-interest income to operating income (per cent.)[3]	32.55	29.35	34.15
Cost to income ratio (per cent.)[4]	26.03	24.16	25.68

Notes:

(1) Return on average total assets = net profit for the period/average total assets. Average total assets = (total assets at the beginning of the period + total assets at the end of the period)/2.

(2) Return on average equity = net profit attributable to ordinary shareholders of the Bank for the period/average equity attributable to ordinary shareholders of the Bank.

(3) Non-interest income to operating income = non-interest income/operating income.

(4) Cost to income ratio = (total operating expenses — business tax and levies — impairment loss)/operating income.

	As at 31 December		
	2019	**2020**	**2021**
	(RMB in million, except for percentage)		
Total assets	7,145,681	7,894,000	8,603,024
Total liabilities	6,596,029	7,269,197	7,908,726
Gross loans and advances to customers	3,441,451	3,965,674	4,428,183
Tier 1 Capital Adequacy Ratio (per cent.)	10.56	10.85	11.22
Core Tier 1 Capital Adequacy Ratio (per cent.)	9.47	9.33	9.81
Non-performing loan ratio	1.54	1.25	1.10
Provision coverage ratio	199.13	218.83	268.73

AWARDS

Over the years, the Bank and its financial services have received numerous honours and awards, including, among others:

2021

- Ranked 50th among "China Top 500" and 196th among "Global Top 500" by *Fortune*;
- "Sustainable Development and Inclusion Award" awarded by *CAIJING*, an influential magazine in China;

- "2020 China Outstanding Enterprise Award for Social Responsibility" awarded by 2020 China Corporate Social Responsibility Cloud Summit;

- Ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by *The Banker*;

- Ranked 19th in terms of Tier 1 Capital by *The Banker*;

- "Best Service Custodian Bank of the Year 2020" by *The China Times*;

- "Best Digital Wealth Planning Private Bank in Asia" by *The Banker*;

- "ESG Responsible Enterprise of the Year" by *China Business News (中國經營報)*;

- "2021 Chinese Bank of the Year" by *The Banker*; and

- "Outstanding Digital Bank" awarded by FinTech Index Forum.

2020

- Ranked fourth in terms of a combination of various indicators including growth rate, profitability, cost-to-income ratio and asset quality among "Top Performance PRC Banks" by *The Banker*;

- Ranked 57th among "Forbes Global 2000" by *Forbes*;

- Ranked seventh in terms of Core Tier-1 Capital among "Top 100 PRC Banks" by China Banking Association;

- "Best Supply Chain Finance Bank" and "Best Green Finance Bank" awarded by *Asia Money*;

- "Best Sustainable Bank in China" among the Finance Asia's Country Awards by *FinanceAsia*;

- Ranked first among 2020 Green Debt Financing Instrument Investors by the China Interbank Dealers Association;

- "Best Innovative Poverty Alleviation Organisation in 2020" awarded by Tencent News;

- Ranked 27th in terms of total assets by *The Banker*;

- Ranked 21st in terms of Tier 1 Capital by *The Banker*;

- "Best Joint-Stock Commercial Bank" by *Financial Times*; and

- "Enterprise of the Year" awarded by *People's Daily.*

2019

- Ranked 55th among "Forbes Global 2000" by *Forbes*;

- Ranked seventh among "China Top 100 Banks" by China Banking Association;

- "Best Performance Private Bank" by *The Banker* and *Professional Wealth Management*;

- "Best Green Finance Commercial Bank" and "Best Green Bond Bank" by *Asia Money*;

- "Best Joint-Stock Commercial Bank" by *Financial Times*;

- Ranked 28th in terms of total assets by *The Banker*;

- Ranked 23rd in terms of Tier 1 Capital by *The Banker*; and
- "Best Green Bank in China" and "Best Retail Bank in China" by *Global Banking & Finance Review*.

HISTORY AND MILESTONES

The following are the milestone events in the history of the Bank:

Year	Milestone
1988	The Bank was established with the approval of the State Council and PBOC at the state level under the name "Fujian Industrial Bank".
1996	The Bank set up branches in Shanghai, Shenzhen, Changsha, Beijing and Hangzhou under stock code "601166".
2003	The Bank was officially renamed as "Industrial Bank".
2004	Three international strategic investors invested in the Bank, namely Hang Seng Bank Limited, International Finance Corporation and Tetrad Ventures Pte Ltd.
2007	The Bank was listed on the Shanghai Stock Exchange under stock code "601166".
2010	The Bank completed a RMB17.86 billion A-share placing, the largest placing in the PRC at that time.
	The Bank obtained the approval to establish Industrial Bank Financial Leasing Co., Ltd.
2011	The Bank acquired Union Trust Limited and renamed it "China Industrial International Trust Limited".
2013	The Bank set up CIB Fund Management Co., Ltd., China Industrial Guoxin Asset Management Co., Ltd. and Industrial Wealth Asset Management Co., Ltd.
2014	The Bank set up the Hong Kong Branch to implement its international business expansion.
	The Bank issued its first tranche of preference shares in a total amount of RMB13 billion in the PRC.
	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB20 billion in the PRC.
2015	Industrial Digital Financial Service Co., Ltd. and Industrial Economy Research Consultation Co., Ltd. were established.
	The Bank issued its second tranche of preference shares in a total principal amount of RMB13 billion in the PRC.
2016	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB30 billion in the PRC.
	The Bank established a US$5,000,000,000 Medium Term Note Programme in September 2016. The Bank issued a US$700 million 2.000 per cent. notes due 2019 and a US$300 million 2.375 per cent. notes due 2021 under the MTN Programme.
2017	The Bank issued 1.72 billion in A-shares totalling a principal amount of RMB26.0 billion in April 2017.
2018	The Bank renewed the MTN Programme in February 2018.

Year	Milestone
2019	Industrial Bank Wealth Management Co., Ltd. was established.
	The Bank was one of the first banks signing the Principles for Responsible Banking issued by the United Nations Environment Programme.
	The Bank entered into a green development cooperation agreement with Yunnan Provincial Government to provide green financing services to enterprises in Yunnan Province.
2020	The Bank entered into a green finance strategic cooperation agreement with Fujian Provincial Governmental Ecology and Environmental Bureau to provide indicative financing credits to the environmental protection industry of Fujian Province.
	The Bank set up its London branch to implement its international business expansion.
2021	The Bank issued a US$600 million 0.875 per cent. notes due 2024 and a HK$2.5 billion 0.750 per cent. notes due 2024 under the MTN Programme.
	The Bank issued Tier 2 Capital bonds in a total principal amount of RMB75 billion in the PRC.
	As at the date of this Offering Circular, the Bank had issued US$2.95 billion, €250 million and HK$2.5 billion notes under the MTN Programme in eight tranches, including US$700 million 2.00 per cent. notes due 2019, US$300 million 2.375 per cent. notes due 2021, US$600 million 3.50 per cent. notes due 2021, US$250 million 3.75 per cent. notes due 2023, US$500 million floating rate notes due 2023, €250 million floating rate notes due 2021, US$600 million 0.875 per cent. notes due 2024 and HK$2.5 billion 0.750 per cent. notes due 2024.

COMPETITIVE STRENGTHS

The Bank believes that the following are its key competitive strengths:

An established and strongly competitive national commercial bank with innovation capabilities

The Bank is an established, strongly competitive, nationwide joint-stock commercial bank founded in August 1988 with its headquarters in Fujian Province, China. It was among the first batch of commercial banks approved by the State Council and PBOC at the state level. After decades of development, the Bank has established its strong competitiveness in the PRC banking industry. In 2021, the Bank ranked 19th in terms of Tier 1 Capital, 28th in terms of total assets and 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by the British magazine "*The Banker*". In 2021, the Bank ranked 50th among the "Forbes Global 2000" by *Forbes* and 196th among the "Global 500" by *Fortune*.

The Bank believes that its strong competitiveness and market position have been largely attributable to its strong innovation capabilities, with which the Bank has been able to improve its business model, products, distribution channels and information technologies.

- Corporate culture emphasising innovation. The Bank values innovation. It adopts a market-oriented principle and has been committed to research in the cutting-edge sectors of the banking industry, such as innovative financial services in response to China's urbanising and aging society. The Bank rolled out new products and explored the "internet + bank + platform" financing model to expand its customer base. See "*— The Bank's Principal Business Activities — Corporate Banking Business — Small and Micro Enterprises Business*". The Bank is the first bank to adopt the Equator Principles in China, which is a risk management framework for determining, assessing and managing environmental and social risk in project finance adopted by various financial institutions around the world. The adoption and implementation of the Equator Principles demonstrates the Bank's commitment to corporate social responsibility, including robust standards for indigenous peoples and labour standards. As at 31 December 2021, the Bank had provided loans to 919 projects adopting the Equator Principles, which had a total investment amount of RMB3,854.2 billion.

- Innovative products. The Bank has introduced a number of "first-of-its-kind" financial products that are popular among customers, such as "Natural Life" (自然人生), "Contented Life" (安愉人生) and "Cosmopolitan Life" (寰宇人生) which are personal loan products targeting different groups of customers. In 2019, the Bank was awarded the "Top 10 Private Enterprise Innovative Financial Services Prize" and "Top 10 Innovative Wealth Management Prize" among PRC financial institutions by *The Banker* and in 2021, the Bank was awarded the "Outstanding and Innovative Financial Services Prize" by the Jinzhi Award (金智獎), an influential award in the PRC. It has leveraged its in-depth understanding of the market and needs of its customers, and has diversified its product portfolio to provide easily accessible financial services for small and micro enterprises. In recent years, the Bank further expanded into "green financing" to respond to the financing needs of enterprises operating in the renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment industries. The Bank actively promotes the branding of "Green Bank" and continues to expand its influences by providing financing to energy conservation and environmental protection projects. In 2020, the Bank underwrote the first "Green Anti-Epidemic Bond" in the market and the first corporate blue bond in the PRC. The Bank ranked first among 2020 Green Debt Financing Instrument Investors (2020年綠色債務融資工具投資人) organised by the China Interbank Dealers Association (中國銀行間交易商協會). The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020 and its green financial products and services awarded "2021 Green Products of the Year" by *Southern Weekend (南方週末)*.

- Innovative distribution channels. With an aim to improving customer loyalty, the Bank has made significant investment in promoting its mobile banking, direct banking and online commerce platform and improved the quality and synchronisation of its "online-to-offline" banking services. The Bank believes that its diversified and innovative distribution channels facilitated by its advanced information technologies have provided an all-time remote access to its services to its customers around the globe. The Bank believes that its efforts have further improved customer experience and enabled it to expand its customer base and grow its business.

- Advanced information technology. The Bank's advanced information technology has enabled it to maintain a competitive position in product innovation. Since its establishment, the Bank has focused on implementing its "technology drive" development strategy. The Bank believes that it is one of the few PRC banks that possesses proprietary technologies and intellectual property rights for its core operating system, especially its back office operating systems.

A universal banking platform providing comprehensive modern financial services and synergy to grow its business and improve its profitability

The Bank believes that its established market position and strong brand awareness are to a large extent attributable to its record of providing customers with diversified modern financial services. As at the date of this Offering Circular, the Bank is one of the few PRC commercial banks that has obtained a majority of the principal financial licences that allow it to engage in banking, trust, futures, financial leasing, fund management, consumer finance, asset management, wealth management, research and consultation and digital finance. It has proactively developed licensed non-banking financial businesses, such as fund management, trust management, asset management, consumer finance, internet finance, financial leasing and financial search and consultation with a view to satisfying its customers' increasingly diversified needs for integrated financial services. The Bank believes that its suite of financial licences have created a universal banking platform that provides it with the capabilities to offer a broad range of financial services to customers. By operating as an integrated financial group, the Bank believes that resources sharing among its different business segments and cross selling efforts have given and will continue to give the Bank opportunities to grow its business and improve its profitability.

A leader in providing services to financial institutions

The Bank believes that it has established a leading position in the provision of financial services to financial institutions. The Bank has established long-standing co-operative relationships with more than 1,000 domestic and overseas commercial banks, securities firms, funds, insurance companies, trust investment companies, finance companies affiliated to business corporations, financial leasing companies and other financial institutions. The Bank's third-party depositary system connected with 102 securities companies as at 31 December 2021, and it has also established co-operative relationships with 68 trust companies. In addition, the Bank is one of the pioneering banks providing agency settlement services in the PRC and is an associate member of the Insurance Asset Management Association of China as well as a member of the Shanghai Clearing House.

The Bank has introduced the "Bank-to-Bank Platform" (銀銀平臺), an integrated service system providing comprehensive "online-and-offline" financial services to various collaborating banks covering wealth management, payment and settlement, technological management output, training services, financing services and capital restructuring. As at 31 December 2019, 2020 and 2021, the Bank had 2,022, 2,177 and 2,344 contracted customers of its "Bank-to-Bank Platform", respectively. In addition, as at 31 December 2021, the Bank worked together with 421 commercial banks to establish a banking information system, which the Bank believes is one of the largest information systems for commercial banks in the PRC. The "Bank-to-Bank Platform" has won awards from many authoritative media, such as sina.com, *Shanghai Securities News* and 21st *Century Business*.

A bank with strong cost control capability

For the year ended 31 December 2021, the Bank achieved net profit of RMB83,816 million, making the Bank one of the most profitable nationwide joint-stock commercial banks in China. The Bank believes that its strong cost control capability has enabled it to achieve increasing income and profitability, and has been key to the Bank's success in competing with other commercial banks in the PRC. As at 31 December 2019, 2020 and 2021, the cost-to-income ratio of the Bank was 26.03 per cent., 24.16 per cent. and 25.68 per cent., respectively. The Bank increased its income by optimising its capital structure, strengthening its business structure and capital base, innovating its business model and financial products, enhancing the synergies within the Group and expanding its distribution channels. In addition, the Bank strives to control its costs by developing an internal fund transfer pricing system, internal accounting management system and key performance indicator system to better control its cost and restrict its investment in low efficiency resources.

A bank with prudent and comprehensive risk management and solid asset quality

The Bank is committed to establishing and improving its risk management structure, procedures, tools and technology to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has formulated an annual credit policy, implemented a differential credit policy of "assuring supply, control and stock compression", actively supported the development of the economy and optimised the allocation of credit resources. The Bank also actively implements green credit policies and prioritises supporting green industries. The Bank has established exposure limits on certain restricted industries with high energy consumption, high pollution or overcapacity (兩高一剩). The Bank has implemented independent credit assessment, approval and monitoring procedures, and rationalised its loan asset portfolio by establishing procedures to identify and limit its exposure to high credit risk areas. The Bank uses advanced market risk and liquidity risk monitoring and analysis tools in order to identify, measure and manage liquidity risk and market risk. The Bank seeks to cultivate a culture of prudent and comprehensive risk management across its business.

The Bank has set up "three lines of defence" for its risk management structure, consisting of its business departments, functional and risk management department, and internal audit office. The Bank's business departments, as the first line of defence of its management system, are directly responsible for risk management. The functional and risk management department at the Bank's head office, as the second line of defence, is responsible for establishing risk management policies and procedures, and co-ordinating, supporting, supervising and reporting risk management. The internal audit office, as the third line of defence is responsible for evaluating the adequacy and effectiveness of its risk management policies and procedures.

The Bank believes that its advanced technologies provide strong support for implementing its risk management system and measures. The Bank is one of the first PRC commercial banks to establish an integrated emergency back-up system, comprising main data centres, local emergency back-up centres and cross-regional emergency back-up centres. In addition, the Bank is one of the first PRC commercial banks that have been accredited to meeting the international five-level emergency back-up standards as well as the emergency back-up standards published by the PBOC. Prudent risk management enables the Bank to maintain solid asset quality. As at 31 December 2021, the Bank's non-performing loan ratio was 1.10 per cent., which was lower than the average non-performing loan ratio of 1.73 per cent. of all PRC commercial banks reported by CBIRC.

Significant business growth and solid capital base with strong support from its largest shareholder

The Bank enjoys strong support from its largest shareholder, Fujian Provincial Department of Finance (福建省財政廳). As a publicly listed and national bank headquartered in Fujian Province, the Bank believes that it benefits and will continue to benefit substantially from the support of the Fujian Provincial Government. The Fujian Provincial Department of Finance provides strong, stable and continuous support to the Bank by participating in the Bank's capital replenishment. The Fujian Provincial Department of Finance increased its capital investment in the Bank by an amount of RMB3,744 million in 2010 and subscribed for preference shares of RMB2.5 billion when the Bank issued its RMB13 billion preference shares in 2014. On 18 March 2022, Fujian Provincial Department of Finance proposed to transfer for nil consideration its 16.91 per cent. equity interest in the Bank to Fujian Provincial Financial Investment Company Limited (福建省金融投資有限公司), a wholly-owned subsidiary of Fujian Provincial Department of Finance. After the proposed transfer, Fujian Provincial Financial Investment Company Limited will become the largest shareholder of the Bank with 16.91 per cent. equity interest in the Bank and Fujian Provincial Department of Finance's equity interest in the Bank will be reduced to 1.94 per cent. As parties acting in concert, Fujian Provincial Department of Finance and Fujian Provincial Financial Investment Company Limited will together own 18.85 per cent. equity interest in the Bank. The proposed transfer is pending approval from the CBIRC and the Shanghai Stock Exchange.

The Bank strives to maintain a strong capital base to strengthen its risk management capabilities. It issued the first tranche of RMB13 billion preference shares and the second tranche of RMB13 billion preference shares in the PRC in 2014 and 2015, respectively, and issued Tier 2 Capital securities in the amount of RMB20 billion and RMB30 billion in 2014 and 2016, respectively. In April 2019, the Bank further issued RMB30 billion preference shares in the PRC to supplement its Core Tier 1 Capital as approved by CSRC. The Bank also issued RMB50 billion and RMB75 billion Tier 2 Capital bonds in 2019 and 2020, respectively. As a result, the Bank's Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio was 9.81 per cent., 11.22 per cent. and 14.39 per cent. as at 31 December 2021, respectively.

With the support from its largest shareholder, the Bank's financial performance and strengths have significantly developed over the past few decades. As at 31 December 2019, 2020 and 2021, the Bank had total assets of RMB7,145,681 million, RMB7,894,000 million and RMB8,603,024 million, respectively, and its loans and advances to customers totalled RMB3,345,180 million, RMB3,867,321 million and RMB4,310,306 million, respectively. For the years ended 31 December 2019, 2020 and 2021, the Bank's net profit for the period was RMB66,702 million, RMB67,681 million and RMB83,816 million, respectively.

An experienced management team

The Bank's senior management team has extensive experience in the PRC commercial banking industry. The president of the Bank, Mr. Tao Yiping, has more than 30 years of experience in the PRC banking industry. The Bank's senior management possesses long-term strategic vision and keen insights in the PRC banking industry. Under their leadership, the Bank has actively responded to changes in the external environment, continued its product development and business innovation and established powerful information technology systems. The Bank's senior management team has led its transformation from one of the leading traditional banks to a large provider of diverse, comprehensive financial services.

Although the Bank faces adverse external conditions caused by the liberalisation of interest rates as well as increasing competition in the banking industry, the Bank has continued its prudent operations, accelerated its business transformation and maintained smooth and steady development under the leadership of its management team. The Bank believes that its experienced management team will be able to lead it in maintaining its competitive advantages in the future, laying a solid foundation for its long-term sustainable growth.

A bank with a clear strategic objective

The Bank has developed a clear strategic objective to service its customers while mitigating financial risks. The clear strategic objective enables the Bank to implement its business strategies and serve the customers with efficiency and achieve outstanding operational results over the years while minimising risks for customers and investors. Adhering to the strategic objective, the Bank has been able to capture the developmental trends in the financial markets, realise market integration and diversification, and allocate its abundant resources to formulate its business plan and maximising profit. The Bank is determined to be a "customer-oriented, business-oriented and investment-oriented" institution that enjoys global recognition. For example, the Bank ranked 24th in terms of brand value among "Top 500 Global Bank Brands in 2021" by *The Banker* and was awarded "Best Service Custodian Bank of the Year 2020" by *The China Times*, which are testaments to its outstanding operational results and its dedication to customer service.

BUSINESS STRATEGIES

The Bank aims to transform itself into a modern financial services institution with its comprehensive financial licences. It aims to strengthen its risk management and focus on business innovation to attain sustainable development and realise increased profitability and solid asset quality. The Bank intends to achieve these goals through the following strategies:

Enhancing intra-bank synergy to satisfy customers' increasingly diversified needs for integrated financial services

The Bank is one of the few PRC commercial banks that has obtained a majority of the principal financial licences that allow it to engage in banking, trust, futures, financial leasing, fund management, financing research and consultation, and third-party payment operations. This business combination has created a universal banking platform that provides the Bank with the ability to offer a broad range of financial products and services and enables it to establish stronger relationships with strategically targeted customers and strengthen customer loyalty. By operating as an integrated financial group, the Bank believes that its sharing of resources among the Bank's different business segments and cross selling efforts have given and will continue to enhance its external synergy.

Intra-bank synergy promotes cost effectiveness and helps the Bank to generate a higher profit margin. The Bank has built up a uniform key performance indicator review system and realised uniform management of risk management policies and risk preferences. The Bank continues to promote synergies among members of the Group by cooperating with its subsidiaries to conduct financial leasing, fund management and consumer financial businesses. The Bank will continue to improve its efficiency in internal operations management by connecting office systems, centralising the management of office building leasing, standardising financial management and sharing IT systems and infrastructure within the Group.

While the Bank promotes synergies within the Group, the Bank centralises strategic planning and development at the group level and enhances brand management to enable the Bank to benefit from economies of scale and brand recognition, as well as to improve efficiency of resource utilisation.

Adhering to the Bank's globalisation strategy

The Hong Kong Branch was established as the Bank's first overseas branch in January 2014. The establishment of the Hong Kong Branch is an important step to implementing the Bank's strategy of international expansion. The Bank positions the Hong Kong Branch as its primary offshore investment and financing platform with a strategic vision to develop it into an offshore platform which is able to offer comprehensive financial services to the Bank's overseas customers. See "*Description of the Hong Kong Branch*".

With the globalisation of its "Bank-to-Bank Platform" (銀銀平臺), cross-border Renminbi transactions, and increasing demand for overseas financial services from its private banking customers and the preparation for the incorporation of an international financial holding company, the Bank aims to provide comprehensive financial services to its customers all over the world.

Continuing to improve business and operating model to achieve sustainable growth

The Bank believes that its sustainable business growth in the future to a large extent relies on, and will continue to benefit from, a business and operating model that is able to respond to the changing market dynamics and competition landscape in an effective and timely manner. The Bank will continue to strategically transform its business and operations from the traditional model primarily driven by lending and deposit to one that focuses on provision of quality intermediary services, such as settlement, investments and treasury operations. In the meantime, it plans to make significant investments in wholesale banking, business solutions, retail banking and asset management as well as international business expansions, thereby improving its capital structure and further enhance its competitive strengths. Furthermore, the Bank will focus on exploring potential cross selling opportunities and synergies across different business segments, offices, PRC domestic and overseas markets, and online and offline markets.

Proactively addressing customers' needs, by continuing its focus on product and business model innovation

The Bank aims to optimise its business operations by focusing on new businesses with large-growth potential, including individual loans, trade finance and loans to SMEs, as well as high-growth industries, such as service sectors and environmental industries of renewable energy, to further develop its customer base and targeted markets. In addition, the Bank continues to focus on innovation of off-balance sheet businesses to diversify its revenue sources.

The development of mobile and digital banking through innovation is a key strategy of the Bank to be at the forefront of a rapidly changing market. The advanced technological strengths have provided the Bank with a solid advantage in the Bank's internet banking business. The Bank was able to realise its advantage through accurately and promptly identifying customers' increasing needs for a digital and borderless banking service platform and utilise its technological strength to build a digital infrastructure that improves user experience and enhances the value of the Bank's service. For example, the Bank launched the "Bank-to-Bank Platform" providing online and offline financial services to other collaborative banks by offering comprehensive financial solutions relating to wealth management, payment and settlement, training services, financing services and capital restructure. In addition, the Bank introduced "QianDa Money Manager" (錢大掌櫃), an online financial platform providing comprehensive asset management products issued by commercial banks, trusts, funds and insurance companies. As at 31 December 2021, "QianDa Money Manager" had approximately 15.3 million registered users, effectively replacing 96.1 per cent. of physical counters.

Focusing on increasing the synergy between the Bank's domestic operations and overseas operations to create additional business opportunity, the Bank seeks to diversify its product portfolio and increase overall profitability. The Bank settled cross-border transactions in an aggregate amount of US$274.5 billion for the year ended 31 December 2021.

Continuing to strengthen the risk management system to maintain solid asset quality

The Bank believes effective risk management and solid asset quality are essential components of its overall business strategy. The Bank plans to continue to align its risk management and internal control capabilities. The Bank intends to continue to implement enhanced risk management procedures for credit exposures, such as improving its risk warning and early identification and prevention capabilities. The Bank is also instituting changes to further strengthen the independence of its internal control functions and to improve its bank-wide internal control systems. The Bank also seeks to continue to improve its risk management capabilities by enhancing its asset and liability management capabilities and by further centralising its risk management.

Continuing to invest in information technology infrastructure and to utilise advanced technology to support the Bank's growing business

The Bank aims to further invest in information technology infrastructure and to apply data analytics, cloud computing and mobile internet technologies in areas such as marketing and sales, customer services, product innovation and risk control in order to support its business. The Bank intends to use the technology at its disposal to gain more insight into its customers' demands, to increase its risk management capabilities and effectiveness, to strengthen dynamic risk assessment and real time alert controls and to develop an integrated platform combining online and offline services for its customers.

Effectively allocating strategic resources and advanced key components of the Bank's business

The Bank aims to improves its quality of service and development by allocating strategic resources to its key products, key regions, key industries and key customers. The Bank intends to prioritise and upgrade the shortcomings of its existing key products and consolidate its competitiveness in the market and support the growth of cross-regional development in the most vibrant regions in China, such as the Greater Bay Area which includes Guangzhou, Hong Kong, Macau, and other cities along the Pearl River Delta. Furthermore, the Bank intends to invest in advanced manufacturing and strategic emerging industries and facilitate the connection between real economy and virtual economy. Lastly, the Bank aims to prioritise the user experience of its key customers by providing customised services and targeted marketing.

RECENT DEVELOPMENTS

Proposed Change of Largest Shareholder

On 18 March 2022, the Bank's largest shareholder, Fujian Provincial Department of Finance, proposed to transfer for nil consideration its 16.91 per cent. equity interest in the Bank to Fujian Provincial Financial Investment Company Limited (福建省金融投資有限公司), a wholly-owned subsidiary of Fujian Provincial Department of Finance. After the proposed transfer, Fujian Provincial Financial Investment Company Limited will become the largest shareholder of the Bank with 16.91 per cent. equity interest in the Bank and Fujian Provincial Department of Finance's equity interest in the Bank will be reduced to 1.94 per cent. As parties acting in concert, Fujian Provincial Department of Finance and Fujian Provincial Financial Investment Company Limited will together own 18.85 per cent. equity interest in the Bank.

The proposed transfer is pending approval from the CBIRC and the Shanghai Stock Exchange.

Proposed Appointment of Vice President

On 6 May 2022, the Bank passed a board resolution and appointed Mr. Zhang Min as a vice president of the Bank. Mr. Zhang's appointment will become effective upon confirmation from the CBIRC and his résumé can be viewed on the Shanghai Stock Exchange.

Unaudited Quarterly Results of the Group

The Bank published the unaudited condensed consolidated results of the Group ("**Unaudited Quarterly Results**") for the three months ended 31 March 2022 ("**3M 2022**") together with the comparative figures for the corresponding period in 2021 ("**3M 2021**") on the Shanghai Stock Exchange on 29 April 2022. The Unaudited Quarterly Results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. For the three months ended 31 March 2022, the Bank's total operating income increased steadily as compared to the corresponding period in 2021, mainly attributable to the significant increase in non-interest income. The increase in total operating income for the three months ended 31 March 2022 was partially offset by the significant increase in operating and management expense. As at 31 March 2022, the Bank's total assets increased steadily as compared to 31 December 2021, mainly attributable to the substantial increase in loans and advances to customers.

The Unaudited Quarterly Results have not been reviewed or audited by independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. None of the Issuer, the Bank, the Arrangers, the Dealers and the Agents, nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person makes any representation, warranty or undertaking, express or implied or accepts any responsibility or liability with respect to the Unaudited Quarterly Results. The Unaudited Quarterly Results are historical in nature and past performance is not a guarantee of future performance. The Unaudited Quarterly Results are not included in and do not form part of this Offering Circular. See also "*Risks relating to the Bank's Business — Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information*."

Issue of Onshore Debt Securities

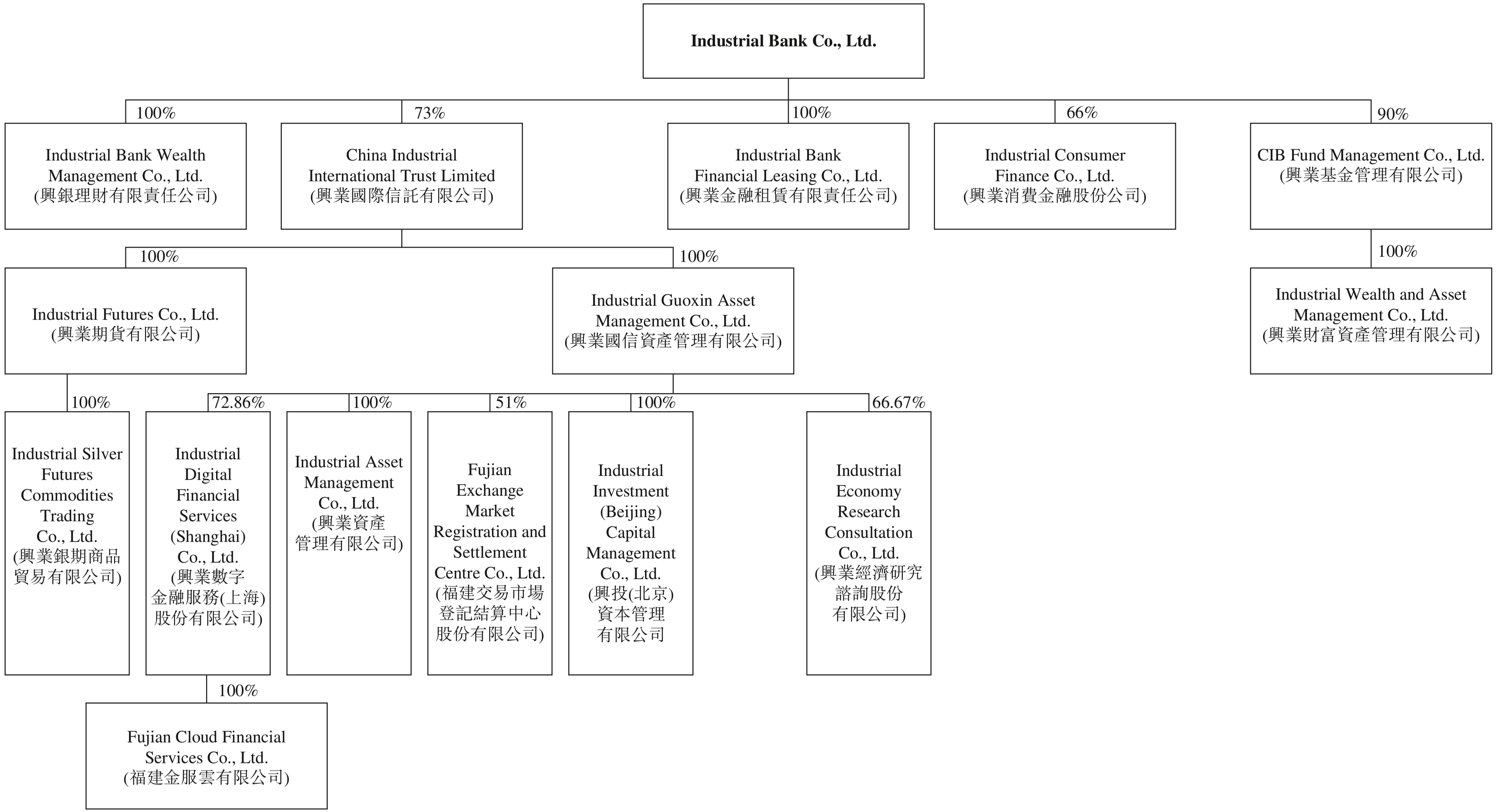
On 6 April 2022, the Bank issued RMB11.5 billion three-year-term financial bonds with an interest rate of 2.94 per cent. on the Inter-bank Bond Market of the PRC.

On 14 March 2022, the Bank issued RMB40 billion three-year-term financial bonds on the Inter-bank Bond Market of the PRC. The bonds were issued in two tranches. Tranche 1 included RMB10 billion bonds with an interest rate of 3.00 per cent. Tranche 2 includes RMB30 billion bonds with an interest rate of 2.96 per cent.

On 14 January 2022, the Bank issued RMB25 billion 10-year-term Tier 2 Capital bonds on the Inter-bank Bond Market of the PRC. The interest rate of the bonds was 3.45 per cent. The Bank has the option to redeem the bonds on the fifth year.

CORPORATE STRUCTURE

The following chart presents a simplified structure of the Group as at the date of the Offering Circular:



THE BANK'S PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal lines of business consist of corporate banking, personal banking and treasury operations. The Bank has historically conducted its business activities in China and Hong Kong. In January 2014, the Bank established its first overseas branch in Hong Kong, which was positioned as its major operating and investment platform outside China. The following table sets forth a geographical analysis of the operating profit of the Bank in China for the periods indicated:

	Year ended 31 December		
	2019	2020	2021
		(RMB in million)	
Head office	32,165	24,675	25,115
Fujian	7,841	10,940	13,574
Beijing	5,050	1,337	4,297
Shanghai	1,533	3,872	3,694
Guangdong	6,575	7,848	6,388
Zhejiang	4,150	3,636	5,122
Jiangsu	7,606	7,767	7,171
Northeast and other regions of China	5,641	1,545	10,993
Western China	7,675	6,571	7,040
Central China	7,312	8,356	11,805
Total	**74,266**	**76,547**	**95,199**

For the year ended 31 December 2021, the Bank's operations in its head office recorded an operating profit of RMB25,115 million, representing an increase of RMB440 million or 1.8 per cent. compared with the year ended 31 December 2020. Operations of the head office contributed 26.4 per cent. of the Bank's total operating profit for the year ended 31 December 2021.

For the year ended 31 December 2021, the Bank's operations in other regions recorded an operating profit of RMB70,084 million, representing an increase of RMB18,212 million compared with the year ended 31 December 2020. The Bank's operations in other regions contributed 73.6 per cent. of the Bank's total operating profit for the year ended 31 December 2021.

The Bank's operating income comprises net interest income and non-interest income. The following table sets forth the details of the operating income for the periods indicated:

	Year ended 31 December		
	2019	2020	2021
	(RMB in million) *(restated[(1)])*	(RMB in million)	(RMB in million)
Interest income	288,978	303,478	315,158
Interest expense	(166,689)	(159,963)	169,479
Net interest income	**122,289**	**143,515**	**145,679**
Fee and commission income	34,333	42,477	47,567
Fee and commission expense	(3,955)	(4,767)	(4,887)
Net fee and commission income	**30,378**	**37,710**	**42,680**
Investment income	24,992	26,154	28,478
Gains (losses) from changes in fair values	1,622	(6,267)	2,178
Foreign exchange gains	851	813	1,001
Income (losses) from asset disposal	38	3	(10)
Other income	363	510	613
Other operating income	775	699	617
Operating income	**181,308**	**203,137**	**221,236**

Note:

(1) From the year ended 31 December 2020, the Group reclassified income from its credit card instalment business from fee and commission income to interest income. The relevant financial figures in 2019 have been restated.

For the year ended 31 December 2019, 2020 and 2021, the Bank recorded net interest income of RMB122,289 million, RMB143,515 million and RMB145,679 million, respectively, representing 67.4 per cent., 70.6 per cent. and 65.8 per cent., respectively of its total operating income. The following tables set forth the details of interest income and interest expenses for the periods indicated:

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB in million) *(restated[(1)])*	**(RMB in million)**	**(RMB in million)**
Interest income:			
Balances with central bank	6,209	5,731	5,641
Amount due from banks and other financial institutions	2,209	1,659	1,762
Placements with banks and other financial institutions	4,792	6,849	8,722
Financial assets held under resale agreements	2,676	2,712	2,475
Loans and advances to customers	172,454	198,197	211,807
Bonds and other investment	94,976	82,999	79,370
Finance Lease	5,291	5,159	5,274
Other	371	172	107
Subtotal	**288,978**	**303,478**	**315,158**

Note:

(1) From the year ended 31 December 2020, the Group reclassified income from its credit card instalment business from fee and commission income to interest income. The relevant financial figures in 2019 have been restated.

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB in million)	**(RMB in million)**	**(RMB in million)**
Interest expenses:			
Amount due to central bank	(7,215)	(5,485)	(7,133)
Amount due to banks and other financial institutions	(35,548)	(30,631)	(33,873)
Placements with banks and other financial institutions	(6,289)	(4,463)	(4,230)
Financial assets sold under repurchase agreements	(3,888)	(2,843)	(2,278)
Amount due to customers	(86,691)	(88,617)	(90,866)
Debt securities issues	(27,812)	(27,757)	(30,783)
Others	(246)	(167)	(316)
Subtotal	**(166,689)**	**(159,963)**	**(169,479)**
Net interest income	**122,289**	**143,515**	**145,679**

Corporate Banking Business

Overview

The Bank provides its corporate banking customers with diversified financial products and services, including corporate loans, corporate deposits, bill discounting, clearing and settlement, industrial finance, green financial service, trade finance, cash management, investment banking, small and micro enterprises business and institutional banking business. The Bank's major corporate banking customers include state-owned enterprises, private enterprises, governmental departments and other institutional customers in China. The corporate banking business is a major source of the Bank's operating income. As at 31 December 2021, the Bank had approximately 1.08 million corporate financial customers. The Bank delivers its corporate finance products and services through a combination of its branch network, service centres and online banking platform.

Corporate Loans

Corporate loans have historically constituted the largest component of the Bank's loan portfolio. The Bank's corporate loans consist of short-term loans and medium and long-term loans. As at 31 December 2019, 2020 and 2021, the Bank had RMB1,796.1 billion, RMB2,043.5 billion and RMB2,223.9 billion of corporate loans, respectively.

Short-term Loans

Short-term loans have maturities of no more than one year. The Bank's short-term loans primarily include working capital loans and trade finance. The Bank provides revolving loans to its larger corporate customers to meet their special working capital or cash flow needs.

Medium and Long-term Loans

Medium-term loans have maturities of longer than one year but no more than five years, and long-term loans have maturities of more than five years. The Bank provides medium and long-term loans to its corporate customers for a wide range of business purposes, including infrastructure development and construction, technological innovation and working capital.

Consistent with its focus on credit quality and diversification, the Bank lends to corporate borrowers in a wide range of industry sectors and across all geographic regions of the PRC. The Bank's corporate loans as at 31 December 2021 were mainly concentrated in four industries, including manufacturing, leasing and commercial services, real estate and wholesale and retail which collectively accounted for 31.6 per cent. of total loans.

Corporate Deposits

The Bank offers interest-bearing demand deposits and time deposits in Renminbi and major foreign currencies to its corporate customers. Demand deposits accrue interest that is paid out on a quarterly basis, and account holders may withdraw their funds at any time. Time deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed rate. Account holders may withdraw funds prior to maturity with interest payments calculated based on the demand deposit interest rate. The Bank provides other deposit products, including deposit agreements, negotiated deposits and call deposits. As at 31 December 2019, 2020 and 2021, the Bank's corporate deposits amounted to RMB2,805.7 billion, RMB3,002.0 billion and RMB3,188.9 billion, respectively. Under existing PRC regulations, interest rates on the Renminbi-denominated demand and regular time deposits granted by PRC commercial banks, such as the Bank, cannot be higher than 150 per cent. of the relevant PBOC benchmark rate.

Bill Discounting

The Bank offers bill discounting by providing its customers with cash for their unmatured bills of exchange as a source of short-term financing. The Bank charges varying interest rates for bill discounting based on the creditworthiness of the customers and the prevailing market conditions of bill discounting. The Bank may have these instruments re-discounted with the PBOC or other financial institutions authorised to conduct the bill discounting business, providing it with liquidity and income. In addition to bank acceptance bills, the Bank also purchases commercial acceptance bills issued by certain major entities with high credit ratings. As at 31 December 2021, the Bank had RMB324,356 million in outstanding discounted bills, representing 7.3 per cent. of its gross loans and advances to customers.

Clearing and Settlement

The Bank provides domestic and international settlement services to its corporate customers. The Bank's domestic settlement products primarily include, drafts, promissory notes, cheques, Renminbi remittance, domestic letters of credit and traveller's cheques. The Bank's international settlement products mainly include international letters of credit, export collection, import collection, E-customs clearance and outward remittance. The Bank also provides salary payment, collection and payment, as well as domestic and foreign currency exchange services. The Bank is among the first group of domestic banks in the PRC authorised to provide cross-border Renminbi services. The Bank also provides various services relating to financial and non-financial guarantees for the benefit of third parties.

Green Financial Service

The Bank caters to the financial needs of enterprises in environmental industries involving renewable energy, carbon emission reduction, water resource utilisation and protection and wastewater treatment. The Bank has actively promoted its "Green Bank" banking and continued to expand its influences by providing financing to energy conservation and environmental protection projects. As at 31 December 2021, the Bank had granted green finance to more than 38,000 customers and has outstanding financing balance of RMB1,390 billion. The Bank was awarded the "Best Green Finance Bank of the Year" (年度最佳綠色金融銀行獎) by *Asiamoney* in 2020 and its green financial products and services awarded "2021 Green Products of the Year" by *Southern Weekend*. In 2019, the self-developed green finance platform of the Bank was awarded with the second prize of "Science and Technology Development Award" by PBOC and ranked first among the "Top 10 Financial Innovation Projects in Fujian Province" by the 17th China — Strait Project Fair (中國•海峽項目成果交易會).

In January 2016, the Bank successfully issued the first domestic green bonds in China. In addition, the Bank registered and issued the first-ever green Chinese medium-term notes on the National Association of Financial Market Institutional Investors. In November 2018, the Bank issued its US$600 million green bonds and €300 million green bonds under the MTN Programme. In October 2020, the Bank issued its US$450 million blue bonds and HK$3 billion COVID-19 bonds and in June 2021, the Bank further issued its US$600 million green bonds and HK$2.5 billion green bonds under the MTN Programme. In 2020, the Bank underwrote the first "Green Anti- Epidemic Bond" in the market and the first corporate blue bond in the PRC. The Bank was the first financial institution in China to sign the Statement by Financial Institutions on Energy Efficiency and was ranked first among 2020 Green Debt Financing Instrument Investors (2020年綠色債務融資工具投資人) organised by the China Interbank Dealers Association (中國銀行間交易商協會).

In April 2021, the Bank became the first PRC bank to adopt the Climate Neutral Now Initiative (the "**Initiative**") of the United Nations Framework Convention on Climate Change ("**UNFCCC**") with a goal to achieve carbon neutrality in its operations by 2030. Through its commitment to the Initiative, the Bank aims to accumulate valuable experience for the Chinese banking industry and support China's effort for emission peak and carbon neutrality. The adoption of the Initiative would also serve as an exemplary milestone for the Chinese financial industry in its effort to achieve the goals set by the Paris

Agreement through exploring an autonomous carbon emission reduction pathway. In addition, in July 2021, the Bank's Shenzhen branch published the "Environmental Information Disclosure Report 2020" making it the first branch of a national bank to publish an environmental information disclosure report.

Trade Finance

The Bank provides domestic and international trade finance services to its customers and adheres to the national "One Belt, One Road" strategy and the construction of free trade zones.

The Bank's trade finance primarily involves financing services for companies engaging in the procurement of commodities or sale of goods, or operating import and export businesses. The Bank's domestic and international trade finance products and services include packaged loans, import/export bill purchase, domestic/international forfaiting, import financing collection, import/export remittance financing, export invoice financing, import and export factoring, export factoring financing, bill purchase by the buyer/seller, letter of credit negotiation, payment on behalf of others under letter of credit, risk participation under letter of credit, domestic factoring and chattel mortgage. The Bank actively utilised international factoring to help small and medium-sized foreign trade enterprises to avoid the risks from exported exchange collections and provide financing facilities.

Cash Management

In order to meet the growing demand of the Bank's corporate customers for centralised cash management services, the Bank provides customers with collection, payment, account management and working capital position management services.

Investment Banking

The Bank's investment banking business consists primarily of debt financing, underwriting of corporate debt financing instruments such as commercial paper, medium-term notes and financial bonds, merger and acquisition financing and consultancy, syndicated loan arrangement and management services, financial consulting and advisory services and asset securitisation. Over the past few years, due to the continuous innovation of its investment banking business, the Bank has successfully completed a number of significant deals in the PRC.

In recent years, the Bank has adopted the following measures to promote the stable growth and structural optimisation of its investment banking business:

- the Bank accelerated the exploration of capital-based financing services by focusing on merger and acquisition financing and consultancy;
- the Bank promoted innovative services and products such as perpetual bonds;
- the Bank actively led and participated in syndicated loan projects; and
- the Bank optimised the investment banking business system and broadened its sales channel.

In 2019, 2020 and 2021, the Bank underwrote the issuance of debt financing instruments by non-financial institutions with an aggregate principal amount of RMB520.9 billion, RMB654.6 billion and RMB712.7 billion, respectively. The Bank also underwrote the issuance of offshore bonds with an aggregate principal amount of US$41.7 billion, US$5.2 billion and US$7.4 billion, respectively. In 2019, 2020 and 2021, the Bank completed six issues of asset-backed securities with an aggregate principal amount of RMB46.5 billion, 12 issues of assets backed securities with an aggregate principal amount of RMB49.0 billion and six issues of asset-backed securities with an aggregate principal amount of RMB25.5 billion. The Bank was ranked first among the Nationwide Joint-Stock Commercial Banks in terms of total debt financing instruments underwritten for three consecutive years from 2018 to 2020 and in terms of total offshore debt financing instruments underwritten in 2021.

The Bank continues to innovate financial products for its customers to satisfy their diversified demands. The Bank acted as the market maker for the first credit asset securitisation product in inter-bank bond market and invested in the first domestic green asset-backed securities issued by a non-listed company. In addition, the Bank created the first super short-term securitisation product in the market and invested in PRC collateralised loan obligations through QFII in China successfully.

Small and Micro Enterprises Business

The Bank's corporate finance business for small and micro enterprises effectively satisfies the needs for financing, settlement, cash management and wealth management for these enterprises.

In line with the PRC government's policies to support the development of SMEs, the Bank is dedicated to diversifying its financial services to cater to small and micro enterprises and seeks to provide professional, efficient and convenient financial services to SMEs. In recent years, the Bank has implemented the following measures to promote its SME business:

- the Bank promoted its specialised operations to target SMEs and increased the number of employees qualified to engage in SME credit business;
- the Bank accelerated the introduction of new products and promoted financing products for SMEs such as the "Three Micro Loan Services" (小微三劍客) consisting of the "Easy and Fast Loan" (易速貸), the "Consecutive Loan" (連連貸) and the "Transaction Loan" (交易貸);
- the Bank launched online financing products for SMEs consisting of "Fast and Easy Loan (快易貸)" and "Fast and Pledge Loan (快押貸)" and online risk control system for loan approval;
- the Bank provided a one-stop financial solutions to small and micro enterprises with equity financing service, debt financing service, settlement management and consultancy service; and
- the Bank explored the "internet + bank + platform" financing model to expand its customer base.

As at 31 December 2019, 2020 and 2021, the Bank had RMB126.0 billion, RMB203.3 billion and RMB298.7 billion, respectively, of outstanding loans to SME corporate customers.

Institutional Banking Business

In recent years, the Bank has carried out various strategic initiatives to enhance the sustainable development of its institutional banking business. The Bank offers diversified financial services to institutional customers covering assets, liabilities and intermediary services. The Bank has improved financial services relating to the livelihood of its customers, such as social insurance, housing allowance, finance, education and medical care. Furthermore, the Bank improved its diversified financial services package, initiated inter-bank co-operation and effectively consolidated partnership with customers. As at 31 December 2019, 2020 and 2021, the Bank had 29,242, 33,879 and 37,906 institutional customers, respectively, with daily average deposits of RMB841.4 billion, RMB932.4 billion and RMB1,000.6 billion, respectively.

Personal Banking Business

Overview

The Bank offers a wide range of products and services to personal customers, including personal loans, personal deposits, debit cards, credit cards, private banking, personal wealth management business and other agency services. As at 31 December 2019, 2020 and 2021, the Bank had approximately 77.9 million, 79.6 million and 79.2 million personal customers, respectively.

Personal Loans

The Bank's personal loans primarily include personal residential and business mortgage loans, personal business loans, and credit cards. The Bank also provides other personal loan products, including automobile loans and personal consumption loans.

The table below sets forth a breakdown of the Bank's personal loans by product type as at the dates indicated:

	As at 31 December					
	2019		2020		2021	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in million, except percentages)					
Personal residential and business mortgage loans	910,879	62.8	1,053,059	61.4	1,121,169	59.6
Personal business loans	85,612	5.9	140,837	8.2	203,102	10.8
Credit cards	349,312	24.1	409,826	23.9	435,482	23.2
Others [(1)]	103,744	7.2	110,749	6.5	119,179	6.4
Total	**1,449,547**	**100.0**	**1,714,471**	**100.0**	**1,879,932**	**100.0**

Note:

(1) Others primarily include personal consumption loans and automobile loans.

Although personal loans represent a smaller portion of the Bank's overall loan business as compared to corporate loans, personal loans (including credit cards) increased by RMB165.5 billion, or 9.7 per cent., from RMB1,714.5 billion as at 31 December 2020 to RMB1,879.9 billion as at 31 December 2021. The Bank strives to build its branding in personal loans, with "Contented Life" (安愉人生) for older customers to manage their wealth and "Cosmopolitan Life" (寰宇人生) for the provision of overseas financing services. The Bank actively develops online financing and electronic channels for personal loans in order to enhance customer service quality.

Personal Deposits

The Bank offers two principal deposit products to its personal customers, namely, interest-bearing demand deposits and time deposits. The Bank offers these deposit products in Renminbi and other major foreign currencies. As at 31 December 2019, 2020 and 2021, the Bank had RMB661.7 billion, RMB726.4 billion and RMB793.2 billion of personal deposits, respectively, representing 17.4 per cent., 17.8 per cent. and 18.2 per cent., respectively, of its total customer deposits. In recent years, the Bank has continued its efforts to develop innovative products in its deposits business in order to meet the diverse needs of its customers. In addition, the Bank has promoted its distribution channels by establishing community outlets to facilitate its customers.

Bank Card Business

Debit Card Business

The Bank offers debit card services under the brand name "Natural Life" (自然人生). The "Natural Life" debit card is the first family-oriented debit card in China which aims to facilitate family money management service by providing various benefits to the family members of cardholders. The Bank's debit card services include the "Qing Chun" (青春) card series and standard card series. The "Qing Chun" card series target young users to diversify its product coverage. The Bank issues different categories of standard cards, including silver, gold, platinum and black card based on the Bank's customers' financial assets under management.

Debit cardholders are allowed to have deposits in different currencies such as Renminbi, Hong Kong Dollar, US Dollar, Japanese Yen and Euro. The Bank also allows debit cardholders to handle multiple accounts under one single card such as wealth management product, fund, and collective asset management plan. Furthermore, the Bank provides several value-added services to its cardholders such as in-advance booking on hotel and air tickets, access to golf courses, and airport VIP lounge services.

Credit Card Business

In recent years, as a result of the development of internet technology, internet financing and online payment, the Bank has further improved its credit card products structure and enhanced the functions and services of its credit card products, providing unique, innovative and comprehensive services to its customers. As at 31 December 2019, 2020 and 2021, the Bank had issued a total of approximately 51,928,000, 54,630,300 and 59,701,300 credit cards, respectively.

The revenue of the Bank's credit card business mainly derives from the transactional service fees that the Bank charges the merchants and the interest, annual fees, instalment payments and other fees that the Bank charges the cardholders. For the years ended 31 December 2019, 2020 and 2021, the total transaction volume of credit cards issued by the Bank was RMB1,972.0 billion, RMB2,310.7 billion and RMB2,637.9 billion, respectively.

Private Banking

The Bank provides a wide range of products and services to its private banking customers, including asset management, product selection, alternative investments, family trust, legal consultancy, taxation planning, financial management, cross-border financial services, wealth succession and other value-added services. The Bank has in recent years increased its investments by expanding its network of private banking business and diversifying its product portfolios, forming a nationwide coverage network for high net-worth customers. The Bank expanded its wealth management product lines to meet the diverse needs of its clients, introducing a variety of financial products in recent years, including the family trust management. The Bank established and further improved the offering of its advisory service and information platform so as to broaden its range of value-added services and improve its expertise and service capabilities for middle and high-end customers. In December 2021, the Bank was licensed and launched its private banking franchise, becoming the first among Nationwide Joint-Stock Commercial Bank to be licensed for such operation in nearly ten years.

As at 31 December 2019, 2020 and 2021, the Bank had 40,191, 48,560 and 58,255 private banking customers, respectively. As at 31 December 2020 and 2021, the average monthly balance of asset under management ("**AUM**") of the Bank's private banking customers amounted to RMB585.1 billion and RMB742.5 billion, respectively.

Personal Wealth Management Business

The Bank provides diversified wealth management products and services to retail banking customers primarily under the "Wanlibao" (萬利寶), "Fenglibao" (豐利寶) and "Zhiyingbao" (智盈寶) series. The Bank's personal wealth management products provide customers with various choices of investments that have good returns.

Furthermore, the maintenance of its existing customers and the development of its competitive wealth management products helps it explore external customer groups to enhance its competitiveness.

As at 31 December 2021, the Bank's AUM of personal wealth management amounted to RMB2,850 billion, representing an increase of 9.01 per cent. from 31 December 2020.

Agency services

The Bank's agency services mainly include fund distribution, agency sales of insurance products, agency sales of precious metal and agency sales of wealth management products.

Treasury Operations

Overview

The Bank's treasury operations consist primarily of (i) money market activities, (ii) investment and trading activities, (iii) institutional financial service, (iv) inter-bank co-operation business, (v) asset management and (vi) asset custody. In conducting its treasury operations, the Bank seeks to ensure its liquidity and achieves a balance between returns and risks on its investment portfolio, taking into consideration various factors including the market and macroeconomic conditions.

Money Market Activities

The Bank's money market activities primarily consist of (i) inter-bank money market activities, repurchase and reverse repurchase transactions and (ii) public market bidding, including bidding for repurchase and reverse repurchase transactions by the PBOC, PBOC bills and national treasury cash administration. The securities underlying the Bank's inter-bank repurchase and reverse repurchase transactions are predominantly Renminbi denominated PRC government and policy bank bonds, bank acceptance bills and PBOC bills, with a portion of foreign currency-denominated bonds primarily issued by foreign governments and agencies.

The Bank was one of the first banks to be approved by the PBOC to provide SHIBOR quotes. As one of the SHIBOR-quoting banks, the Bank provides daily quotes based on its own liquidity and capital supply and demand. The Bank is one of the most active market makers in the Renminbi foreign exchange market, spot transactions, forward, swap and forward transactions of the standard bonds market. In June 2016, the Bank started its business in inter-bank money market activities and conducted foreign exchange transactions on behalf of foreign exchange dealers in the Shanghai Free Trade Zone.

Investment and Trading Activities

As at 31 December 2021, the Bank's net investment in securities and other financial assets amounted to RMB3,002.3 billion.

The following table sets forth, as at the dates indicated, the distribution of the Bank's investment securities and other financial assets by its intended investment.

	As at 31 December					
	2019		2020		2021	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in million, except percentages)					
Trading assets	652,034	24.1	823,927	28.5	909,794	30.30
Debt investments	1,444,176	53.5	1,550,131	53.5	1,601,030	53.33
Other debt investments	599,382	22.2	516,368	17.8	484,624	16.14
Other equity investments	1,929	0.1	2,388	0.1	3,148	0.11
Long-term equity investment	3,413	0.1	3,549	0.1	3,732	0.12
Total	**2,700,934**	**100.0**	**2,896,363**	**100.0**	**3,002,328**	**100.0**

Investment Activities

The Bank sets the target returns on available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables, debt investments and other debt and equity investments principally based on its assessment of the interest rate, exchange rate, credit, liquidity, macroeconomic trends and other risks associated with the investment. In the domestic market, the Bank primarily invests in debt securities issued by the PRC government, PBOC bills, debt securities issued by the policy banks and, to a lesser extent, debt securities issued by other financial institutions and non-financial institutions. In light of the volatile global macroeconomic environment, a substantial portion of the Bank's debt securities denominated in foreign currencies are short term.

Trading Activities

The Bank purchases and sells various highly-liquid securities and bills for trading purposes, from which the Bank seeks to obtain short-term profits. The Bank primarily invests in debt securities issued by the PRC government, PBOC bills and debt securities issued by foreign governments. The Bank classifies such trading securities as financial assets at fair value through profit or loss, and the Bank employs strict stop-loss and other limits for such trading transactions.

The Bank has obtained the futures margin depository qualification of the four major futures exchanges in China, namely, the Shanghai Futures Exchange, China Financial Futures Exchange, Dalian Commodity Exchange and Zhengzhou Commodity Exchange. In addition, the Bank actively participates in precious metal trading on the Shanghai Future Exchange and Shanghai Gold Exchange.

The Bank hedges its investment risks through the purchase of derivative financial instruments, such as interest rate swap contracts.

Institutional Financial Service

The Bank places great effort in developing the financial factor market. The Bank is determined to be the leading player in domestic institutional banking and the professional provider of banking service in capital markets. With its professional banking service and innovative financial products, the Bank has been consistently expanding its institutional customer base, widening its service scope, extending its means of co-operation and increasing its profit.

The Bank has established long-standing co-operative relationships with more than 1,000 domestic and overseas financial institutions, including commercial banks, securities firms, fund firms, insurance companies, trust investment companies, finance companies affiliated to business corporations, financial leasing companies and other financial institutions.

The Bank is one of the first batch of banks to provide agency settlement service in the PRC and is an associate member of the Insurance Asset Management Association of China and a member of the Shanghai Clearing House.

Inter-bank Co-operation Business

The “Bank-to-Bank Platform” is an integrated service system providing comprehensive online-and offline financial services to other collaborative banks covering wealth management, payment and settlement, technological management output, training services, financing services and capital restructure. As at 31 December 2021, the Bank had 2,344 contracted customers of its Bank-to-Bank Platform. For the year ended 31 December 2021, the Bank sold financial products in a total amount of RMB1,063.8 billion through the Bank-to-Bank Platform, representing an increase of 52.7 per cent. from the corresponding period in 2020.

“QianDa Money Manager” is an online financial platform providing comprehensive asset management products issued by commercial banks, trusts, funds and insurance companies. As at 31 December 2021, “QianDa Money Manager” had introduced wealth management products from 70 commercial banks and has a total of 15.3 million customers.

The Bank’s inter-bank co-operation services and products have won many awards. “QianDa Money Manager” and the Bank-to-Bank Platform have won awards from various authoritative media platforms, such as sina.com, Shanghai Securities News and 21st Century Business. One of the Bank’s projects, entitled “the construction and promotion of application of financial cloud service platform designed for banking and financial firms” (面向銀行業金融機構的金融雲服務平臺建設及應用推廣項目) was listed as a national strategic emerging industrial project and was granted a subsidy from the MOF in 2014.

Asset Management Business

The Bank offers comprehensive asset management services to different types of clients, including individuals, corporate clients, private banking clients and institutions. In recent years, the Bank optimised its procedures for wealth management product development, investment management and risk management and promoted the standardised, sustainable and orderly development of the business. In addition, the Bank adapted its products in order to meet the demands of various types of customers with different risk-reward features and investments in different types of markets.

The Bank's wealth management business emphasises innovative products, low risk, high efficiency and sustainability. The Bank launched total return swap products and QDII asset management products in the market. The wealth management business of the Bank complies strictly with regulatory requirements. In order to promote the steady growth of its wealth management business, the Bank conducted a comprehensive study of the market, divided customers into more specific categories, and strengthened the innovation of wealth management products and the expansion of sales channels.

As at 31 December 2021, the outstanding balance of the Bank's wealth management products (non-principal guaranteed) was RMB1,785.6 billion.

Asset Custody Services

The Bank provides a range of custody services to securities investment funds, enterprise annuity, the National Council for Social Security Fund of the PRC, insurance companies, commercial banks, QFII, QDII and other bank customers, including assets custody, investment clearing, accounting, asset valuation, transaction monitoring, collective payment and information disclosure services.

The Bank actively markets to quality customers and continuously promotes product innovation, delivering growth in the Bank's custody and fund distribution business. In recent years, the Bank further reinforced co-operation with key customers including fund management companies, securities companies and other commercial banks. The Bank also boosted custody service levels and information technology capabilities and enhanced its overall customer relationship management performance.

As at 31 December 2019, 2020 and 2021, the Bank had 26,585, 26,787 and 31,634 online asset custody products, with assets under management of RMB12,384.0 billion, RMB13,006.0 billion and RMB14,116.6 billion, respectively.

PRICING

Under the regulatory regime of the PRC banking industry, the Bank has established a competitive product pricing mechanism based on risk-adjusted returns. The Bank takes various factors into consideration to determine or adjust its prices, such as the capital cost, management cost, risk, expected return and prices guided by government and regulatory bodies. The Bank also considers the overall market conditions as well as prices of similar products and services offered by its competitors.

The Bank's Renminbi lending interest rate is subject to regulations of the PBOC. There has been no upper limit on interest rates for Renminbi-denominated loans since October 2004. The lower limit of 70 per cent. of the PBOC's benchmark rate was removed in July 2013. With respect to interest rates of home mortgage loans, the lowest interest rate the Bank may charge is 70 per cent. of the relevant PBOC benchmark rate. Pursuant to the current PBOC rules, the Bank may set loan interest rate other than individual housing mortgage loans through commercial negotiations.

The Bank prices its products and service based on various criteria such as the borrower's financial position and credit rating, nature and value of collateral, loan maturity, current market conditions, as well as capital cost, expected rate of return, risks and its internal capital pricing standard. Based on these considerations, the Bank seeks to have a pricing mechanism that can match risks with return and can generally charge higher interest rates for customers with relatively high risk profile.

The Bank also sets differentiated prices for corporate loans based on the borrower's business scale and contribution, guarantees and industry. For example, the Bank has greater pricing power for small and micro enterprises than large corporate customers. The Bank adopts risk adjustment principle to price personal loans, and usually applies higher interest rates to personal business loans and unsecured personal loans compared to other types of personal loans.

DISTRIBUTION CHANNELS

The Bank provides services through a variety of distribution channels, consisting of physical outlets, self-service banking centres and its E-banking network. The Bank has built an integrated distribution system that enables online and offline integration, making the system available to its customers through any single point of access. The Bank continues to improve the layout of physical outlets, self-service banking centres and its E-banking network.

Physical Outlets

The Bank provides comprehensive financial products and services to its customers via its distribution channel consisting of 45 branches and 2,024 outlets as at 31 December 2021.

The Bank improved the layout of physical outlets and moderately expanded its channel network in key regions and areas identified as having significant potential and emerging markets. As at 31 December 2019, 2020 and 2021, the Bank had a total of 2,019, 2,006 and 2,024 outlets, respectively. Moreover, the Bank reinforced co-ordination and resource allocation as well as service collaboration between self-service banking and physical outlets. The Bank plans to continue to open new branches and sub-branches in other cities and counties in China, and further expand the distribution network, business territory and customer base.

Self-service Banking

The Bank intensified its efforts in improving its self-service banking and providing better and more efficient service to its customers. The Bank optimised the transaction process of self-service terminals and increased the amount of transactions through ATMs. As at 31 December 2019, 2020 and 2021, the Bank owned 2,126, 2,111 and 2,096 self-service banking centres, respectively, and 6,008, 4,937 and 4,759 ATMs, respectively.

Internet Banking

The Bank provides internet banking services through its official website "http://www.cib.com.cn" to its corporate and personal customers. The Bank attaches special importance to the security of internet banking services by using multilayer security mechanisms and measures from system technology, security regulations, functional design, business management and other perspectives. As at 31 December 2021, the Bank had 0.68 million corporate internet banking customers and 14.2 million personal internet banking customers.

The Bank has further enriched its internet banking services, such as cost management, group client fund management, corporate finance, virtual sub-account, bulk payment, corporate community and other featured services for corporate Internet banking customers and real-time interbank transfer, Unicom fund, CIB e-Card and other featured services for retail Internet banking customers.

Telephone Banking

The Bank provides telephone banking service 24 hours a day and 365 days a year through "95561", accessible in all areas of the PRC, and "4008895561", a special line for VIPs. Customers can choose automated voice services or staff services. The Bank's services primarily include account inquiries, transfer service, self-service payment, loss report, password service and credit card business.

Mobile Banking

The Bank has enhanced certain business features of its mobile banking services, launching Apple Pay application service, HCE (host-card emulation) cloud flash payment and other cutting-edge services. The Bank also carried forward the establishment of various near-field payment methods, such as UnionPay POS payment and bracelet payment. The Bank also upgraded the safety of mobile banking products, optimised user interactive interface and improved customer experience. As at 31 December 2021, the Bank had 43.3 million mobile banking customers. For the year ended 31 December 2021, the total number of the Bank's mobile banking transactions was 301.9 million.

WeChat Banking

The Bank launched WeChat banking, which features a function that enables users to remotely open a banking account, among other features. New clients can submit account opening applications through the WeChat banking platform and then the client's identity will be verified by customer service staff through WeChat video call.

E-commerce Financial Services Platform

The Bank launched a direct banking platform through "http://directbank.cib.com.cn", which focuses on four core functions which include electronic accounts, sales of wealth management products, investments and agency sales of funds. In addition, the Bank launched an online commerce platform through "http://shop.cib.com.cn", enabling users to purchase gold, wine and procure other agency services such as car rental.

Online and Offline Integration

The Bank explored online-to-offline business modes and online and offline channels to provide integrated services for customers whenever and wherever possible. The Bank has since strengthened collaboration of its online and offline services.

The Bank established the interactive "Service Booking Platform" customer service platform, which provides appointments through mobile banking and advance filing of forms via web browser, tablet, mobile and WeChat services. The Bank launched Virtual Teller Machines, connecting its customer service centre to physical branches, achieving integrated services through one platform.

The Bank continues to promote the application of pioneering technologies and innovative service models in the field of e-finance. The Bank's customer service centre provides seamless integrated services to its customers. It continues to improve its core operations, specialised management and standardised services. Across channels including mobile, e-mail, online service, video service and WeChat banking, the Bank seeks to provide its customers with constantly accessible and interactive services with voice-to-voice, text-to-text and face-to face interactive features, in its continuous pursuit to improving customer experience.

CONTROLLED SUBSIDIARIES OF THE GROUP

Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限責任公司)

Industrial Bank Financial Leasing Co., Ltd. ("**Industrial Leasing**") is a wholly-owned subsidiary of the Bank with a registered capital of RMB9.0 billion as at 31 December 2021. As at 31 December 2021, Industrial Leasing's total assets reached RMB121.3 billion and the balance of financing leasing assets was RMB108.9 billion. It generated a net profit of RMB2,250 million for the year ended 31 December 2021.

Industrial Leasing focused on building the green leasing brand and expanding the green leasing business. As at 31 December 2021, the balance of green leasing assets of Industrial Leasing was RMB48.3 billion. Industrial Leasing has established a comprehensive financial leasing product system with eight product series: industrial emission, green travel, energy intensification, clean energy, water treatment, soil remediation, solid waste treatment and biomass energy.

China Industrial International Trust Limited (興業國際信託有限公司)

China Industrial International Trust Limited ("**Industrial Trust**") is a subsidiary of the Bank with a registered capital of RMB10.0 billion and 73.0 per cent. of its equity interest held by the Group as at 31 December 2021. The business scope of Industrial Trust is the management of fund investment trust, personal property investment trust, real estate investment trust, marketable securities investment trust, other property or property right investment trust and other businesses stipulated by laws and regulations or approved by the China banking regulatory agencies. As at 31 December 2021, the total assets of Industrial Trust was RMB68.7 billion. The total asset under management of Industrial Trust was RMB346.4 billion. For the year ended 31 December 2021, Industrial Trust recorded operating revenue of RMB5.5 billion and net profits of RMB932 million.

Industrial Trust has obtained the qualification of conducting foreign exchange trust business and is registered as private equity fund manager by the China Asset Management Association. The integrated operations of Industrial Trust includes asset management, futures business, securities service, financial research and corporate financial management. In addition, Industrial Trust cooperated with Bank of China to launch non-performing loan asset backed securities in China.

Industrial Guoxin Asset Management Co., Ltd. ("**Industrial Guoxin Asset Management**") (興業國信資產管理有限公司) is a wholly-owned subsidiary of Industrial Trust. The outstanding balance of Industrial Guoxin Asset Management's wealth management products was RMB58.1 billion as at 31 December 2021.

Industrial Futures Co., Ltd. ("**Industrial Futures**") (興業期貨有限公司) is a subsidiary of Industrial Trust. As at 31 December 2021, Industrial Futures had total assets of RMB11.2 billion and assets under management of RMB11.0 billion.

CIB Fund Management Co., Ltd. (興業基金管理有限公司)

CIB Fund Management Co., Ltd. ("**CIB Fund Management**") is a subsidiary of the Bank with a registered capital of RMB1.2 billion and 90.0 per cent. of its equity interest is held by the Bank as at 31 December 2021. In November 2015, CIB Fund Management obtained the QDII qualification by the CSRC. As at 31 December 2021, CIB Fund Management had total assets of RMB4.5 billion and assets under management of RMB254.0 billion. For the year ended 31 December 2021, CIB Fund Management recorded operating revenue of RMB1,212 million and net profits of RMB491 million.

CIB Fund Management has established four branches in China and a wholly-owned subsidiary, CIB Wealth Management Co., Ltd. (興業財富資產管理有限公司).

Industrial Bank Wealth Management Co., Ltd. (興銀理財有限責任公司)

Industrial Bank Wealth Management Co., Ltd. ("**Industrial Wealth Management**") is a wholly-owned subsidiary of the Bank with a registered capital of RMB5 billion, total assets of RMB9.51 billion and net assets of RMB9.16 billion as at 31 December 2021. It provides wealth management products and services to eligible investors. As at 31 December 2021, the outstanding balance of wealth management products of Industrial Wealth Management was RMB1,351.4 billion, including RMB1,241.1 billion public wealth management products and RMB110.3 billion private wealth management products. For the year ended 31 December 2021, Industrial Wealth Management recorded operating income of RMB3.94 billion and net profits of RMB2.81 billion.

Industrial Consumer Finance Co., Ltd. (興業消費金融股份公司)

Industrial Consumer Finance Co., Ltd. ("**Industrial Consumer Finance**") is a subsidiary of the Bank with a registered capital of RMB1.9 billion and 66.0 per cent. of its equity interest held by the Bank as at 31 December 2021. As at 31 December 2021, Industrial Consumer Finance had total assets of RMB61.8 billion. As at 31 December 2021, the outstanding balance of the loans granted by Industrial Consumer Finance was RMB58.1 billion.

Industrial Economy Research Consultation Co., Ltd. (興業經濟研究諮詢股份有限公司)

Industrial Economy Research Consultation Co., Ltd. ("**Industrial Consultation**") is a subsidiary of the Bank with a registered capital of RMB60 million and 66.67 per cent. of its equity interest was held by Industrial Guoxin Asset Management as at 31 December 2021. Industrial Consultation was established in June 2015 and was the first professional research institution operated by a bank in the form of a corporation. Industrial Consultation had preliminarily established a research system, including macroscopic (including interest rate, exchange rate and commodity), industrial, credit, financial engineering product and data mining. Industrial Consultation provides services to the head office, branches, and subsidiaries of the Group, as well as other financial institutions and regulatory authorities. Industrial Consultation's research results follow the market trend and business requirements of the Group and has made a significant contribution to the business development of the Group. As at 31 December 2021, Industrial Consultation provided services to over 240 customers with a total contracted amount of RMB27.3 million.

Fujian Cloud Financial Services Co., Ltd. (福建金服雲有限公司)

Fujian Cloud Financial Services Co., Ltd. ("**Cloud Financial**") is a wholly-owned subsidiary of the Bank with a registered capital of RMB100 million as at 31 December 2021. Cloud Financial aims to utilise its cloud and other digital services to connect government organs, banks and enterprises and facilitate the implementation of government policies, exchange of information and pinpointed matchmaking among banks and enterprises. As at 31 December 2021, Cloud Financial has approximately 164,800 registered users and connected with 110 financial institutions.

INFORMATION TECHNOLOGY

The Bank's information technology systems are integral to many aspects of its business operations, including customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of advanced information technology systems that complement its overall business strategies will greatly improve its efficiency, the quality of its customer service, as well as risk and financial management.

The Bank has invested heavily in its information technology systems, primarily covering business processing, channel services, management decision-making and modern office system. Highlights of its products and achievements include, among others: its independently researched and developed Pre-Authorised Debits Online Banking System, which enables the Bank to approve credit to its customers' loan application without the need to submit any paperwork; its recognised excellence in bank industry in terms of its key indicators including the transaction success rate relating to premium card holders; and its centralised electronic payment systems in Fujian, Hebei and Liaoning connecting the Bank and the provincial treasuries.

In addition, the Bank greatly values the continuing improvement of its risk management and information security. As a matter of strategy, the Bank requires full implementation of its internal control measures and enhanced information security control. The Bank was among the first batch of domestic banks which have reengineered a modern management system in accordance with the theory of Process Banking (流程銀行). The Bank is also one of the first banks to have built a dual disaster backup system with backup data recoverable from different cities. The Bank believes that it is one of the first banks to have satisfied the internationally recognised standards and the requirements of the PBOC in relation to disaster recovery.

The Bank's information technology department, with administrative centres and research and development centres in different levels, was established under the supervision of the business management committee and internal control committee. The Bank has strong research and development capabilities and is one of the few domestic banks that are able to independently develop its core banking systems and own the intellectual property rights. For example, the Bank has developed the Virtual Teller Machines, which are able to provide comprehensive teller services around the clock. The Bank has also independently researched and developed automatic loan machines and owns the intellectual property rights to this product. Leveraging its professional customer service centre, the Bank has introduced its centralised hotline platform which features cross-selling and outsourced marketing services. The hotline platform is supported by the Watson system, a question-answering computer system utilising natural language processing, information retrieval, knowledge representation and machine learning, originally developed by IBM. The Bank expects to increasingly leverage on information technology to drive its business in the future. In addition to the upgrades and improvements the Bank has made in recent years to its information technology systems, the Bank will continue to upgrade and integrate its information technology systems to facilitate operational efficiency, risk management and business development.

INTELLECTUAL PROPERTIES RIGHTS

The Bank conducts business under the brand names and logos of Industrial Bank. As at 31 December 2021, the Bank has owned a total of 319 PRC registered trademarks and 36 overseas registered trademarks. The Bank is also the registered owner of the domain name "http://www.cib.com.cn".

As at 31 December 2021, the Bank had been awarded two patents in the PRC and two patents in Hong Kong, among which "a data processing method and system to achieve uninterrupted services" was granted invention patent in 2005, making the Bank the first commercial bank in the PRC which patented its business system and method.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in China. The Bank currently competes primarily with the Large Commercial Banks and Nationwide Joint-Stock Commercial Banks. The Bank also faces increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. The Bank's competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network and brand recognition as well as information technology capabilities. In addition, the Bank faces competition from internet finance companies, as well as non-banking institutions such as securities firms and insurance companies in providing financing services to the Bank's customers.

In response to such a competitive environment, the Bank intends to continue to implement its strategies to differentiate itself from its competitors and compete effectively in the PRC commercial banking industry.

EMPLOYEES

The Bank had approximately 57,428 full time employees as at 31 December 2021.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank provides training programmes to its employees to improve their professional competence and skills. The Bank has not experienced any strikes or other material labour activities that have interfered with its operations, and the Bank believes that it has maintained a good relationship with its employees.

LEGAL AND REGULATORY PROCEEDINGS

The Bank is involved in legal proceedings in the ordinary course of business. Most of the legal proceedings were initiated by the Bank for recovering non-performing loans, while some legal proceedings arose from customer disputes or others. The Bank does not anticipate any material adverse effect from these pending legal proceedings, individually or in aggregate, on its business, financial position and results of operations.

SUBSTANTIAL SHAREHOLDERS

The section "Substantial Shareholders" in the Offering Circular shall be deleted in its entirety and replaced with the following:

The table below sets forth the shareholding information on the 10 largest shareholders of the Bank as at 31 December 2021:

Name of shareholders	Approximate percentage of share capital	Number of shares held
Fujian Provincial Department of Finance (福建省財政部)	18.85	3,915,181,039
China National Tobacco Corporation (中國煙草總公司)	5.34	1,110,226,200
PICC Property and Casualty Company Limited — traditional — common insurance product (中國人民財產保險股份有限公司 — 傳統 — 普通保險產品)	4.56	948,000,000
PICC Life Insurance Company Limited — dividend — personal insurance (dividend) (中國人民人壽保險股份有限公司 — 分紅 — 個險分紅)	3.86	801,639,977
Hong Kong Securities Clearing Co., Ltd. (香港中央結算有限公司)	3.29	683,830,224
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	3.00	622,235,582
Huaxia Life Insurance Co., Ltd. (華夏人壽保險股份有限公司)	2.74	569,179,245
PICC Life Insurance Company Limited — universal — personal insurance (universal) (中國人民人壽保險股份有限公司 — 萬能 — 個險萬能)	2.28	474,000,000
Fujian Tobacco Haisheng Investment Management Co., Ltd. (福建烟草晟投資管理有限公司)	2.13	441,504,000
Fujian Province Investment and Development Group Co., Ltd. (福建省投資開發集團有限責任公司)	1.42	294,122,046

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The section "Directors, Supervisors and Senior Management" in the Offering Circular shall be deleted in its entirety and replaced with the following:

DIRECTORS

The Bank's board of directors consists of 11 members, including the chairman, five directors and five independent directors. The board of directors determines major matters of the Bank (such as operating plans and development proposals) and is responsible for hearing and deciding on matters reported by the various committees.

The following table sets forth the Bank's directors as at the date of this Offering Circular:

Name	Age	Position
Lü Jiajin (呂家進).	53	Chairman of the Board of Directors, Party Committee Secretary
Chen Yichao (陳逸超) . . .	71	Director
Li Zhuyong (李祝用). . . .	49	Director
Xiao Hong (肖紅)	49	Director
Tao Yiping (陶以平)	58	Director
Sun Xiongpeng (孫雄鵬) .	54	Director, Party Secretary
Su Xijia (蘇錫嘉)	67	Independent Director
Ben Shenglin (賁聖林) . .	56	Independent Director
Xu Lin (徐林).	59	Independent Director
Wang Hongmei (王紅梅) .	61	Independent Director
Qi Yuan (漆遠)	48	Independent Director

Mr. Lü Jiajin (呂家進) has been the chairman of the Bank's board of directors since July 2021. He also currently serves as the Party Committee secretary of the Bank. Mr. Lü previously served as the deputy chief and the chief of Henan Provincial Postal Reserve and Exchange Bureau, the chief of Henan Xinxiang Postal Bureau, the deputy chief of Henan Postal Bureau, the deputy chief of Liaoning Postal Bureau, the deputy chief of Postal Reserve and Exchange Bureau of the PRC State Postal Bureau, an executive director, a vice president and the president of China Postal Savings Bank, a deputy general manager of China Post Group Corporation and an executive director and a vice president of China Construction Bank. Mr. Lü holds a doctoral degree and is a senior economist.

Mr. Chen Yichao (陳逸超) has been a director of the Bank since July 2015. Mr. Chen previously served as a staff member of Fujian Provincial Department of Finance (福建省財政廳), a deputy director of the research institute of Fujian Provincial Department of Finance, a deputy governor on temporary assignment of Changting County(長汀縣), a supervisor of the information centre of Fujian Provincial Department of Finance, the chief of the integrated division of Fujian Provincial Department of Finance, and an executive deputy supervisor of the general office of Fujian Provincial Department of Finance. Mr. Chen holds a postgraduate degree.

Mr. Li Zhuyong (李祝用) has been a director of the Bank since July 2021. He also currently serves as an executive director, a vice president, a Party Committee member and the secretary of the board of directors of People's Insurance Company (Group) of China Limited ("**PICC**"), a director of PICC Hong Kong, the vice chairman of Insurance Law Research Society of China Law Society and the chairman of the 15th council of China Maritime Law Association. Mr. Li previously served as a deputy manager and the director of the legal department and the legal and compliance department of the controlling shareholding company of PICC, the general manager of risk management department and legal compliance department and the legal director of PICC and the director of the secretary division of the secretary bureau of the board of directors of the controlling shareholding company of PICC. He was also the head of compliance and chief risk officer of PICC, a supervisor of PICC Property and Casualty Insurance Company Limited (中國人民財產保險股份有限公司), the chairman and Party Committee secretary of Human Insurance Financial Services Company Limited (人保金融服務有限公司) and a supervisor of Zhongsheng International Insurance Brokerage Company Limited (中盛國際保險經紀有限責任公司). Mr. Li holds a doctoral degree and is a senior economist.

Mr. Xiao Hong (肖紅) has been a director of the Bank since July 2021. He currently also serves as the director of the budget division of the Financial Supervision Department (Audit Department) of the State Tobacco Monopoly Administration (China National Tobacco Corporation) (中國煙草總公司). Mr. Xiao was previously employed with Shijingshan sub-branch of Industrial and Commercial Bank of China's Beijing branch and State Tobacco Monopoly Administration of China National Tobacco Corporation. Mr. Xiao holds a bachelor's degree.

Mr. Tao Yiping (陶以平) has been a director of the Bank since June 2016. Mr. Tao previously served as a branch head of the integrated planning division of the Fujian Branch of Bank of China (中國銀行福建省分行), a senior manager of the Office of Hong Kong and Macau Administration Office of the Bank of China Group (中銀集團港澳管理處辦公室), a senior manager of the China operation department of the Hong Kong Branch of Kinchueng Banking Corporation (金城銀行), the head of the general office, an assistant to the president, a vice president and the president of the Fujian Branch of the Bank, the president of the Xiamen Branch and Fujian Branch of Bank of China, and the president of the Shandong Branch of the Bank of China. Mr. Tao holds a master's degree and is a senior economist.

Mr. Sun Xiongpeng (孫雄鵬) has been a director of the Bank since July 2021 and the vice president of the Bank since August 2016. Mr. Sun previously served as a deputy general manager of the international operation department of the Quanzhou Branch of the Bank, a manager of the national business department and the operation department of the Quanzhou Branch of the Bank, an assistant to the president and a vice president of the Quanzhou Branch of the Bank and the president of the Zhangzhou, Quanzhou and Xiamen branches of the Bank. Mr. Sun is currently a party secretary of the Bank. Mr. Sun holds a master's degree and is a senior economist.

Mr. Su Xijia (蘇錫嘉) has been an independent director of the Bank since December 2016. Mr. Su previously served as a lecturer at the School of Accountancy of Shanghai University of Finance and Economics (上海財經大學) and an associate professor at the Department of Accountancy of the College of Business of the City University of Hong Kong (香港城市大學). Mr. Su is currently a professor of accounting at the China Europe International Business School (中歐國際工商學院), an independent director of China Jinmao Holdings Group Limited (中國金茂集團), Opple Lighting Co., Ltd. (歐普照明股份有限公司) and Fujian Sanmu Group Co., Ltd. (福建三木集團股份有限公司). Mr. Su holds a doctoral degree.

Mr. Ben Shenglin (賁聖林) has been an independent director of the Bank since July 2021. Mr. Ben previously served as a senior vice president and general manager of Working Capital Business (China) of ABN AMRO Bank N.V. (荷蘭銀行), a director and the general manager of Industrial and Commercial Finance Business (China) of the Hongkong and Shanghai Banking Corporation Limited (香港上海滙豐銀行有限公司), the president of JP Morgan Chase Bank (China) Co., Ltd. (摩根大通銀行(中國)有限公司) and a member of the Global Leader Team of JP Morgan Chase Global Enterprise Bank (摩根大通環球企業銀行全球領導小組). Mr. Ben is currently a professor of Zhejiang University (浙江大學), the president of the Internet Academy of Finance**,** Zhejiang University (浙江大學互聯網金融研究院), an assistant to the dean of the School of Management and a director of the EMBA Centre of Zhejiang University, an executive head of the International Monetary Institute at Renmin University of China (中國人民大學國際貨幣研究所), a member of the International Committee of the All-China Federation of Industry and Commerce (中華全國工商業聯合會國際委員會), a member of Expert Group of Non-Party Intellectuals Consultations of the United Front Work Department of the Central Committee of the Chinese Communist Party (中共中央統一戰線工作部黨外知識份子建言獻策專家組), a standing committee member of Zhejiang Provincial Political Consultative Conference (浙江省政協), a counsellor of the Zhejiang Provincial People's Government (浙江省人民政府), the co-chairman of the Zhejiang Internet Finance Federation (浙江省互聯網金融聯合會), an advisory member of Guangdong Financial Expert Advisory Committee (廣東金融專家顧問委員會), the executive chief editor of China Finance (《中國金融學》), an independent director of China International Capital Corporation Limited (中國國際金融有限公司), Zhejiang Material Industrial Zhongda Group Co., Ltd. (浙江物產中大集團公司) and Hunan Shengxiang Biotechnology Co., Ltd., (湖南聖湘生物科技有限公司), a supervisor of China Construction Bank (中國建設銀行) and an external supervisor of the Bank. Mr. Ben holds a doctoral degree and is a professor.

Mr. Xu Lin (徐林) has been an independent director of the Bank since July 2021. He also currently serves as the chairman of China-US Green Fund Management Company Limited (中美綠色基金管理有限公司). Mr. Xu previously served as a deputy director of the department of development planning of the former National Planning Commission, the director of department of fiscal finance and the director of department of development planning and the director of the centre for urban and small-town reform of the National Development and Reform Commission. Mr. Xu holds a postgraduate degree.

Ms. Wang Hongmei (王紅梅) has been an independent director of the Bank since January 2022. She also currently serves as director of China Mobile Equity Fund Management Company Limited (中移股權基金管理有限公司). Ms. Wang previously served as the deputy director of the economic and technical development research centre of the Ministry of Posts and Telecommunications, a senior manager and the general manager of the development strategy department and the director of reform office of China Mobile Communications Group Corporation and the secretary general of China Mobile Charity Foundation. Ms. Wang holds a doctoral degree and is a professor level senior engineer.

Qi Yuan (漆遠) has been an independent director of the Bank since March 2022. He is also a tenured professor and the director of the Institute of Artificial Intelligence Innovation and Industry Studies at Fudan University. He was a postdoctoral fellow at Massachusetts Institute of Technology, a tenured associate professor in the Department of Computer Science and Statistics and an associate professor in the Department of Biology at Purdue University, a visiting professor at Columbia University, Duke University, Brown University and other universities, a vice president of Taobao (China) Software Co., Ltd. (淘寶(中國)軟件有限公司), an executive director of Ali Data Science and Technology Institute (阿里數據科學技術院) and a vice president, the chief AI scientist and the chairman of the data intelligence committee of Ant Technology Group (螞蟻科技集團). Mr. Qi holds a doctoral degree.

SUPERVISORS

The Bank's board of supervisors consists of seven members, including the chairman, three supervisors and three external supervisors.

The board of supervisors is responsible for (1) monitoring the Bank's financial matters; (2) overseeing the actions of the board of directors and the senior management of the Bank; and (3) managing risks and carrying out internal control measures.

The following table sets forth the Bank's board of supervisors as at the date of this Offering Circular:

Name	Age	Position
Chen Xinjian (陳信健) . .	54	Chairman of the Board of Supervisors, Party Committee Member
He Xudong (何旭東). . . .	44	Supervisor
Zhang Guoming (張國明)	56	Supervisor, Party Committee Member, secretary of the Disciplinary Inspection Commission
Lai Furong (賴富榮)	53	Supervisor, general manager of the financial planning department
Paul M. Theil	68	External supervisor
Zhu Qing (朱青)	64	External supervisor
Xia Dawei (夏大慰)	69	External supervisor

Mr. Chen Xinjian (陳信健) has been the chairman of the Bank's board of supervisors since May 2022. Mr. Chen previously served as the chief of the finance division and external debt division of the Finance Bureau of Fujian Province (福建省財政廳), a director and a vice president of the Bank, a vice president of the Shanghai Branch of the Bank, a vice president (in charge of overall management) and the president of the Xiamen Branch of the Bank and the president of the Nanjing and Beijing branches of the Bank. Mr. Chen is currently serving as a Party Committee member and secretary to the board of directors of the Bank. Mr. Chen holds a master's degree.

Mr. He Xudong (何旭東) has been a supervisor of the Bank since December 2016. Mr. He previously served as an employee of the Project Management Department of Zhejiang Electric Power Development Co., Ltd. (浙江電力開發公司), an employee in the Asset Operation Department of Zhejiang Provincial Energy Group Company Ltd. (浙江省能源集團有限公司) and the director of the Asset Operation

Department and the director in the General Office of the Coal and Transportation Branch of Zhejiang Provincial Energy Group Co., Ltd. (浙江省能源集團有限公司煤炭及運輸分公司). Mr. He is currently a deputy director in the Asset Operation Department of Zhejiang Provincial Energy Group Co., Ltd. (浙江省能源集團有限公司) and a director of Jiangxi Ganzhe Energy Co., Ltd. (江西省贛浙能源有限公司), Zhonghai Zhejiang Ningbo LNG Co., Ltd. (中海浙江寧波液化天然氣有限公司), Zhejiang Zheneng Jiaxing Power Generation Co., Ltd. (浙江浙能嘉興發電有限公司), Zhejiang Zheneng Jiahua Power Generation Co., Ltd. (浙江浙能嘉華發電有限公司), Zhejiang Zheneng Leqing Power Generation Co., Ltd. (浙江浙能樂清發電有限責任公司), Zhejiang Zheneng Wenzhou Power Generation Co., Ltd. (浙江浙能溫州發電有限公司), Zhejiang Wenzhou Telulai Power Generation Co., Ltd. (浙江溫州特魯萊發電有限公司), Wenzhou Gas Turbine Power Generation Co., Ltd. (溫州燃機發電有限公司), Zhejiang Zheneng Changxing Power Generation Co., Ltd. (浙江浙能長興發電有限公司), Zhejiang Zheneng Qianqing Power Generation Co., Ltd. (浙江浙能錢清發電有限責任公司), Zhejiang Zheneng Xingyuan Power Reservation Technology Co., Ltd. (浙江浙能興源節能科技有限公司), Zhejiang Zheneng Lanxi Power Generation Co., Ltd. (浙江浙能蘭溪發電有限責任公司), Zhejiang Zheneng Beilun Power Generation Co., Ltd. (浙江浙能北侖發電有限公司), Guodian Zhejiang Beilun Third Power Generation Co., Ltd. (國電浙江北侖第三發電有限公司), Zhejiang Zheneng China Coal Zhoushan Coal Power Co., Ltd. (浙江浙能中煤舟山煤電有限公司) and Zhejiang Zheneng Taizhou Second Power Generation Co., Ltd. (浙江浙能台州第二發電有限公司). Mr. He holds a bachelor's degree and is an economist.

Mr. Zhang Guoming (張國明) has been a supervisor of the Bank since August 2018. Mr. Zhang previously served as a deputy director of the Cadre Management Office of the Fujian Provincial Disciplinary Inspection Commission (福建省紀委幹部管理室), a deputy secretary of the Party Committee of Fujian Provincial Disciplinary Inspection Commission (福建省紀委機關黨委) and a deputy director of the Inspection Office of the Fujian Provincial Party Committee (福建省委巡視辦). Mr. Zhang is currently a member of the Party Committee and a secretary of the Disciplinary Inspection Commission of the Bank. Mr. Zhang holds a bachelor's degree.

Mr. Lai Furong (賴富榮) has been a supervisor of the Bank since October 2007. Mr. Lai previously served as the president and a vice president of the Jin'an sub-branch of the Fuzhou Branch of the Bank, a deputy general manager of the finance and accounting department of the Bank, a vice president of the Guangzhou Branch of the Bank and a deputy general manager of the financial planning department of the Bank. Mr. Lai is currently the general manager of the financial planning department of the Bank. Mr. Lai holds a bachelor's degree and is a senior accountant.

Mr. Paul M. Theil has been an external supervisor of the Bank since June 2021. Mr. Theil previously served as a first secretary and a commercial counsellor of the United States Embassy in China (美國駐華使館) and an executive director of Morgan Stanley (摩根士丹利). Mr. Theil is currently the chairman of the board of directors of Shenzhen Zhong An Credit Venture Capital Co., Ltd. (深圳市中安信業創業投資有限公司), a director of Shenzhen Longgang Fudeng County Bank Co., Ltd. (深圳龍崗富登村鎮銀行有限責任公司), an independent director of Morgan Stanley Huaxin Fund Management Company Limited (摩根士丹利華鑫基金管理有限公司), a legal representative of Mohs Industrial Development (Shenzhen) Co., Ltd. (摩氏實業發展 (深圳) 有限公司), an independent director of Hengan International Group Company Limited (恒安國際集團有限公司), the director of Runhui Fund Management Co., Ltd. (潤輝基金管理有限公司) and Qinqin Foodstuffs Group (Cayman) Company Limited (親親食品集團(開曼)股份有限公司), the president of the Small Loans Industry Association of Shenzhen (深圳市小額貸款行業協會), the deputy president of China Micro-credit Companies Association (中國小額貸款公司協會), the deputy director of Shenzhen General Chamber of Commerce (深圳市商業聯合會), a vice chairman of Shenzhen Venture Capital Association (深圳市創業投資同業公會) and an independent director of the Bank. Mr. Theil holds a doctoral degree.

Mr. Zhu Qing (朱青) has been an external supervisor of the Bank since June 2021. Mr. Zhu previously served as a lecturer, an associate professor, a professor and a doctoral advisor at the School of Finance of Renmin University of China (中國人民大學財政金融學院) and had worked in the Budget Department and the Customs Department in the European Commission (歐盟委員會預算司和關稅司). Mr. Zhu is currently a director of the academic committee of the School of Finance of Renmin University of China, a professor and a doctoral advisor at Renmin University of China (中國人民大學), an executive director of the Chinese Finance Society (中國財政學會), an independent director of Zhejiang Jinlihua Electric Co., Ltd. (浙江金利華電氣股份有限公司), Zhongtai Trust Co., Ltd. (中泰信

託有限責任公司), Jiangsu Jiangyin Rural Commercial Bank Co., Ltd. (江蘇江陰農村商業銀行股份有限公司), an external supervisor of China Trust Protection Fund Co., Ltd. (中國信託業保障基金有限責任公司), a deputy director of the Taxation Institute of China (中國稅務協會), an executive director of the China Social Insurance Association (中國社會保障學會), an executive director of the Society of Public Finance of China (中國財政學會), a distinguished professor at Yangzhou Tax Institute of the State Administration of Taxation (國家稅務總局揚州稅務進修學院), an adjunct professor at the Beijing National Accounting Institute (北京國家會計學院) and Xiamen National Accounting Institute (廈門國家會計學院) and independent director of the Bank. Mr. Zhu holds a doctoral degree.

Mr. Xia Dawei (夏大慰) has been an external supervisor of the Bank since May 2016. Mr. Xia previously served as a dean of the School of International Business Administration, an assistant to the president and a vice president of Shanghai University of Finance and Economics (上海財經大學), and a dean of Shanghai National Accounting Institute (上海國家會計學院). Mr. Xia is currently the chief of the academic committee, a doctoral advisor and a professor at Shanghai National Accounting Institute, a vice president of the China Society of Industrial Economics (中國工業經濟學會), a deputy director of China Association of Chief Financial Officers (中國總會計師協會), the honorary professor of The Chinese University of Hong Kong (香港中文大學), an adjunct professor of School of Management of Fudan University, an independent director of Guotai Junan Securities Co., Ltd. (國泰君安證券股份有限公司), Lianhua Supermarket Holdings Co., Ltd. (聯華超市股份有限公司), Juneyao Airlines Co., Ltd. (吉祥航空股份有限公司) and Sunshine City Group Co., Ltd. (陽光城集團股份有限公司) and a director of Zhejiang Zheshang International Financial Asset Trading Centre Co., Ltd. (浙江浙商國際金融資產交易中心股份有限公司) and Shanghai Urban Innovation and Investment Management Co., Ltd. (上海城創投資股份有限公司). Mr. Xia holds a master's degree.

SENIOR MANAGEMENT

The Bank currently has one president and one vice president. The president is appointed by and reports to the board of directors. The president is primarily responsible for (1) making annual budgets; (2) making the Bank's annual business and investment plans; and (3) setting up the corporate governance structure and developing the detailed corporate regulations. The following table sets forth the Bank's senior management as at the date of this Offering Circular:

Name	Age	Position
Tao Yiping (陶以平)	58	President
Sun Xiongpeng (孫雄鵬)	54	Vice President

Mr. Tao Yiping (陶以平) has been the president of the Bank since April 2016. For Mr. Tao's biography, see "*Directors*" above.

Mr. Sun Xiongpeng (孫雄鵬) has been a director of the Bank since July 2021 and a vice president of the Bank since August 2016. For Mr. Sun's biography, see "*Directors*" above.

The business address of the above directors, supervisors and senior management is Industrial Bank Building, 398 Jiangbinzhong Avenue, Taijiang District, Fuzhou, Fujian Province, People's Republic of China.

CORPORATE GOVERNANCE

The Bank has established and implemented an effective corporate governance structure. It has set up five committees: the Strategic Planning Committee, the Risk Management and Consumer Rights Protection Committee, the Auditing and Related Party Transaction Supervision Committee, the Nomination Committee and the Remuneration and Evaluation Committee. The primary duties of these five committees are set forth as follows:

- The Strategic Planning Committee actively assists the board of directors in developing strategic plans, adjusting business plans and enhancing the management of capital of the Bank. The Committee is also responsible for conducting internal investigations and ensuring the Bank's compliance with the relevant rules and regulatory guidelines.

- The Risk Management and Consumer Rights Protection Committee is responsible for analysing the risks of the Bank in its daily business operation, minimising any recognised risks involved and optimising consumer rights related infrastructure and service.

- The Auditing and Related Party Transaction Supervision Committee is responsible for checking audit documents and reports and evaluating the external financial environment.

- The Nomination Committee is responsible for nominating qualified and appropriate persons as directors to ensure the quality of the directors, supervisors and senior management of the Bank; and

- The Remuneration and Evaluation Committee is responsible for evaluating the performance of the board of directors and the senior management for the Bank's development and determining compensation for the senior management team of the Bank.

INDEX TO FINANCIAL STATEMENTS

Audited and Consolidated Financial Statements for the year ended 31 December 2021

INDUSTRIAL BANK CO., LTD.

ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
(A-share report)

IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL.

AUDITOR'S REPORT

KPMG Huazhen Shen Zi No.2202008

To the shareholders of Industrial Bank Co., Ltd.:

Opinion

We have audited the accompanying financial statements of Industrial Bank Co., Ltd. (the "Bank"), which comprise the consolidated and bank balance sheets as at 31 December 2021, the consolidated and Bank's income statements, the consolidated and Bank's cash flow statements, the consolidated and Bank's statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and Bank's financial position of bank as at 31 December 2021, and the consolidated and Bank's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises (ASBE) issued by the Ministry of Finance of the People's Republic of China.

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants ("CSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants ("the Code"), 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The determination of allowance for impairment losses on loans and advances to customers and debt investments	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.6 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
The determination of allowance for impairment losses on loans and advances to customers and debt investments using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.	Our audit procedures to assess allowance for impairment losses on loans and advances to customers and debt investments included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers or debt investments, the credit grading process and the measurement of allowances for impairment; • involving our IT specialists to assess the design and operating effectiveness of information system controls, including general information technology controls, completeness of automatically extracted key internal historical data, data transmission between systems, mapping of parameters of expected credit loss model, and logic settings for system calculation of allowance for impairment losses for expected credit loss;

Key Audit Matters (continued)

The determination of allowance for impairment losses on loans and advances to customers and debt investments (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.6 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
In particular, the determination of expected credit loss model is heavily dependent on the external macro environment and the Bank's internal credit risk management strategy. The expected credit losses for corporate loans and debt investments are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.	• with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining allowance for impairment losses, and assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial assets list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and financial assets information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and financial assets list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;

Key Audit Matters (continued)

The determination of allowance for impairment losses on loans and advances to customers and debt investments (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.6 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held as collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral. We identified the impairment of loans and advances to customers and debt investments as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Bank.	• for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Bank's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development; • for key internal data generated by the system, we selected samples and checked the system input data against source documents to assess the accuracy of the system input data, and tested the logic for preparing information about overdue loans and advances based on the samples and with the help of our IT specialists;

Key Audit Matters (continued)

The determination of allowance for impairment losses on loans and advances to customers and debt investments (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 7.6 and "VII. Notes to the consolidated financial statements" 6 and 7.2.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• evaluating the reasonableness of the management's judgment as to whether the credit risk of loans and advances to customers or debt investments has increased significantly since the initial recognition and whether the credit impairment has occurred by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic situation. We also selected samples based on other risk criteria, including but not limited to borrowers with adverse press coverage and from the Bank's overdue report; Based on the selected samples, we checked information about overdue loans, learned about the borrowers' credit risk profile, made enquiries to the credit managers about the borrowers' business operations, checked the borrowers' financial information, and researched market information related to the borrowers' businesses.

AUDITOR’S REPORT (continued)

KPMG Huazhen Shen Zi No.2202008

Key Audit Matters (continued)

<table>
<tr><td colspan="2">The determination of allowance for impairment losses on loans and advances to customers and debt investments (continued)</td></tr>
<tr><td colspan="2">Refer to the accounting policies set out in the notes to the financial statements “IV. Significant accounting policies and accounting estimates” 7.6 and “VII. Notes to the consolidated financial statements” 6 and 7.2.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td></td><td>• performing credit review procedures on the samples of corporate loans and advances and debt investments selected in accordance with the aforesaid criteria, to assess the appropriateness of the loss given default (LGD) of the credit-impaired corporate loans and advances and debt investments; assessing the estimated recoverable cash flow through inquiries, professional judgements, independent queries, etc.; evaluating the management’s assessment of the value of any collateral held, comparing the managemen’s valuation of the collaterals to their market prices, evaluating the timing and means of realisation of the collaterals, and considering other sources of repayment asserted by the management; assessing the consistency in the application of key assumptions by the management and comparing them with our data sources.

• selecting samples to check the expected credit loss calculation, so as to comment on the Bank’s application of the expected credit loss model; and

• evaluating whether the disclosure related to allowance for impairment losses on loans and advances to customers and debt investments meets the disclosure requirements of the revised CAS 37 - Presentation of Financial Instruments.</td></tr>
</table>

Key Audit Matters (continued)

Recognition of interests in and consolidation of structured entities	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 4, "VI. Consolidation scope" 2 and "VII. Notes to the consolidated financial statements" 45.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Bank may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an investment fund, an asset management plan, a trust plan or an asset-backed security. In determining whether a structured entity is required to be consolidated by the Bank, the management is required to consider the power the Bank is able to exercise over the activities of the entity, the variable returns to which the Bank has rights from its involvement with the structured entity, and its ability to influence its own variable returns from the entity. These factors are not purely quantitative and the substance of the transaction needs to be considered collectively. We identified the recognition of interests in and consolidation of structured entities as a key audit matter because some of these structured entities were complex in nature and judgement was required when the Bank performed qualitative assessment of terms and transaction substance for each structured entity.	Our audit procedures to assess the consolidation of structured entities and recognition of its entitlement rights included the following: • making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Bank has a robust process in this regard; • performing the following procedures for structured entities on a sample basis: - inspecting selected contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entities and the involvement the Bank has with the structured entities and to assess management's judgement over whether the Bank has the ability to exercise power over the structured entities;

Key Audit Matters (continued)

Recognition of interests in and consolidation of structured entities (continued)	
Refer to the accounting policies set out in the notes to the financial statements "IV. Significant accounting policies and accounting estimates" 4, "VI. Consolidation scope" 2 and "VII. Notes to the consolidated financial statements" 45.	
The Key Audit Matter	**How the matter was addressed in our audit**
	- inspecting the risk and reward structure of the structured entities, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to exposure, or rights, to variable returns from the Bank's involvement in such entities; - evaluating management's analyses of the structured entities including qualitative analyses and calculations of the magnitude and variability associated with the Bank's economic interests in the structured entities to assess management's judgement over the Bank's ability to influence its own returns from the structured entities; - assessing management's judgement over whether the structured entities should be consolidated or not; and • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Key Audit Matters (continued)

Fair value of financial instruments	
Refer to "IV. Significant accounting policies and accounting estimates" 7 and "XI. Financial risk management" 7 set out in the notes to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Financial instruments carried at fair value account for a significant part of the Bank's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income. The valuation of the Bank's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available for valuation techniques, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement. The Bank has developed its own models to value certain level 2 and level 3 financial instruments, which also involves significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and the degree of judgement exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments; • assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Bank with publicly available market data; • engaging our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Bank's valuations. Our procedures included developing parallel models, obtaining inputs independently and verifying the inputs;

Key Audit Matters (continued)

Fair value of financial instruments (continued)	
Refer to "IV. Significant accounting policies and accounting estimates" 7 and "XI. Financial risk management" 7 set out in the notes to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• assessing the appropriate application of fair value adjustments that form an integral part of fair values, inquiring of management about any changes in the fair value adjustments methodology and assessing the appropriateness of the inputs applied; and • assessing whether the financial statement disclosures appropriately reflected the Bank's exposure to financial instrument valuation risk with reference to the requirements of the related financial reporting standards.

Other Information

The Bank's management is responsible for the other information. The other information comprises all the information included in 2021 annual report of the Bank, other than the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

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

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

- Evaluate the overall presentation (including disclousure), structure and content of the financial statements, and whether the 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 Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

KPMG Huazhen LLP

Certified Public Accountants
Registered in the People's Republic of China

Chen Sijie (Engagement Partner)

Beijing, China

Wu Zhongming

24 March 2022

Industrial Bank Co., Ltd.
The Consolidated and Bank's Balance Sheets
As at 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		*The Bank*	
	Note VII	*2021*	*2020*	*2021*	*2020*
Assets					
Cash and balances with Central Bank	1	447,446	411,147	447,437	411,138
Deposits with banks and other financial institutions	2	66,251	95,207	59,021	86,490
Precious metals		156	4,947	156	4,947
Placements with banks and other financial institutions	3	351,822	191,939	366,783	206,148
Derivative financial assets	4	34,460	59,396	34,460	59,387
Financial assets purchased under resale agreements	5	141,131	123,350	137,072	116,945
Loans and advances to customers	6	4,310,306	3,867,321	4,260,746	3,834,605
Financial investments:	7				
Trading assets	7.1	909,794	823,927	847,457	773,552
Debt investments	7.2	1,601,030	1,550,131	1,585,226	1,535,542
Other debt investments	7.3	484,624	516,368	484,758	514,919
Other equity investments	7.4	3,148	2,388	3,068	2,308
Finance lease receivables	8	103,957	100,616	-	-
Long-term equity investments	9	3,732	3,549	23,957	23,776
Fixed assets	10	26,060	26,414	20,666	20,471
Construction in progress	11	2,775	1,935	2,770	1,931
Right-of-use assets	12	9,581	N/A	8,806	N/A
Intangible assets		883	712	809	652
Goodwill	13	532	532	-	-
Deferred tax assets	14	49,146	45,513	45,664	42,348
Other assets	15	56,190	68,608	45,722	56,101
Total assets		8,603,024	7,894,000	8,374,578	7,691,260

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

Industrial Bank Co., Ltd.
The Consolidated and Bank’s Balance Sheets (continued)
As at 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		*The Bank*	
	Note VII	*2021*	*2020*	*2021*	*2020*
Liabilities and Shareholders' equity					
Liabilities					
Borrowing from Central Bank		95,777	290,398	95,777	290,398
Deposits from banks and other financial institutions	16	1,710,879	1,487,079	1,719,889	1,495,587
Placements from banks and other financial institutions	17	173,778	180,171	53,239	71,448
Trading liabilities	18	47,830	16,062	41,907	14,721
Derivative financial liabilities	4	38,847	61,513	38,847	61,505
Financial assets sold under repurchase agreements	19	265,576	123,567	253,669	111,630
Deposits from customers	20	4,355,748	4,084,242	4,356,738	4,085,300
Employee benefits payable	21	24,783	20,204	22,103	17,790
Tax payable	22	12,767	12,304	11,619	11,018
Provisions	23	4,085	5,397	4,083	5,397
Debt securities issued	24	1,120,116	947,393	1,089,480	916,560
Lease liabilities	25	9,053	N/A	8,488	N/A
Deferred tax liabilities	14	163	74	-	-
Other liabilities	26	49,324	40,793	26,168	18,956
Total liabilities		7,908,726	7,269,197	7,722,007	7,100,310

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

Industrial Bank Co., Ltd.
The Consolidated and Bank's Balance Sheets (continued)
As at 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		The Bank	
	Note VII	*2021*	*2020*	*2021*	*2020*
Liabilities and Shareholders' equity (continued)					
Shareholders' equity					
Share capital	27	20,774	20,774	20,774	20,774
Other equity instruments	28	88,960	85,802	88,960	85,802
Including: preference shares		55,842	55,842	55,842	55,842
perpetual bonds		29,960	29,960	29,960	29,960
convertible corporate bonds		3,158	-	3,158	-
Capital reserve	29	74,914	74,914	75,260	75,260
Other comprehensive income	41	2,859	(749)	2,852	(751)
Surplus reserve	30	10,684	10,684	10,684	10,684
General reserve	31	97,944	87,535	91,176	83,382
Retained earnings	32	387,976	336,626	362,865	315,799
Equity attributable to shareholders of the Bank		684,111	615,586	652,571	590,950
Non-controlling interests		10,187	9,217	-	-
Total shareholders' equity		694,298	624,803	652,571	590,950
Total liabilities and shareholders' equity		8,603,024	7,894,000	8,374,578	7,691,260

The financial statements were approved by the Board of Directors of the Bank on 24 March 2022.

Lv Jiajin	Tao Yiping	Lai Furong
Chairman of the Board	President	Person in-charge of the
Legal Representative	Financial Director	Accounting Body

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

Industrial Bank Co., Ltd.
The Consolidated and Bank's Income Statements
For the year ended 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	The Group 2021	The Group 2020	The Bank 2021	The Bank 2020
I. Operating income		221,236	203,137	201,122	186,224
Net interest income	33	145,679	143,515	134,055	133,057
Interest income	33	315,158	303,478	298,013	288,447
Interest expense	33	(169,479)	(159,963)	(163,958)	(155,390)
Net fee and commission income	34	42,680	37,710	36,011	32,315
Fee and commission income	34	47,567	42,477	42,380	37,957
Fee and commission expense	34	(4,887)	(4,767)	(6,369)	(5,642)
Investment income	35	28,478	26,154	28,784	26,080
Including: income from joint ventures and associates		213	154	211	210
income from derecognition of financial assets at amortised cost		1,360	716	1,355	688
Gains (losses) from changes in fair values	36	2,178	(6,267)	985	(6,413)
Foreign exchange gains		1,001	813	1,014	845
(Losses) income from asset disposal		(10)	3	(10)	3
Other income		613	510	100	129
Other operating income		617	699	183	208
II. Operating expenses		(126,037)	(126,590)	(116,758)	(118,700)
Taxes and surcharges	37	(2,207)	(2,086)	(2,016)	(1,916)
General and administrative expenses	38	(55,468)	(48,262)	(51,633)	(44,356)
Credit impairment losses	39	(66,841)	(75,301)	(62,615)	(71,887)
Impairment losses on other assets		(169)	(126)	-	(93)
Other operating expenses		(1,352)	(815)	(494)	(448)
III. Operating profit		95,199	76,547	84,364	67,524
Add: Non-operating income		286	295	205	219
Less: Non-operating expenses		(175)	(205)	(161)	(192)
IV. Total profit		95,310	76,637	84,408	67,551
Less: Income tax expenses	40	(11,494)	(8,956)	(8,627)	(6,695)
V. Net profit		83,816	67,681	75,781	60,856

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

Industrial Bank Co., Ltd.
The Consolidated and Bank's Income Statements (continued)
For the year ended 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		*The Bank*	
	Note VII	*2021*	*2020*	*2021*	*2020*
V. Net profit (continued)		83,816	67,681	75,781	60,856
1. Categorized by continuity of operation:					
(1). Net profit from continuing operations		83,816	67,681	75,781	60,856
(2). Net profit from discontinued operations		-	-	-	-
2. Categorized by ownership:					
(1). Attributable to shareholders of the Bank		82,680	66,626	75,781	60,856
(2). Non-controlling interests		1,136	1,055	-	-
VI. Other comprehensive income-net of tax	41	3,611	(3,987)	3,603	(3,943)
Other comprehensive income attributable to shareholders of the Bank		3,608	(3,981)	3,603	(3,943)
1. Items that may be reclassified subsequently to profit or loss					
(1) Changes in fair value of other debt investments		4,016	(5,722)	3,977	(5,668)
(2) Credit losses on other debt investments		(1,015)	1,464	(986)	1,426
(3) Translation differences of financial statements denominated in foreign currencies		(5)	(22)	-	-
(4) Other comprehensive income recognised under equity method		-	-	-	-
2. Items that will not be reclassified subsequently to profit or loss:					
(1) Actuarial profits on defined benefit plans		418	391	418	391
(2) Changes in fair value of other equity investments		194	(92)	194	(92)
Other comprehensive income attributable to non-controlling interests		3	(6)	-	-
VII. Total comprehensive income		87,427	63,694	79,384	56,913
Total comprehensive income attributable to shareholders of the Bank		86,288	62,645	79,384	56,913
Non-controlling interests		1,139	1,049	-	-

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

(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		The Bank	
	Note VII	*2021*	*2020*	*2021*	*2020*
VIII. Earnings per share (expressed in RMB)					
Basic earnings per share	42	3.77	3.08		
Diluted earnings per share	42	3.77	3.08		

The financial statements were approved by the Board of Directors of the Bank on 24 March 2022.

Lv Jiajin	Tao Yiping	Lai Furong
Chairman of the Board	President	Person in-charge of the
Legal Representative	Financial Director	Accounting Body

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

Industrial Bank Co., Ltd.
The Consolidated and Bank's Cash Flow Statements
For the year ended 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
I. Cash flows from operating activities:				
Net decrease in balances with Central Bank and deposits with banks and other financial institutions	7,889	30,460	12,642	26,441
Net decrease in placements with banks and other financial institutions and financial assets purchased under resale agreements	-	11,981	-	9,732
Net decrease in finance leases	-	2,672	-	-
Net increase in borrowing from Central Bank	-	122,100	-	122,100
Net increase in deposits from customers and deposits from banks and other financial institutions	489,437	519,169	489,858	514,352
Net increase in placements from banks and other financial institutions financial assets sold under repurchase agreements	135,638	-	123,999	-
Cash receipts from interest, fee and commission	304,724	275,281	280,758	257,734
Other cash receipts relating to operating activities	13,711	14,753	9,139	8,393
Subtotal of cash inflows from operating activities	951,399	976,416	916,396	938,752

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

Industrial Bank Co., Ltd.
The Consolidated and Bank's Cash Flow Statements (continued)
For the year ended 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		*The Bank*	
	Note VII	*2021*	*2020*	*2021*	*2020*
I. Cash flows from operating activities: (continued)					
Net increase in placements with banks and other financial institutions and financial assets purchased under resale agreements		(112,009)	-	(110,105)	-
Net increase in loans and advances to customers		(468,473)	(577,456)	(448,944)	(570,923)
Net increase in financial assets held for trading		(326,921)	(139,003)	(312,964)	(133,026)
Net increase in finance lease receivables		(3,190)	-	-	-
Net decrease in borrowing from Central Bank		(193,065)	-	(193,065)	-
Net decrease in placements from banks and other financial institutions and financial assets sold under repurchase agreements		-	(81,488)	-	(97,327)
Cash payments to interest, fee and commission		(145,441)	(131,079)	(142,177)	(128,818)
Cash payments to and on behalf of employees		(30,110)	(26,605)	(26,993)	(24,213)
Cash payments of various types of taxes		(33,288)	(33,310)	(28,626)	(30,640)
Other cash payments relating to operating activities		(28,673)	(21,703)	(27,868)	(19,596)
Subtotal of cash outflows from operating activities		(1,341,170)	(1,010,644)	(1,290,742)	(1,004,543)
Net cash flow from operating activities	43	(389,771)	(34,228)	(374,346)	(65,791)

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

Industrial Bank Co., Ltd.
The Consolidated and Bank's Cash Flow Statements (continued)
For the year ended 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
II. Cash flows from investing activities				
Cash receipts from recovery of investments	2,669,316	2,686,075	2,649,706	2,628,813
Cash receipts from investment income	130,814	113,560	128,385	110,813
Cash receipts from disposals of fixed assets, intangible assets and other long-term assets	720	363	186	248
Subtotal of cash inflows from investing activities	2,800,850	2,799,998	2,778,277	2,739,874
Cash payments to acquire investments	(2,715,572)	(2,559,411)	(2,699,060)	(2,537,628)
Cash payments to acquire fixed assets, intangible assets and other long - term assets	(5,624)	(6,585)	(4,274)	(2,795)
Subtotal of cash outflows from investing activities	(2,721,196)	(2,565,996)	(2,703,334)	(2,540,423)
Net cash flow from investing activities	79,654	234,002	74,943	199,451
III. Cash flows from financing activities:				
Cash receipts from capital contributions	-	30,000	-	30,000
Including: Cash receipts from capital contributions from non-controlling shareholders of subsidiaries	-	-	-	-
Proceeds from issuance of bonds	1,239,898	1,069,109	1,227,904	1,059,509
Subtotal of cash inflows from financing activities	1,239,898	1,099,109	1,227,904	1,089,509
Cash repayments of borrowings	(1,059,383)	(1,024,429)	(1,045,305)	(1,017,619)
Cash payments for distribution of dividends or profits or settlement of interest expenses	(52,865)	(45,004)	(51,437)	(43,781)
Including: Dividends paid to non-controlling shareholders of subsidiaries	(65)	(10)	-	-
Other cash payments relating to financing activities	(3,062)	(40)	(2,581)	(40)
Subtotal of cash outflows from financing activities	(1,115,310)	(1,069,473)	(1,099,323)	(1,061,440)
Net cash flow from financing activities	124,588	29,636	128,581	28,069

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

(Expressed in millions of Renminbi, unless otherwise stated)

		The Group		*The Bank*	
	Note VII	*2021*	*2020*	*2021*	*2020*
IV. Effect of foreign exchange rate changes on cash and cash equivalents		(2,358)	(4,345)	(2,200)	(4,303)
V. Net (decrease) increase in cash and cash equivalents	43	(187,887)	225,065	(173,022)	157,426
Add: Opening balance of cash and cash equivalents		956,795	731,730	933,105	775,679
VI. Closing balance of cash and cash equivalents	43	768,908	956,795	760,083	933,105

The financial statements were approved by the Board of Directors of the Bank on 24 March 2022.

Lv Jiajin	Tao Yiping	Lai Furong
Chairman of the Board	President	Person in-charge of the
Legal Representative	Financial Director	Accounting Body

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

Industrial Bank Co., Ltd.
The Consolidated Statement of Changes In Shareholders' Equity
For the year ended 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	*Attributable to shareholders of the Bank* Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total
I. Balance at 1 January 2021		20,774	85,802	74,914	(749)	10,684	87,535	336,626	9,217	624,803
II. Changes for the year										
(I) Net profit		-	-	-	-	-	-	82,680	1,136	83,816
(II) Other comprehensive income	41	-	-	-	3,608	-	-	-	3	3,611
Subtotal of (I) and (II)		-	-	-	3,608	-	-	82,680	1,139	87,427
(III) Capital contribution from shareholders		-	3,158	-	-	-	-	-	-	3,158
Capital injection by issuing convertible corporate bonds	28	-	3,158	-	-	-	-	-	-	3,158
(IV) Profit distribution		-	-	-	-	-	10,409	(31,330)	(169)	(21,090)
1. Appropriation to general reserve	31	-	-	-	-	-	10,409	(10,409)	-	-
2. Dividends paid to ordinary shareholders	32	-	-	-	-	-	-	(16,661)	(65)	(16,726)
3. Dividends paid to preference shareholders	32	-	-	-	-	-	-	(2,841)	-	(2,841)
4. Distribution to perpetual debt holders	32	-	-	-	-	-	-	(1,419)	(104)	(1,523)
III. Balance at 31 December 2021		20,774	88,960	74,914	2,859	10,684	97,944	387,976	10,187	694,298

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

Industrial Bank Co., Ltd.
The Consolidated Statement of Changes In Shareholders' Equity (continued)
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	Attributable to shareholders of the Bank								
		Share capital	*Other equity instruments*	*Capital reserve*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Non-controlling interests*	*Total*
I. Balance at 1 January 2020		20,774	55,842	74,914	3,232	10,684	78,525	297,389	8,292	549,652
II. Changes for the year										
(I) Net profit		-	-	-	-	-	-	66,626	1,055	67,681
(II) Other comprehensive income	41	-	-	-	(3,981)	-	-	-	(6)	(3,987)
Subtotal of (I) and (II)		-	-	-	(3,981)	-	-	66,626	1,049	63,694
(III) Capital contribution from shareholders		-	29,960	-	-	-	-	-	(10)	29,950
1. Changes in shareholdings in subsidiaries		-	-	-	-	-	-	-	(10)	(10)
2. Capital injection by other equity instruments shareholders	28	-	29,960	-	-	-	-	-	-	29,960
(IV) Profit distribution		-	-	-	-	-	9,010	(27,389)	(114)	(18,493)
1. Appropriation to general reserve	31	-	-	-	-	-	9,010	(9,010)	-	-
2. Dividends paid to ordinary shareholders	32	-	-	-	-	-	-	(15,830)	(10)	(15,840)
3. Dividends paid to preference shareholders	32	-	-	-	-	-	-	(2,549)	-	(2,549)
4. Distribution to perpetual debt holders		-	-	-	-	-	-	-	(104)	(104)
III. Balance ast 31 December 2020		20,774	85,802	74,914	(749)	10,684	87,535	336,626	9,217	624,803

The financial statements were approved by the Board of Directors of the Bank on 24 March 2022.

Lv Jiajin
Chairman of the Board Legal Representative

Tao Yiping
President
Financial Director

Lai Furong
Person in-charge of the Accounting Body

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

Industrial Bank Co., Ltd.
The Bank's Statement of Changes In Shareholders' Equity
For the year ended 31 December 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	*Share capital*	*Other equity instruments*	*Capital reserve*	*Other comprehensive income*	*Surplus reserve*	*General reserve*	*Retained earnings*	*Total*
I. Balance at 1 January 2021		20,774	85,802	75,260	(751)	10,684	83,382	315,799	590,950
II. Changes for the year									
(I) Net profit		-	-	-	-	-	-	75,781	75,781
(II) Other comprehensive income	41	-	-	-	3,603	-	-	-	3,603
Subtotal of (I) and (II)		-	-	-	3,603	-	-	75,781	79,384
(III) Capital contribution from shareholders		-	3,158	-	-	-	-	-	3,158
Capital injection by issuing convertible corporate bonds	28	-	3,158	-	-	-	-	-	3,158
(IV) Profit distribution		-	-	-	-	-	7,794	(28,715)	(20,921)
1. Appropriation to general reserve	31	-	-	-	-	-	7,794	(7,794)	-
2. Dividends paid to ordinary shareholders	32	-	-	-	-	-	-	(16,661)	(16,661)
3. Dividends paid to preference shareholders	32	-	-	-	-	-	-	(2,841)	(2,841)
4. Distribution to perpetual debt holders	32	-	-	-	-	-	-	(1,419)	(1,419)
III. Balance at 31 December 2021		20,774	88,960	75,260	2,852	10,684	91,176	362,865	652,571

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

Industrial Bank Co., Ltd.
The Bank's Statement of Changes In Shareholders' Equity (continued)
For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
I. Balance at 1 January 2020		20,774	55,842	75,260	3,192	10,684	74,829	281,875	522,456
II. Changes for the year									
(I) Net profit		-	-	-	-	-	-	60,856	60,856
(II) Other comprehensive income	41	-	-	-	(3,943)	-	-	-	(3,943)
Subtotal of (I) and (II)		-	-	-	(3,943)	-	-	60,856	56,913
(III) Capital contribution from shareholders		-	29,960	-	-	-	-	-	29,960
Capital injection by other equity instruments shareholders	28	-	29,960	-	-	-	-	-	29,960
(IV) Profit distribution		-	-	-	-	-	8,553	(26,932)	(18,379)
1. Appropriation to general reserve	31	-	-	-	-	-	8,553	(8,553)	-
2. Dividends paid to ordinary shareholders	32	-	-	-	-	-	-	(15,830)	(15,830)
3. Dividends paid to preference shareholders	32	-	-	-	-	-	-	(2,549)	(2,549)
III. Balance at 31 December 2020		20,774	85,802	75,260	(751)	10,684	83,382	315,799	590,950

The financial statements were approved by the Board of Directors of the Bank on 24 March 2022.

Lv Jiajin
Chairman of the Board Legal Representative

Tao Yiping
President
Financial Director

Lai Furong
Person in-charge of the Accounting Body

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

I. General information

Industrial Bank Co., Ltd. (hereinafter referred to as “the Bank”) which was referred to as Fujian Industrial Bank Co., Ltd. previously, is a stock commercial bank approved by the People’s Bank of China (the "PBOC"), with the document YF [1988] No.347 issued on 20 July 1988, in accordance with the Application by Fujian Province for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy (GH [1988] No.58) approved by the State Council. The Bank started trading on Shanghai Stock Exchange on 5 February 2007 with the stock code 601166.

The Bank holds the license for carrying out financial activities issued by China Banking and Insurance Regulatory Commission (former China Banking Regulatory Commission, the "CBIRC") with the license number of No.B0013H135010001; and the Business License of Enterprise Legal Person issued by Fujian Provincial Administration for Industry and Commerce with uniform social credit code of 91350000158142711F. The Bank's registered address is No.154 Hudong Road, Fuzhou, Fujian Province, the PRC. Lv Jiajin was delegated with the duties of legal representative.

The principal activities of the Bank comprise the provision of banking service, which includes accepting deposits from the public; granting short-term, medium-term and long-term loans; domestic and overseas settlement services; issuance of discount and acceptance bills and notes; issuing financial bonds; agency issuance and encashment, underwriting of government bonds and debentures; trading of government and financial bonds and debentures; agency trading and trading of marketable securities except stock; asset custody business; inter - bank lending and borrowings; agency trading, trading, settlement and sale of foreign exchanges; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services and other banking activities approved by the CBRC.

The principal activities of the Bank's subsidiaries comprise finance leasing; trust services; fund raising and marketing; asset management for specific clients; asset management; consumer finance; equity investment; industrial investment; investment management and advisory; investment consulting (excluding brokerage); financial consulting; business consulting; enterprise management consulting; financial data processing; commodity futures brokerage; financial futures brokerage; futures investment consulting; asset management; economic information consulting service; application software development and operational services; system integration services; investment and asset management; acquisition, transfer and disposal of bad debts in batches of financial institutions in the province; acquisition, transfer and disposal of bad debts of non-financial institutions; issuance of wealth management products to non-specific public customers and investment and management of the investors’ assets as entrusted; issuance of wealth management products to qualified investors and investment and management of the investors’ assets as entrusted; wealth management consulting and advisory services; database services; data processing and storage services; cloud platform services; cloud software services and other banking activities approved by the CBRC as well as other businesses permitted by China Securities Regulatory Commission (the "CSRC").

II. Basis of preparation of financial statements

The report is prepared on a going concern basis.

The Bank and its subsidiaries (hereinafter referred to as “the Group”) has the *CAS No.14 - Income* issued by the MOF in 2017, since 1 January 2020, also the Group has adopted the *CAS 21 – Leases* issued by the MOF in 2018, since 1 January 2021.(see Note IV, 30.1).

III. Statement of compliance with the ASBE

The financial statements of the Bank have been prepared in accordance with ASBE issued by the MOF, and present truly and completely, the consolidated and Bank's financial position as of 31 December 2021, and the consolidated and Bank's results of operations and cash flows for the year then ended.

In addition, the Bank’s financial statements also comply with relevant disclosure requirements on financial statements and notes of the revised Rules on the Preparation and Submission of Information Disclosed by Companies Offering Securities to the *Public (No.15) – General Rules on Financial Reports* issed by China Securities Regulatory Commission (CSRC) in 2014.

IV. Significant accounting policies and accounting estimates

1. Accounting period

The Bank’s accounting year starts on 1 January and ends on 31 December.

2. Functional currency

The Group and its domestic subsidiaries choose Renminbi (“RMB”) as their functional currency and these financial statements are presented in Renminbi, while its subsidiaries overseas choose their functional currency depends on the primary economic environment in which the subsidiaries operate and was translated into RMB according to the principles stated in Note IV, 6.

3. Accounting treatments for business combinations involving entities under common control and not under common control

A transaction constitutes a business combination when the Group obtains control of one or more entities (or a group of assets or net assets). Business combination is classified as either business combinations involving enterprises under common control or business combinations not involving enterprises under common control.

For a transaction not involving enterprises under common control, the acquirer determines whether acquired set of assets constitute a business. The Group may elect to apply the simplified assessment method, the concentration test, to determine whether an acquired set of assets is not a business. If the concentration test is met and the set of assets is determined not to be a business, no further assessment is needed. If the concentration test is not met, the Group shall perform the assessment according to the guidance on the determination of a business.

When the set of assets the Group acquired does not constitute a business, acquisition costs should be allocated to each identifiable assets and liabilities at their acquisition date fair values. It is not required to apply the accounting of business combination described as below.

3.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

The assets acquired and liabilities assumed are measured based on their carrying amounts (or the total par value of the issued shares) in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred. Combination date is the date on which the absorbing party effectively obtains control of the party being absorbed.

3.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregation of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and the equity securities issued by the acquirer in exchange for control of the acquire. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

For a business combination involving entities not under common control and achieved in stages, the Group remeasured its previously-held equity interest in the acquiree to its acquisition-date fair value and recognised any resulting difference between the fair value and the carrying amount as investment income or other comprehensive income for the current period. In addition, any amount recognised in other comprehensive income and other changes in the owners' equity under equity accounting in prior reporting periods relating to the previously-held equity interest that may be reclassified to profit or loss were transferred to investment income at the date of acquisition (see Note IV, 9.3.(2)); Any previously-held equity interest that was designated as equity investment at fair value through other comprehensive income, the other comprehensive income recognised in prior reporting periods was transferred to retained earnings at the date of acquisition.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination that meet the recognition criteria shall be measured at fair value at the acquisition date. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year. On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

4. Preparation of consolidated financial statements

4.1 General principals

The scope of consolidated financial statements is determined on the basis of control and the consolidated financial statements comprise the Bank and its subsidiaries (including structured entities controlled). Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. Once the change in relevant facts and circumstances leads to a change in relevant elements involved in the definition of control, the Group will conduct reassessment.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of subsidiary.

Structured entities refers to the entities that voting rights or similar rights do not constitute decisive factors when recognise the controlling party, such as when voting rights are associated with the administration, or related activities are led by the contractual arrangements. Wealth management products, fund, trust fund plans and fund management plans could be used as examples of the structured entities.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies.

Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

4.2 Subsidiaries acquired through a business combination

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For subsidiaries acquired through a business combination not involving enterprises under common control, their results of operation and cash flows from the acquisition date(the date when control is obtained) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

For the stepwise acquisition of equity interest till acquiring control after a few transactions and leading to business combination not involving enterprises under common control, this should be dealt with based on whether this belongs to 'package deal': if it belongs to 'package deal', transactions will be dealt as transactions to acquire control. If it does not belong to 'package deal', transactions will be dealt as transactions of a business combination involving entities not under common control and achieved in stages (see Note IV, 3.2).

4.3 Disposal of subsidiaries

When the Group loses control over a subsidiary, any resulting disposal gains or losses are recognised as investment income for the current period. The remaining equity interests is re-measured at its fair value at the date when control is lost, any resulting gains or losses are also recognised as investment income for the current period.

When the Group loses control of a subsidiary in multiple transactions in which it disposes of its long-term equity investment in the subsidiary in stages, If each of the multiple transactions does not form part of a bundled transaction, the transactions conducted before the loss of control of the subsidiary are accounted for in accordance with the accounting policy for partial disposal of equity investment in subsidiaries where control is retained (see Note IV, 4.4). If each of the multiple transactions forms part of a bundled transaction which eventually results in the loss of control in the subsidiary, these multiple transactions are accounted for as a single transaction. In the consolidated financial statements, the difference between the consideration received and the corresponding proportion of the subsidiary's net assets (calculated continuously from the acquisition date) in each transaction prior to the loss of control shall be recognised in other comprehensive income and transferred to profit or loss when the parent eventually loses control of the subsidiary.

Acquisition of non-controlling interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the equity attributable to equity holders of the bank and non-controlling interests in equity are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the non-controlling interests in equity are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

4.4 Changes in non-controlling interests

Where the Bank acquires a non-controlling interest from a subsidiary's non-controlling shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the proportion interests of the subsidiary's net assets being acquired or disposed and the amount of the consideration paid or received is adjusted to the capital reserve (share premium) in the consolidated balance sheet, with any excess adjusted to retained earnings.

5. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits of the Group that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Transactions denominated in foreign currencies and translation of foreign currency financial statement

Transactions in foreign currencies are translated into the respective functional currencies of account on initial recognition at the spot exchange rate on the date of the transaction. Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. Monetary items that are denominated in foreign currencies and classified as financial assets at fair value while its changes are recognized in other comprehensive income, its foreign currency translation differences are broken down into translation differences arising from changes in amortized cost and translation differences arising from changes in the other carrying amounts of these items. Translation differences arising from changes in amortized cost are recognized in profit or loss for the current period, and those arising from changes in other carrying amounts are recognized in other comprehensive income. Exchange differences on other foreign currency monetary items are recognized in profit or loss for the current period.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the dates of the transactions. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; Translation differences on equity investments at fair value through other comprehensive income are recognised in other comprehensive income. Other Translation differences recognised in the profit or loss.

When preparing consolidated financial statements, financial statements of overseas operations in foreign currency are translated into financial statements in RMB in the following methods: All assets and liabilities in the statements of financial position are translated by applying the spot exchange rates at the balance sheet date; shareholders' equities except retained earnings and other comprehensive income are translated by applying the spot exchange rate on the date of the transaction; statements of comprehensive income and items reflecting profit distribution occurred are translated by exchange rates similar with the spot exchange rate on the date of the transaction; retained earnings at the beginning of this year equal to the retained earnings after translation at the end of previous year; retained earnings at the end of period are presented as profit distributions after translation; differences between assets after translation and liabilities & shareholders' equity after translation are presented as "other comprehensive income" in shareholders' equity.

7. Financial instruments

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

The Group's financial instruments mainly include Cash and balances with Central Bank, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Derivative financial assets, Financial assets purchased under resale agreements, Loans and advances to customers, Trading assets, Debt investments, Other debt investments, Other equity investments, Other receivables, Borrowing from Central Bank, Deposits from banks and other financial institutions, Placements from banks and other financial institutions, Trading liabilities, Derivative financial liabilities, Financial assets sold under repurchase agreements, Deposits from customers, Debt securities issued, Other payables, Share capital, Preference Shares, Perprtual Bonds and Convertible Instruments etc.

7.1 Recognition and initial measurement of financial instrument

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

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

7.2 Classification and subsequent measurement of financial assets

(1) Classification of financial assets

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

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

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

- It is held within a business model whose objective is to hold assets to collect contractual cash flows;

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at amortised cost held by the Group mainly include Cash and balances with Central Bank, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Financial assets purchased under resale agreements, Loans and advances to customers measured at amortised cost, Debt investments, Other receivables, etc.

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

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at FVOCI held by the Group mainly include Loans and advances to customers measured at FVOCI and Other debt investments.

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The financial assets measured at FVTPL held by the Group mainly include Loans and advances to customers measured at FVTPL and Trading assets.

The 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. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(2) Subsequent measurement of financial assets

(i) Financial assets at FVTPL

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

(ii) Financial assets at amortised cost

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

(iii) Debt investments at FVOCI

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

(iv) Equity investments at FVOCI

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

7.3 Classification and subsequent measurement of financial liabilities

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

(1) Financial liabilities at FVTPL

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

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

(2) Other financial liabilities

Financial liabilities measured at amortised cost are subsequently measured at amortised cost using the effective interest method, However, the transfer of financial assets does not meet the conditions for termination of recognition or continues to involve in the transfer of financial liabilities, financial guarantee contracts and loan commitments (see Note IV, 7.4) formed by the financial assets shall be excluded.

7.4 Financial guarantee contracts and Loan commitments

(1) Financial guarantee contracts

Financial guarantees contracts are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Subsequent to initial recognition, deferred income related to financial guarantee is amortised in profit or loss in accordance with the accounting policies set out in Note IV, 19.

A financial guarantee liability is measured at the higher of the amount of the allowance for loss determined in accordance with impairment policies of financial instruments (see Note IV, 7.6); and the amount initially recognised less the cumulative amount of income.

(2) Loan commitments

Loan commitments are the commitments to extend credit under pre-defined terms and conditions.

The Group provides loan commitments that are assessed for impairment based on expected credit losses. The Group does not commit to extend loans at any below-market interest rates, or to make cash payments, or issue other financial instruments as a net settlement of loan commitments.

The provision for losses on loan commitments and financial guarantee contracts are stated in Provinsion by the Group.

7.5 Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions:

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset which has been transfered, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, and corresponding financial liability.

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

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

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

As part of its business activities, the Bank securitised some of its assets, generally by selling the assets to structured entities, which then issue securities to investors. For the conditions for financial assets derecognition. When applying the financial assets derecognition conditions, the Group considers the risk and reward transfer degree of the assets transferred to structured entities, as well as the extent to which the Group exercises control over the entities. The financial assets related to the asset-backed securities failing to meet the derecognition conditions are not derecognised, and funds from third-party investors are treated as financial liabilities. Where the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, the Group will consider whether it retains control over the transferred assets. If the Group does not retain control, it shall derecognise the financial assets and recognise the rights and obligations arising from or reserved during the transfer as assets or liabilities. If the Group retains control, the financial assets are recognised based on the extent of the its involvement in the financial assets.

7.6 Impairment of financial assets

The Group recognises allowance for impairment losses for expected credit loss (ECL) on:

- Financial assets measured at amortised cost;
- Debt investments measured at FVOCI;
- Financial lease receivables
- Loan commitments and financial guarantee contracts issued, which are not measured at FVTPL.

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

(1) Measurement of ECLs

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

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

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

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

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

The Group applies a "three-stage model" for measuring ECL. For the measurement and segmentation of ECL of financial instruments of the Group, see Note XI, 3 Credit risk.

(2) Presentation of allowance for ECL

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through an allowance for loss account, except for debt investments that are measured at FVOCI, for which the allowance for impairment loss is recognised in other comprehensive income. For the loan commitments and financial guarantee contracts issued, which are not measured at FVTPL, the Group recognises the allowance for impairment losses in provisions (credit loss of off-balance sheet assets).

(3) Write-off

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

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

7.7 Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- The Group currently has a legally enforceable right to set off the recognised amounts;
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

7.8 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

If the main contract included in the hybrid contract is an asset within the scope of a new financial instrument standard, the embedded derivative is no longer split from the main contract of the financial asset, but the hybrid financial instrument as a whole is related to the classification of the financial asset provision. If the main contract included in the hybrid contract is not an asset within the scope of the new financial instrument standard, when their economic characteristics and risks are not closely related to those of the hybrid contract, those separate instruments with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid instrument is not carried at FVTPL, certain derivatives embedded in other financial instruments should be split from the hybrid contract and treated as separate derivatives. These embedded derivatives are measured at fair value with the changes in fair value recognised in profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

7.9 Hedge accounting

Hedge accounting is a method which recognises in profit or loss (or other comprehensive income) the gain or loss on the hedging instrument and the hedged item in the same accounting period(s) to represent the effect of risk management.

Hedged items are items that expose the Group to risks of changes in fair value or cash flows and that are designated as being hedged and can be reliably measured. A hedging instrument is a designated financial instrument whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item.

The Group assesses at the inception of a hedging relationship, and on an ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements. A hedging relationship is regarded as having met the hedge effectiveness requirements if all of the following conditions are satisfied:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from the economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item.

The hedging relationship does not conform to the requirements of the hedging effectiveness due to hedging ratio, however, the risk management goal of existing hedging relationship has not changed. The Group performs the hedging relationship rebalancing and makes the adjustments to hedged items in the existing hedging relationship or the number of the hedging instruments, in order to make the hedging ratio conform to the requirements of the hedging effectiveness.

The Group discontinues applying hedge accounting in any of the following circumstances:

- The hedging relationship no longer meets the risk management objective on the basis of which it qualified for hedge accounting.
- The hedging instrument expires or is sold, terminated or exercised.
- There is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk starts to dominate the value changes that result from that economic relationship.
- The hedging relationship no longer meets other criteria for applying hedge accounting.

Fair value hedges

Fair value hedges are hedges of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or a portion of such an asset, liability or firm commitment.

Gains or losses arising from hedging instruments are recognized in current profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the recognised hedged item not measured at fair value and is recognised in profit or loss.

Any adjustment to the carrying amount of a hedged item is amortised to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at amortised cost. The amortisation is based on a recalculated effective interest rate at the date that amortisation begins and is recognised in profit or loss.

7.10 Equity instrument

An equity instrument is a contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument issued by the Group shall be classified as an equity instrument when both of the following conditions are satisfied: (1) the instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer; (2) if the instrument will or may be settled in the Group’s own equity instrument, it is: a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. The Group’s issuance (including refinancing), repurchase, sales or cancellation of an equity instrument shall be accounted for as a change to equity. The Group does not recognise changes in the fair value of an equity instrument. Transaction costs of an equity transaction are accounted for as a deduction from equity.

The Group's distribution to the holders of equity instruments is treated as profit distribution, and the issued stock dividends do not affect the total amount of shareholders' equity.

7.11 Preference share and perpetual bond

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.

7.12 Convertible instruments

Convertible instruments issued by the Group that can be converted to equity shares, where the number of shares to be issued and the value of consideration to be received at that time do not vary, are accounted for as compound financial instruments containing both liability and equity components.

The initial carrying amount of a compound financial instrument is allocated to its equity and liability components. The amount recognised in the equity is the difference between the fair value of the instrument as a whole and the separately determined fair value of the liability component (including the fair value of any embedded derivatives other than the equity component). Transaction costs that relate to the issuance of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method, unless it is designated upon recognition at fair value through profit or loss. The equity component is not re-measured.

If the convertible instrument is converted, the liability component, together with the equity component, is transferred to equity. If the convertible instrument is redeemed, the consideration paid for the redemption, together with the transaction costs that relate to the redemption, are allocated to the liability and equity components. The method used to allocate the consideration and transaction costs is the same as that used for issuance. After allocating the consideration and transaction costs, the difference between the allocated and carrying amounts is charged to profit and loss if it relates to the liability component or is directly recognised in equity if it relates to the equity component.

8. Precious metal

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals 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 and subsequent changes in fair value are recorded in the statement of profit or loss.

9. Long-term equity investments

9.1 Determination of joint control or significant influence over investee

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

9.2 Determination of initial investment cost

For the acquisition of long-term equity investments involving enterprises under the common control, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and cash paid or non-cash assets transferred as well as the carrying amount of the debts borne by the Group shall offset against the capital reserve. If the capital reserve is insufficient to observe the difference, the retained earnings shall be adjusted. The investment cost which adopts the equity securities issued as the consideration should be adopted as the initial investment cost of the long-term equity investment according to the proportion carrying amount of combined party's shareholder equity in the consolidated financial statement of the final controlling part, and adjust the capital reserves by the difference between the initial investment cost of long-term equity investment and the amount of issued stock's face value, which is regarded as capital stock. If the capital reserves are insufficient to absorb the difference, retained income should be adjusted. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and the carrying amount of long-term equity investment before acquiring control as well as the carrying amount of the debts for more shares on the acquisition date shall offset against the capital reserve. If the capital reserve is insufficient to absorb the difference, the retained earnings shall be adjusted.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment is the cost of acquisition on the acquisition date. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the carrying amount of long-term equity investment before acquiring control and the cost of new investment is the cost of acquisition measured under cost method.

Acquisition-related costs including auditing fees, legal services fees, valuation advice fees and other relevant management fees are generally recognised in profit or loss as incurred.

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

9.3 Subsequent measurement and recognition of profit or loss

(1) Long-term equity investment accounted for using the cost method

The Bank uses the cost method for the long-term equity investment in subsidiaries in the financial statements. The subsidiary refers to the investee that controlled by the group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Increasing or reducing investment will adjust the cost of long term equity investment accordingly. Investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.

(2) Long - term equity investment accounted for using the equity method

The Group accounts for investment in associates using the equity method. Associates are those that the group is able to exercise significant influence over the investee.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the initial cost of the investment, after reassessment of the long-term equity investment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Under the equity method, the Group recognizes investment income and other comprehensive income based on the Group's share of net profit or loss and other comprehensive income of the investee and adjust the carrying amount of long-term equity investment accordingly. The carrying amount of the investment decreases regarding the attributable share of cash dividends or profit distributions declared by the investee. Changes in shareholders' equity of the investee other than net profits or losses, other comprehensive income or profit distribution are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's identifiable assets after the adjustment of investee's net profit. When the accounting policy and accounting period adopted by the investee are inconsistent with the Group’s, the investment income and other comprehensive income are recognized based on the adjusted financial statements of the investee in accordance with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its investees in respect of impairment losses on the transferred assets shouldn’t be eliminated.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

9.4 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the period. When the Group reduces its ownership interest in investee but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the equity recognized by the Group other than the change of the net profits and loss, other comprehensive income and profit distribution of the invested entity is reclassified to profit and losses on proportion. When the Group reduces its ownership interest but the Group continues to use the cost method, for the other comprehensive income recognized by the Group using equity method prior to the control over the investee or under financial instrument recognition and measurement standard, the Group reclassifies to profit or loss the proportion of the gain or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the other changes in owners’ equity recognized by the Group using equity method, not arising from the change of the net profits and loss, other comprehensive income or profit distribution of the invested entity is reclassified to profit and loss on proportion.

(Expressed in millions of Renminbi, unless otherwise stated)

10. Fixed assets

10.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Group and the cost can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

10.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The depreciation period, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	*Depreciation period*	*Estimated residual value rate*	*Annual depreciation rate*
Buildings	20 - 30 years	0% - 3%	3.23% - 5.00%
Fixed assets improvement	The lower of improvement period and remaining useful life	0%	Linear depreciation according to depreciation life
Office and machinery equipment	3 - 20 years	0% - 5%	4.75% - 33.33%
Transportation vehicles	5 - 8 years	0% - 3%	12.50% - 20.00%
Flight equipment	25 years or 20 years	5% or 15%	3.80% or 4.25%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

10.3 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Group reviews the useful life and estimated net residual value rate of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

11. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset or other asset when it is ready for intended use.

12. Intangible assets

Intangible assets include land use rights, franchising, etc.

An intangible asset is measured initially at cost. Expenses related to the intangible assets are recognised in the cost of intangible assets when (i) it is probable that the associated economic benefits will flow to the Group; and (ii) the associated costs can be measured reliably. Other expenses related to the intangible assets are recognized in profit or loss for the period in which it is incurred.

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

The acquired land use right is recognized as intangible assets. Expenses related to land use right and construction cost from buildings such as self-built factory, etc. are recognized as intangible assets and fixed assets, respectively. In the case of purchased buildings, it allocates related cost between land use right and buildings. If related cost cannot be allocated reasonably, it is recognized as fixed assets.

When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and accounts for any change as a change in an accounting estimate. For an intangible asset with an infinite useful life, the Group reviews the useful life. If it is evident that the duration of associated economic benefits is predictable, then estimate the useful life pursuant to amortization policies for intangible assets with finite useful life.

13. Impairment of non-financial assets

The Group checks whether long-term equity investment, fixed assets, construction in progress, right-of-use assets, intangible assets with a finite useful life, goodwill, long-term prepaid expenses, and non-financial foreclosed assets will impair in every balance sheet date. If the indication of impairment of these assets exists, the Group estimates their recoverable amount. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Estimation of recoverable amount of the assets is based on individual asset. If the recoverable amount is difficult to estimate, the amount should be estimated by the assets group which the asset belongs to. Recoverable amount is the higher of the two: net fair value of the assets or assets group after disposal expenses, or present value of the expected cash flow from the assets.

If asset's recoverable amount is lower than its carrying amount, the allowance for impairment losses should be recognized by their balances in profit or loss for the period.

The goodwill should be tested of impairment at least in the end of the each year with related assets group or combination of assets group. In purchase date, the carrying amount of goodwill should be allocated reasonably to assets group or combinations which can benefit from the synergy of enterprise merger. If the recoverable amount of assets group or combinations of allocated goodwill is lower than its carrying amount, impairment loss should be recognized. The amount of impairment loss should offset the carrying value which is allocated to the goodwill of certain assets group or combinations at first, then it should offset the carrying amount of other assets proportionally according to the proportion of other assets' carrying amount of assets group or combination after goodwill. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

The impairment losses cannot be reversed once they are recognized.

14. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

15. Employee benefits

15.1 Accounting method of short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the short-term employee benefits for that service as a liability, and the expenditure incurred for the period is recorded in profit or loss. The employee's welfare incurred is recognized in the profit or loss for the period as well. Non-monetary benefit included in employee's welfare expenses are recorded at fair value.

Payment made by the Group regarding social security contributions for employees such as contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period in the accounting period in which employees provide services.

15.2 Accounting method of post-employment benefits

Termination benefits are classified as defined contribution pension plans and defined benefit plans.

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability and included in profit or loss for the period.

For the defined benefit plan, the Group recognizes the obligations arising from such plan based on formula under estimated cumulated welfare method in the period in which employees render service and included in profit or loss for the period. The classifications of the costs are as follows:

- Service costs (including service costs of the period, service costs in the past, and profit and loss).
- Net value of interests from net liabilities or net assets of defined benefit plans (including interest income of planned assets, obligated interest cost of defined benefit plans and interest of influence of assets upper limit).
- The changes of recalculating the net liabilities and net assets of defined benefit plans.

Net interests of service costs and net liabilities and net assets of defined benefit plans are recorded in the profit and loss. The changes of recalculating the net liabilities and net assets of defined benefit plans, including actuarial gains or loss, planned assets yield deducting net value of interests from net liabilities or net assets of defined benefit plans, change rising from upper limit of assets deducting net value of interests from net liabilities or net assets of defined, are recorded in other comprehensive income.

The difference between the present value of defined benefit obligation and the fair value of defined benefit asset is recognized as a net asset or liability of defined benefit plans. If there is surplus, the net assets of defined benefit plans should be measured by the lower of the two: 1. the surplus of defined benefit plans; 2. upper limit of assets.

15.3 Accounting method of termination benefits

In an accounting period in which an employee has rendered service to the Group, a liability for a termination benefit and an expense accordingly are recognized at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

16. Assets transferred under repurchase agreements

16.1 Financial assets purchased under resale agreements

The financial assets are not recognized in the statements of financial position if they are committed to be resold at a specific price at a specific date in the future. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the statements of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

16.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date and price are not derecognised in the statements of financial position. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the statements of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

17. Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

18. Income

18.1 Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost;
- Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

18.2 Fee and commission income

Fees and commissions is recognized by providing various services to customers, which reflects the consideration amount expected to be entitled to receive for the service provided to customers, and the income is recognized when the performance obligations in the contract are fulfilled.

The group will confirm the income according to the performance schedule within the time period when one of the following conditions is met:

- The customer obtains and consumes the economic benefits brought by the group's performance while performing the contract;
- The customer can control the services performed during the performance of the group;
- The services performed by the group in the performance process are irreplaceable and the group has the right to collect money for the cumulative performance part which has been completed so far throughout the contract period;

In other cases, the Group recognizes revenue when customers obtains the relevant service control right.

19. Enpenses

19.1 Interest expense

The interest expense of the financial liability is calculated according to the amortized cost of the financial liability and the time occupied by the capital according to the effective interest rate method, and is recognized in the corresponding period.

19.2 Other expenses

Other enpenses are recognized on an accrual basis.

20. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period. Government grants are classified into government grants related to assets and government grants related to income according the subjects required by the Government documents.

A government grant related to an asset is offset against the carrying amount of related asset. For a government grant related to income, if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs or losses are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

A government grant related to the Group's daily activities is included in other income according to the economic business substance. A government not related to the Group's daily activities is included in non-operating income and expense.

For the repayment of a government grant already recognized, if the carrying value of related assets is written off upon initial recognition, the carrying value of the assets is adjusted; if there is any related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period; if there is no related deferred income, it is recognized immediately in profit or loss for the period.

21. Deferred tax assets / deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

21.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

21.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

When they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

22. Fiduciary activities and agent business

The Group acts in a fiduciary activities and agent business as a trustee or an agent for customers. Customers should bear the risk and return generated by such activities. The Group only charges fee and commission. The fiduciary activities and agent business are excluded from the financial statements.

23. Lease

A contract is lease if the lessor conveys the right to control the use of an identified asset to lessee for a period of time in exchange for consideration.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset. An identified asset may be specified explicitly or implicitly speicied in a contrat and should be physically distinct, or capacity portion or other portion of an asset that is not physically distinct but it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the ecomonic benefits from the use of the asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the lessee has the right to direct the use of the asset.

For a contract that contains more separate lease componets, the lessee and the lessor separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and the lessor separate lease components from non-lease components. For a contract that contains lease and non-lease components, the lessee allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. On the contract inception date, the Lessor determines the stand-alone selling price of the lease and non-lease components underlying each performance obligation and allocates the transaction price in proportion to those stand-alone selling prices to recognise income.

(1) The Group as lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note IV, 13.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

A constant periodic rate is used to calculate the interest on the lease liability in each period during the lease term with a corresponding charge to profit or loss or included in the cost of assets where appropriate. Variable lease payments not included in the measurement of the lease liability is charged to profit or loss or included in the cost of assets where appropriate as incurred.

Under the following circumstances after the commencement date, the Group remeasures lease liabilities based on the present value of revised lease payments:

- there is a change in the amounts expected to be payable under a residual value guarantee;
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments;
- there is a change in the assessment of whether the Group will exercise a purchase, extension or termination option, or there is a change in the exercise of the extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low - value assets. The Group recognises the lease payments associated with these leases in profit or loss or as the cost of the assets where appropriate using the straight-line method over the lease term.

(2) The Group as lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

When the Group is a sub-lessor, it assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies practical expedient described above, then it classifies the sub-lease as an operating lease.

Under a finance lease, at the commencement date, the Group recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note IV, 7. Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

Lease receipts from operating leases is recognised as income using the straight-line method over the lease term. The initial direct costs incurred in respect of the operating lease are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Variable lease payments not included in lease receipts are recognised as income as they are earned.

24 Foreclosed asset

Foreclosed asset is initially measured at its fair value. At the balance sheet date, foreclosed asset is measured at the lower of carrying amount and net realizable value. The difference by which the net realizable value is lower than the carrying amount of the assets shall be provided for the current period. The foreclosed assets other than equity instruments are charged to other assets.

On disposal of a foreclosed asset, the difference between (i) income from disposal and (ii) the carrying amount of the foreclosed asset is charged to income from disposal of assets.

If the foreclosed asset is transferred for self-use, it should be measured at the carrying amount at the transfer date. Provision is to taken into account if applicable (see Note IV, 13).

25. Profit distribution

Proposed dividends which are declared and approved after the end of each balance sheet date are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each balance sheet date in the notes to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

26. Contingent liabilities

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

Contingent liabilities which are not recognised as a liability are expected to be disclosed in the notes only. If the situation changes, the contingent liabilities are recognised as provisions when it is probable that an outflow of economic resources will be required and the amount of obligation can be measured reliably.

27. Related parties

If the Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or the two 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.

In addition to the related parties stated above, the Bank determines related parties based on the disclosure requirements of *Administrative Procedures on the Information Disclosures of Listed Companies* issued by the CSRC.

28. Operating segment

The Group determines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting practices.

An operating segment is a component of the Group that meets all the following requirements: (i) it engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group; (ii) its operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and (iii) separate financial information is available. The operating segments that meet the specified criteria have been aggregated, and the operating segment that meets quantitative thresholds have been reported separately.

29. Significant accounting estimates and judgements

The preparation of the 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 as well as underlying assumptions and uncertainties involved 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.

29.1 Significant accounting estimates

In addition to the accounting estimates related to the depreciation and amortization of fixed assets and intangible assets (see Note IV, 10 and 12) and the impairment of various assets (see Note VII, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 15), other major accounting estimates are as follows:

(1) Note VII, 14. Recognized deferred tax assets;
(2) Note VII, 44. Post-employment benefits - defined benefit plans; and
(3) Note XI, 7. Fair value of financial instruments.

29.2 Significant accounting judgements

The significant accounting judgements made by the Group in the application of accounting policies are as follows:

(1) Note IV, 7 - Classification of financial investment;
(2) Note IV, 4 and 9 Significant judgments and assumptions on control, joint control or significant impact on other entities;
(3) Note VII, 24 and 28 - Other financial instruments are classified as financial liabilities or equity instruments; and
(4) Note VII, 45 - Judgement of consolidated structured entities.

30. Changes in significant accounting policies

The Group has adopted these standards released by the MOF recently from the accounting year beginning on 1 January 2021.

- CAS No.21 - Leases (Revised) (Cai Kuai [2018] No.35) ("New leases standard")
- Provisions on Accounting Treatment for COVID-19-Related Rent Concessions (Cai Kuai [2020] No.10) and Notice of Extending the Applicable Period of "Accounting Treatment of COVID-19 Related Rent Concessions" (Cai Kuai [2021] No.9)
- China Accounting Standards Bulletin No.14 (Cai Kuai [2021] No.1) (CAS Bulletin No.14)

30.1 New leases standard:

New leases standard has revised CAS No.21 - Leases issued by the MOF in 2006 ("previous leases standard"). The Group has initially adopted new leases standard from 1 January 2021, and made some adjustments in the relevant content of accounting policy. New leases standard introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. Under new leases standard, the Group, as the lessor of a sub-lease, is required to assess the classification of the sub-lease with reference to the right-of-use asset, not the underlying asset. The Group reassess sub-leased that were classified as operating leases and are ongoing at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sub-lease at the date of initial application, and determined the classification of sub-lease applying this standard. For subleases that were classified as finance leases, the Group accounted for the sub-lease as a new finance lease.

According to the requirement of transitioning into the new leases standard, entities may choose to recognise the cumulative effects of initial application of this standard in retained earnings and other relevant accounts at the beginning of the current year, and not to restate the comparative information. Accordingly, the Group has prepared its financial reports and disclosures under the new leases standard since 2021, and has not restated the comparative information presented at the end of 2020. The details of the changes in accounting policies are disclosed below:

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under new leases standard, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to new leases standard, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied new leases standard only to contracts that were previously identified as leases. Contracts that were not identified as leases under the previous leases standard were not reassessed. Therefore, the definition of a lease under the new leases standard has been applied only to contracts entered into or changed on or after 1 January 2021. For a contract that contains a lease component, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

The Group acting as a lessee

The Group leases many assets, including buildings, vehicles, equipments and other office equipments.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under new leases standard, the Group no longer distinguishes between operating or finance leases. The Group includes all major leases with lease terms over 12 months and with values higher than RMB40,000 at the time of initial recognition in the consolidated balance sheet, and recognises right-of-use assets and lease liabilities.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets, and leases with less than 12 months of lease term. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The Group applies CAS 8 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified. The Group presents the right-of-use asset in the consolidated balance sheet as a separate line item.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Group presents the lease liabilities in the consolidated balance sheet as a separate line item.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Impacts on transition of new leases standard

The Group has initially applied new leases standard using the modified retrospective approach. Under this approach, comparative information is not restated. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. At the date of initial application, the Group's total assets and total liabilities both increased by RMB8,790 million, among which right-of-use assets increased by RMB10,024 million (including operating leases of RMB9,432 million and finance leases of RMB592 million) and lease liabilities increased by RMB9,225 million. Fixed assets, other assets and other liabilities decreased by RMB592 million, RMB642 million and RMB435 million respectively. It has no impacts on the beginning balance of retained earnings.

(Expressed in millions of Renminbi, unless otherwise stated)

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2021. Each institution of the Group uses interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment as incremental borrowing rate.

	The Group	*The Bank*
Operating lease commitment at 31 December 2020 as disclosed in the Group's consolidated financial statements	11,081	10,684
Present value discounted using the incremental borrowing rate at 1 January 2021	10,091	9,868
Less: Recognition exemption of low-value assets and leases with lease term less than 12 months at transition	(1,280)	(1,280)
Finance lease liabilities recognised as at 31 December 2020	414	-
Lease liabilities recognised as at 1 January 2021	9,225	8,588

30.2 Cai Kuai [2020] No.10 and Cai Kuai [2021] No.9

Cai Kuai [2020] No.10 provides a practical expedient for rent concessions that arise as a direct consequence of COVID-19 and meet the qualifying criteria. When an enterprise adopts the practical expedient, it does not need to assess whether a change in the lease has occurred or reassess the lease classification. Combining the requirements of Caikuai [2021] No.9, such practical expedient is only applicable to any reduction in lease payments due before 30 June 2022. The Group did not adopt the practical expedient, therefore, the above regulations does not have significant effect on the financial position and financial performance of the Group.

30.3 CAS Bulletin No.14

CAS Bulletin No.14 takes effect on 26 January 2021 (implementation date).

CAS Bulletin No.14 introduces the accounting and disclosure requirements for the modification of financial instruments and lease liabilities resulting from the benchmark interest rate reform. Transactions related to the benchmark interest rate reform that occurred before 31 December 2020 and during 1 January 2021 to the implementation date are subject to retrospective adjustments. Cumulative effects are adjusted to the opening retained earnings or other comprehensive income for the year 2021.

Comparative information is not restated. The adoption of CAS Bulletin No.14 does not have significant effect on the financial position and financial performance of the Group.

V. Taxation

1. Corporate income tax

According to the Corporate Income Tax Law of the People's Republic of China, the income tax of the Bank is 25% (2020: 25%). The Bank's subsidiaries are calculated and settled at the tax rate in accordance with the tax rate applicable in the relevant territory.

The income tax of overseas branches of the Bank is calculated in accordance with the local tax rate, and the difference between the overseas tax rate and domestic tax rate is settled by the head office.

The deductible items of Corporate income tax are calculated in accordance with the relevant regulations. Corporate income tax is prepaid by domestic branches of the Bank and conducted annual filing by the head office.

2. Value-added tax

The value-added tax ("VAT") on sales is calculated using applicable tax rate on the basis of the revenue from sales determined as per tax regulations, and is paid after deducting the VAT on purchases. According to the Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Policies for Deepening the VAT Reform (MOF/STA/GACC Announcement [2019] No.39), the Group’s applicable VAT rate range was changed from 3% - 16% to 3% - 13% from 1 April 2019.

According to the Supplementary Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.2) and Notice on Issues relating to VAT Policies on Assets Management Products (Cai Shui [2017] No.56) issued by MOF and State Administration of Taxation, since 1 January 2018, the manager of asset management products will be the VAT taxpayer for VAT taxable behaviours occurred in the operation of asset management products. And the VAT is levied at the rate of 3% with a provisional application of simple taxation method.

3. City maintenance and construction tax

The Group's city maintenance and construction tax is calculated according to 1% ~ 7% of VAT.

4. Education surcharge

The Group's education surcharge and local education surcharge is calculated according to 3% ~ 5% of VAT.

VI. Consolidation scope

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows:

Key subsidiaries	*Main business place/Place of registration*	*Business nature*	*Registered capital*	*Total shareholding by the Group*			
				31 December 2021		*31 December 2020*	
				Direct	*Indirect*	*Direct*	*Indirect*
			In millions of Renminbi	(%)	(%)	(%)	(%)
Industrial Bank Financial Leasing Co., Ltd.	Tianjin	Financial leasing	9,000	100	-	100	-
China Industrial International Trust Limited	Fuzhou	Trust	10,000	73	-	73	-
CIB Fund Management Co., Ltd.	Fuzhou	Fund management	1,200	90	-	90	-
Industrial Consumer Finance Co., Ltd.	Quanzhou	Consumer finance	1,900	66	-	66	-
CIB Wealth Management Co., Ltd.	Fuzhou	Wealth management	5,000	100	-	100	-
CIIT Asset Management Co., Ltd. (1)	Shanghai	Assets management	3,400	-	100	-	100
China Industrial Asset Management Co., Ltd. (1)	Fuzhou	Assets management	1,950	-	100	-	100
Industrial Future Co., Ltd. (1)	Ningbo	Futures brokerage	500	-	100	-	100

(1) The companies are the subsidiaries of the Bank's controlled subsidiaries.

2. Refer to Note VII, 45 for the information of consolidated structure entities included in the consolidation scope.

VII. Notes to items in the financial statements

1. Cash and balances with Central Bank

	Note	*The Group 2021*	*The Group 2020*	*The Bank 2021*	*The Bank 2020*
Cash on hand		5,026	4,956	5,026	4,956
Mandatory reserves with central bank	(1)	343,500	350,307	343,491	350,302
Excess reserves with central bank	(2)	97,027	55,289	97,027	55,285
Other deposits with central bank	(3)	1,726	423	1,726	423
Interest accrued		167	172	167	172
Total		447,446	411,147	447,437	411,138

(1) The domestic institution of the Bank places general deposit reserves mainly with the PBOC as required, including RMB deposit reserves and foreign deposit reserves. These deposit reserves are not available for the Group's daily operations and can't be transferred or used without the PBOC's approval. General deposit generates from organizations deposit, non-financial-budget deposit, individual deposit, enterprise deposit, net trust funds and other deposits. As at 31 December 2021, the ratio of the Bank's RMB deposit reserves is 8% (31 December 2020: 9%), the ratio of foreign deposit reserves is 9% (31 December 2020: 5%). According to related regulations from the PBOC, foreign deposit reserves are non-interest bearing. The Group's subsidies' RMB reserve deposit ratio is in accordance with regulations of PBOC. Deposit ratio of statutory reserve in Hong Kong branch is in accordance with regulations from local regulators.

(2) Excess reserves with central bank in Central Bank are maintained with the PBOC mainly for the purpose of clearing, transferring, etc.

(Expressed in millions of Renminbi, unless otherwise stated)

(3) The majority of other deposits with central bank are the fiscal deposits placed at Central Bank. Fiscal deposit at Central Bank refers to the fiscal deposit at PBOC by the Bank according to regulations, including the Bank's agent central budgetary revenues, local treasury deposits, etc. The fiscal deposits placed with the PBOC of institutions in mainland China are non-interest bearing.

2. Deposits with banks and other financial institutions

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Banks operating in Mainland China	35,529	44,227	28,540	35,681
Other financial institutions operating in Mainland China	7,500	5,114	7,316	4,943
Banks operating outside Mainland China	23,368	45,923	23,368	45,923
Other financial institutions operating outside Mainland China	90	85	90	85
Interest accrued	171	195	110	185
Subtotal	66,658	95,544	59,424	86,817
Less: allowance for impairment losses	(407)	(337)	(403)	(327)
Net value	66,251	95,207	59,021	86,490

3. Placements with banks and other financial institutions

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Banks operating in Mainland China	16,092	12,957	15,293	11,458
Other financial institutions operating in Mainland China	220,639	139,264	236,224	154,861
Banks operating outside Mainland China	115,975	39,678	115,975	39,678
Interest accrued	542	671	717	782
Subtotal	353,248	192,570	368,209	206,779
Less: allowance for impairment losses	(1,426)	(631)	(1,426)	(631)
Net value	351,822	191,939	366,783	206,148

4. Derivative financial instruments

The Group enters into derivative financial instruments related to foreign currency exchange rate, interest rate and precious metals for purposes of trading, asset and liability management and customer driven business.

The notional amounts of derivative instruments represent the value of the underlying asset or the reference rate as a basis to measure changes in derivative financial instruments, which provide an indication of the volume of business transacted by the Group, but don't stand for the relevant future cash flow or current fair value, thus, do not indicate the Group’s exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and financial liabilities can fluctuate significantly from time to time.

The notional amount and fair value of the Group's derivative financial instruments are as follows:

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2021		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Interest rate derivatives	5,104,796	18,989	(21,448)
Exchange rate derivatives	1,707,928	14,984	(15,280)
Precious metal derivatives	64,022	423	(1,939)
Credit derivatives and others	13,504	64	(180)
Total		34,460	(38,847)

	2020		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Interest rate derivatives	5,032,016	17,478	(17,764)
Exchange rate derivatives	1,958,034	41,037	(42,424)
Precious metal derivatives	40,563	705	(903)
Credit derivatives and others	13,619	176	(422)
Total		59,396	(61,513)

The Bank

	2021		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Interest rate derivatives	5,104,796	18,989	(21,448)
Exchange rate derivatives	1,707,928	14,984	(15,280)
Precious metal derivatives	64,022	423	(1,939)
Credit derivatives and others	13,498	64	(180)
Total		34,460	(38,847)

	2020		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Interest rate derivatives	5,032,016	17,477	(17,764)
Exchange rate derivatives	1,956,788	41,029	(42,416)
Precious metal derivatives	40,563	705	(903)
Credit derivatives and others	13,619	176	(422)
Total		59,387	(61,505)

Fair value hedge

The Group uses the fair value hedges to hedge the influences of changes in fair value of financial assets and trading spots caused by the changes of market interest rate and market value. For interest rate risk of financial assets, the Group adopts interest rate swaps as hedging instruments. For pricing risk of trading spots, the Group adopts future contracts as hedging instruments. Included in the aforesaid derivative financial instruments, the hedging instruments designated by the Group and the Bank are as follows:

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2021		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Derivatives designated as fair value hedging instruments:			
Interest rate derivatives - Interest rate swaps	19,853	113	(177)
Commodity derivatives			
- Future contracts [1]	90	-	-
		113	(177)

	2020		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Derivatives designated as fair value hedging instruments:			
Interest rate derivatives			
- Interest rate swaps	14,963	-	(328)

(1) Industrial Future Co., Ltd., a subsidiary of the Group, uses commodity derivatives to hedge the fair value changes caused by market price changes of trading spots held. The commodity derivatives are settled daily without liability and have a fair value of 0 on the balance sheet date.

The Bank

	2021		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Derivatives designated as fair value hedging instruments:			
Interest rate derivatives			
- Interest rate swaps	19,853	113	(177)

	2020		
	Notional amount	*Fair value*	
		Assets	*Liabilities*
Derivatives designated as fair value hedging instruments:			
Interest rate derivatives			
- Interest rate swaps	14,963	-	(328)

(Expressed in millions of Renminbi, unless otherwise stated)

The effectiveness of the hedging activities in the year which is reflected by the changes in fair value of hedging instruments and the net profit or loss from the hedged item attributable to the hedged risks is as follows:

The Group

	2021	*2020*
Net gain (loss) from fair value hedge:		
Hedging instruments	285	(100)
Hedged item attributable to the hedged risk	(276)	95
	9	(5)

The Bank

	2021	*2020*
Net gain (loss) from fair value hedge:		
Hedging instruments	264	(100)
Hedged item attributable to the hedged risk	(255)	95
	9	(5)

(Expressed in millions of Renminbi, unless otherwise stated)

Details of hedged exposure in fair value hedging strategy of the Group and the Bank as below:

The Group

	2021				
	Carrying amount of hedged items		*Total amount of fair value adjustment of hedged items*		*Balance sheet items*
	Assets	*Liabilities*	*Assets*	*Liabilities*	
Bonds	20,117	-	80	-	Other Debt Investments
Others	90	-	(21)	-	Other Assets
Total	20,207	-	59	-	

	2020				
	Carrying amount of hedged items		*Total amount of fair value adjustment of hedged items*		*Balance sheet items*
	Assets	*Liabilities*	*Assets*	*Liabilities*	
Bonds	15,356	-	335	-	Other Debt Investments

The Bank

	2021				
	Carrying amount of hedged items		*Total amount of fair value adjustment of hedged items*		*Balance sheet items*
	Assets	*Liabilities*	*Assets*	*Liabilities*	
Bonds	20,117	-	80	-	Other Debt Investments

	2020				
	Carrying amount of hedged items		*Total amount of fair value adjustment of hedged items*		*Balance sheet items*
	Assets	*Liabilities*	*Assets*	*Liabilities*	
Bonds	15,356	-	335	-	Other Debt Investments

5. Financial assets purchased under resale agreements

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Bonds	142,312	124,148	138,256	117,743
Interest accrued	66	182	63	181
Subtotal	142,378	124,330	138,319	117,924
Less: allowance for impairment losses	(1,247)	(980)	(1,247)	(979)
Total	141,131	123,350	137,072	116,945

(Expressed in millions of Renminbi, unless otherwise stated)

6. Loans and advances to customers

6.1 Analysis of loans and advances to customers by person and corporate:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Measured at amortised cost:				
Personal loans and advances				
Residential and business mortgage loans	1,121,169	1,053,059	1,121,169	1,053,059
Credit cards	436,482	409,826	436,482	409,826
Others	322,281	251,586	264,225	210,661
Subtotal	1,879,932	1,714,471	1,821,876	1,673,546
Corporate loans and advances				
Loans and advances	2,221,044	2,042,136	2,226,658	2,048,156
Subtotal	2,221,044	2,042,136	2,226,658	2,048,156
Less: allowance for impairment losses on loans and advances to customers measured at amortised cost	(129,877)	(108,068)	(126,425)	(105,482)
Carrying amount of loans and advances to customers measured at amortised cost	3,971,099	3,648,539	3,922,109	3,616,220
Fair value through other comprehensive income:				
Corporate loans and advances				
Discounted Bills	324,356	207,703	324,356	207,703
Subtotal	324,356	207,703	324,356	207,703
Fair value through profit or loss:				
Corporate loans and advances				
Loans and advances	2,851	1,364	2,851	1,364
Subtotal	2,851	1,364	2,851	1,364
Interest accrued	12,000	9,715	11,430	9,318
Net balance	4,310,306	3,867,321	4,260,746	3,834,605

As at 31 December 2021, the Group and Bank's allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income was RMB1,032 million (As at 31 December 2020: RMB593 million).

(Expressed in millions of Renminbi, unless otherwise stated)

6.2 Analysis of loans and advances to customers (interest accrued excluded) by industry distribution:

	The Group				The Bank			
	2021		2020		2021		2020	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Manufacturing	437,716	9.89	373,532	9.43	437,716	10.00	373,532	9.51
Leasing and commercial services	378,765	8.55	356,050	8.98	378,765	8.66	356,201	9.06
Real estate	336,830	7.61	317,522	8.01	336,830	7.70	317,522	8.08
Retail and wholesale	247,648	5.59	250,564	6.32	246,291	5.63	250,564	6.37
Water, environment and public facilities administration	231,926	5.24	231,766	5.84	231,926	5.30	231,766	5.90
Construction	149,833	3.38	134,205	3.38	149,833	3.42	134,205	3.41
Transport, logistics and postal service	146,287	3.30	121,472	3.06	146,287	3.34	121,472	3.09
Production and supply of power, gas and water	117,743	2.66	87,242	2.20	117,743	2.69	87,242	2.22
Extractive industry	67,626	1.53	58,636	1.48	67,626	1.55	58,189	1.48
Financial industry	27,562	0.62	32,658	0.82	34,532	0.79	38,974	0.99
Other corporate industries	81,959	1.86	79,853	2.01	81,960	1.87	79,853	2.03
Subtotal	2,223,895	50.23	2,043,500	51.53	2,229,509	50.95	2,049,520	52.14
Personal loans	1,879,932	42.45	1,714,471	43.23	1,821,876	41.64	1,673,546	42.58
Discounted bills	324,356	7.32	207,703	5.24	324,356	7.41	207,703	5.28
Gross loans and advances	4,428,183	100.00	3,965,674	100.00	4,375,741	100.00	3,930,769	100.00
Less: allowance for impairment losses	(129,877)		(108,068)		(126,425)		(105,482)	
Loans and advances to customers (interest accrued excluded)	4,298,306		3,857,606		4,249,316		3,825,287	

6.3 Analysis of loans and advances to customers (interest accrued excluded) by geographical distribution:

	The Group				The Bank			
	2021		2020		2021		2020	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Guangdong	516,058	11.66	483,612	12.19	512,081	11.70	480,588	12.23
Head office (Note 1)	511,398	11.55	422,941	10.67	511,398	11.69	422,941	10.76
Fujian	472,429	10.67	410,418	10.35	470,594	10.75	410,253	10.44
Jiangsu	429,137	9.69	406,890	10.26	422,798	9.66	402,388	10.24
Zhejiang	383,254	8.65	339,335	8.56	380,322	8.69	337,533	8.59
Beijing	221,082	4.99	212,119	5.35	218,914	5.00	211,234	5.37
Shanghai	201,100	4.54	178,025	4.49	186,695	4.27	169,944	4.32
Others (Note 2)	1,693,725	38.25	1,512,334	38.13	1,672,939	38.24	1,495,888	38.05
Gross loans and advances	4,428,183	100.00	3,965,674	100.00	4,375,741	100.00	3,930,769	100.00
Less: allowance for impairment losses	(129,877)		(108,068)		(126,425)		(105,482)	
Loans and advances to customers (interest accrued excluded)	4,298,306		3,857,606		4,249,316		3,825,287	

Note 1: Head office contains the credit card centre and the treasury centre.

Note 2: As at 31 December 2021, the Bank has 45 tier 1 branches, apart from the tier 1 branches mentioned above, the rest is categorized into "Others". Loans and advances originated by the Bank and the subsidiaries are presented by geographical distribution.

(Expressed in millions of Renminbi, unless otherwise stated)

6.4 Analysis of loans and advances (interest accrued excluded) to customers by security type:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Unsecured loans	1,193,021	1,054,966	1,141,979	1,020,509
Guaranteed loans	876,315	812,622	876,315	812,622
Collateralised loans	2,034,491	1,890,383	2,033,091	1,889,935
- Secured by mortgage	1,720,791	1,573,352	1,719,391	1,572,904
- Secured by collaterals	313,700	317,031	313,700	317,031
Discounted bills	324,356	207,703	324,356	207,703
Gross loans and advances	4,428,183	3,965,674	4,375,741	3,930,769
Less: allowance for impairment losses	(129,877)	(108,068)	(126,425)	(105,482)
Loans and advances to customers (interest accrued excluded)	4,298,306	3,857,606	4,249,316	3,825,287

6.5 Overdue loans (interest accrued excluded):

The Group

	2021					*2020*				
	1-90 days (including 90 days)	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*	*1-90 days (including 90 days)*	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*
Unsecured loans	12,668	9,387	2,197	202	24,454	8,395	7,940	806	138	17,279
Guaranteed loans	5,882	4,145	3,500	762	14,289	3,695	6,035	3,277	697	13,704
Collateralised loans	8,821	9,904	6,710	805	26,240	7,626	5,786	7,487	437	21,336
-Secured by mortgage	8,818	9,478	6,405	779	25,480	7,588	5,500	7,026	397	20,511
-Secured by collaterals	3	426	305	26	760	38	286	461	40	825
Total	27,371	23,436	12,407	1,769	64,983	19,716	19,761	11,570	1,272	52,319

The Bank

	2021					*2020*				
	1-90 days (including 90 days)	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*	*1-90 days (including 90 days)*	*90-360 days (including 360 days)*	*360 days to 3 years (including 3 years)*	*Over 3 years*	*Total*
Unsecured loans	11,675	8,739	2,188	202	22,804	7,836	7,181	805	138	15,960
Guaranteed loans	5,882	4,145	3,500	762	14,289	3,695	6,035	3,277	697	13,704
Collateralised loans	8,821	8,504	6,710	805	24,840	7,626	5,786	7,039	437	20,888
-Secured by mortgage	8,818	8,078	6,405	779	24,080	7,588	5,500	6,578	397	20,063
-Secured by collaterals	3	426	305	26	760	38	286	461	40	825
Total	26,378	21,388	12,398	1,769	61,933	19,157	19,002	11,121	1,272	50,552

The loan will be categorized into overdue when principal or interest is overdue for one day.

(Expressed in millions of Renminbi, unless otherwise stated)

6.6 Allowance for loan impairment

As at 31 December 2021, changes in allowance for impairment losses on loans and advances to customers are as follows:

(1) Loans and advances to customers measured at amortised cost

	The Group			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2021	68,662	7,485	31,921	108,068
Transfer:				
- to stage 1	7,826	(2,664)	(5,162)	-
- to stage 2	(4,785)	10,005	(5,220)	-
- to stage 3	(4,745)	(1,499)	6,244	-
Charge for the year	14,977	753	29,315	45,045
Write-offs and transfer out	-	-	(32,795)	(32,795)
Recoveries of amounts previously written off	-	-	10,602	10,602
Exchange difference and other movements	-	-	(1,043)	(1,043)
31 December 2021	81,935	14,080	33,862	129,877

	The Group			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2020	57,044	11,150	36,659	104,853
Transfer:				
- to stage 1	4,419	(1,994)	(2,425)	-
- to stage 2	(355)	605	(250)	-
- to stage 3	(419)	(1,277)	1,696	-
Charge (reversal) for the year	7,973	(999)	42,381	49,355
Write-offs and transfer out	-	-	(52,067)	(52,067)
Recoveries of amounts previously written off	-	-	7,967	7,967
Exchange difference and other movements	-	-	(2,040)	(2,040)
31 December 2020	68,662	7,485	31,921	108,068

	The Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2021	67,566	7,238	30,678	105,482
Transfer:				
- to stage 1	7,781	(2,648)	(5,133)	-
- to stage 2	(4,780)	9,995	(5,215)	-
- to stage 3	(4,733)	(1,496)	6,229	-
Charge for the year	14,402	679	26,726	41,807
Write-offs and transfer out	-	-	(30,118)	(30,118)
Recoveries of amounts previously written off	-	-	10,297	10,297
Exchange difference and other movements	-	-	(1,043)	(1,043)
31 December 2021	80,236	13,768	32,421	126,425

(Expressed in millions of Renminbi, unless otherwise stated)

	The Bank			
	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL not credit-impaired*	*Stage 3* *Lifetime ECL credit-impaired*	*Total*
1 January 2020	56,070	11,051	35,908	103,029
Transfer:				
- to stage 1	4,417	(1,994)	(2,423)	-
- to stage 2	(339)	588	(249)	-
- to stage 3	(376)	(1,273)	1,649	-
Charge (reversal) for the year	7,794	(1,134)	40,313	46,973
Write-offs and transfer out	-	-	(50,232)	(50,232)
Recoveries of amounts previously written off	-	-	7,752	7,752
Exchange difference and other movements	-	-	(2,040)	(2,040)
31 December 2020	67,566	7,238	30,678	105,482

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

	Group and Bank			
	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL not credit-impaired*	*Stage 3* *Lifetime ECL credit-impaired*	*Total*
1 January 2021	576	-	17	593
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Charge for the year	432	3	4	439
Write-offs and transfer out	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Exchange difference and other movements	-	-	-	-
31 December 2021	1,008	3	21	1,032

	Group and Bank			
	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL not credit-impaired*	*Stage 3* *Lifetime ECL credit-impaired*	*Total*
1 January 2020	700	16	12	728
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
(Reversal) charge for the year	(124)	(16)	5	(135)
Write-offs and transfer out	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Exchange difference and other movements	-	-	-	-
31 December 2020	576	-	17	593

(Expressed in millions of Renminbi, unless otherwise stated)

7. Financial investments

		The Group		The Bank	
	Note	*2021*	*2020*	*2021*	*2020*
Trading assets	7.1	909,794	823,927	847,457	773,552
Debt investments	7.2	1,601,030	1,550,131	1,585,226	1,535,542
Other debt investments	7.3	484,624	516,368	484,758	514,919
Other equity investments	7.4	3,148	2,388	3,068	2,308
Total		2,998,596	2,892,814	2,920,509	2,826,321

7.1 Trading assets

	The Group		The Bank	
	2021	*2020*	*2021*	*2020*
Held for trading purpose:				
Government bonds	70,086	51,676	68,682	50,436
The Central Bank bills and policy financial bonds	32,267	10,797	16,029	7,277
Bonds issued by banks and other financial institutions	16,665	9,259	2,976	2,673
Interbank certificates of deposit	802	1,732	482	298
Corporate bonds and asset-backed securities	82,131	93,319	45,904	52,173
Funds	589,920	548,723	632,477	588,034
Other investments	5,035	8,798	-	-
Subtotal	796,906	724,304	766,550	700,891
Financial assets measured at fair value through profit or loss (mandatory):				
Bonds issued by banks and other financial institutions	4,562	2,802	4,562	2,802
Corporate bonds and asset-backed securities	1,548	3,339	1,497	3,267
Trust beneficiary rights and asset management plans	77,580	76,219	68,700	65,625
- Debt securities	72,347	64,723	65,762	58,994
- Credit assets	2,248	5,160	1,827	4,723
- Others	2,985	6,336	1,111	1,908
Equity investments	19,536	12,839	1,059	967
Funds	2,984	2,214	-	-
Wealth management products	6,678	2,210	5,089	-
Subtotal	112,888	99,623	80,907	72,661
Total	909,794	823,927	847,457	773,552

(Expressed in millions of Renminbi, unless otherwise stated)

7.2 Debt investments

	Note	The Group 2021	The Group 2020	The Bank 2021	The Bank 2020
Government bonds		835,631	705,846	828,788	702,498
The Central Bank bills and policy financial bonds		2,040	2,090	2,040	2,090
Bonds issued by banks and other financial institutions		19,848	59,549	19,848	59,609
Interbank certificates of deposit		18,414	16,646	18,414	16,646
Corporate bonds and asset-backed securities		88,475	100,017	88,229	99,617
Trust beneficiary rights and asset management plans		662,771	681,928	652,520	670,381
- Credit assets		367,931	467,153	367,206	467,153
- Debt securities		229,540	161,862	229,426	161,614
- Others		65,300	52,913	55,888	41,614
Interest accrued		16,168	15,557	15,991	15,318
Subtotal		1,643,347	1,581,633	1,625,830	1,566,159
Less: allowance for impairment losses	(1)	(42,317)	(31,502)	(40,604)	(30,617)
Net value		1,601,030	1,550,131	1,585,226	1,535,542

(1) Changes in allowance for impairment losses on debt investments are as follows:

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2021	14,162	3,420	13,920	31,502
Transfer:				
- to stage 1	224	(224)	-	-
- to stage 2	(261)	1,219	(958)	-
- to stage 3	(71)	(1,127)	1,198	-
(Reversal) charge for the year	(5,623)	3,383	23,171	20,931
Write-offs and transfer out	-	-	(10,207)	(10,207)
Exchange difference and other movements	(41)	-	132	91
31 December 2021	8,390	6,671	27,256	42,317

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2020	8,892	2,936	12,281	24,109
Transfer:				
- to stage 1	161	(161)	-	-
- to stage 2	(64)	64	-	-
- to stage 3	(100)	(1,051)	1,151	-
Reversal for the year	5,500	1,632	12,754	19,886
Write-offs and transfer out	-	-	(12,730)	(12,730)
Exchange difference and other movements	(227)	-	464	237
31 December 2020	14,162	3,420	13,920	31,502

(Expressed in millions of Renminbi, unless otherwise stated)

	The Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2021	14,151	3,081	13,385	30,617
Transfer:				
- to stage 1	221	(221)	-	-
- to stage 2	(261)	1,219	(958)	-
- to stage 3	(71)	(897)	968	-
(Reversal) charge for the year	(5,614)	3,174	22,248	19,808
Write-offs and transfer out	-	-	(9,865)	(9,865)
Exchange difference and other movements	(40)	-	84	44
31 December 2021	8,386	6,356	25,862	40,604

	The Bank			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	
1 January 2020	8,860	2,805	11,340	23,005
Transfer:				
- to stage 1	161	(161)	-	-
- to stage 2	(64)	64	-	-
- to stage 3	(100)	(1,051)	1,151	-
Charge for the year	5,521	1,424	12,149	19,094
Write-offs and transfer out	-	-	(11,719)	(11,719)
Exchange difference and other movements	(227)	-	464	237
31 December 2020	14,151	3,081	13,385	30,617

7.3 Other debt investments

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Debt investments:				
Government bonds	190,528	208,107	190,023	208,107
The Central Bank bills and policy financial bonds	8,478	10,624	8,478	10,624
Bonds issued by banks and other financial institutions	26,210	25,526	26,514	25,536
Interbank certificates of deposit	22,261	42,097	22,261	42,097
Corporate bonds and asset-backed securities	230,058	219,462	231,191	219,992
Trust beneficiary rights and asset management plans	2,565	5,216	1,754	3,221
Interest accrued	4,524	5,336	4,537	5,342
Total	484,624	516,368	484,758	514,919

(Expressed in millions of Renminbi, unless otherwise stated)

(1) Changes in fair value

	Note	The Group 2021	The Group 2020	The Bank 2021	The Bank 2020
Initial recognition cost		485,775	523,280	485,771	521,625
Fair value		484,624	516,368	484,758	514,919
Accumulate amount recognised in other comprehensive income		(1,231)	(7,247)	(1,093)	(7,041)
Accumulate amount recognised in profit or loss	(i)	80	335	80	335

(i) The Bank uses interest rate swaps to hedge the changes in fair value caused by changes in bond interest rates of other debt investments held. Fair value changes of the part of hedged bonds are included in profit or loss.

(2) Changes in allowance for impairment losses on other debt investments are as follows:

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2021	593	591	2,904	4,088
Transfer:				
- to stage 2	(2)	2	-	-
- to stage 3	-	(78)	78	-
Charge (reversal) for the year	170	(282)	468	356
Write-offs and transfer out	-	-	(2,137)	(2,137)
Exchange difference and other movements	(9)	-	-	(9)
31 December 2021	752	233	1,313	2,298

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2020	703	74	1,205	1,982
Transfer:				
- to stage 1	1	(1)	-	-
- to stage 2	(1)	1	-	-
- to stage 3	(2)	-	2	-
(Reversal) Charge for the year	(11)	517	1,977	2,483
Write-offs and transfer out	-	-	(280)	(280)
Exchange difference and other movements	(97)	-	-	(97)
31 December 2020	593	591	2,904	4,088

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2021	590	580	2,724	3,894
Transfer:				
Charge (reversal) for the year	151	(358)	617	410
Write-offs and transfer out	-	-	(2,137)	(2,137)
Exchange difference and other movements	(27)	-	-	(27)
31 December 2021	714	222	1,204	2,140

(Expressed in millions of Renminbi, unless otherwise stated)

	The Bank			
	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL not credit-impaired*	*Stage 3* *Lifetime ECL credit-impaired*	*Total*
1 January 2020	669	64	1,124	1,857
Transfer:				
- to stage 2	(1)	1	-	-
Charge (reversal) for the year	19	515	1,884	2,418
Write-offs and transfer out	-	-	(284)	(284)
Exchange difference and other movements	(97)	-	-	(97)
31 December 2020	590	580	2,724	3,894

7.4 Other equity investments

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Designated at fair value through other comprehensive income	3,148	2,388	3,068	2,308

The Group designates non-trading equity investments as financial assets at fair value through other comprehensive income. As at 31 December 2021, the fair value of the equity investments is RMB3,148 million (31 December 2020: RMB2,388 million). During the reporting period, dividend income of RMB16.25 million (2020: RMB11.99 million) recognized for such equity investments was included in the profit or loss.

Related analysis of other equity investments are as follows:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Initial recognition cost	3,175	2,673	3,095	2,593
Fair value	3,148	2,388	3,068	2,308
Accumulate amount recognised in other comprehensive income	(27)	(285)	(27)	(285)

8. Finance lease receivables

The Group

Presented by nature:

	Note	*2021*	*2020*
Finance lease receivables		120,046	116,719
Less: unrealized financing income		(11,184)	(10,846)
Present value of minimum finance lease receivables		108,862	105,873
Less: allowance for impairment losses	(1)	(4,905)	(5,257)
Net value		103,957	100,616

(Expressed in millions of Renminbi, unless otherwise stated)

Finance lease receivables Listed as follows:

	Note	*2021*	*2020*
Within 1 year		49,302	43,412
1 to 2 years		30,295	32,866
2 to 3 years		18,079	17,992
3 to 5 years		13,160	13,718
Over 5 years		7,226	6,751
Undated*		1,984	1,980
Minimum lease receipts in total		120,046	116,719
Unrealized financing income		(11,184)	(10,846)
Present value of minimum finance lease receivables		108,862	105,873
Less: allowance for impairment losses	(1)	(4,905)	(5,257)
Net value		103,957	100,616
-Finance lease receivables due within 1 year		17,060	37,814
-Finance lease receivables due more than 1 year		86,897	62,802

* Undated amount refers to the part that was impaired or overdue for more than one month.

(Expressed in millions of Renminbi, unless otherwise stated)

(1) Changes in allowance for impairment losses on finance lease receivables :

	The Group			
	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL not credit-impaired*	*Stage 3* *Lifetime ECL credit-impaired*	*Total*
1 January 2021	1,894	556	2,807	5,257
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	(1)	1	-	-
- to stage 3	(215)	(130)	345	-
Charge (reversal) for the year	(217)	(226)	289	(154)
Write-offs and transfer out	-	-	(197)	(197)
Recovery of writ-offs				
Exchange difference and other movements	-	-	(1)	(1)
31 December 2021	1,461	201	3,243	4,905

	The Group			
	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL not credit-impaired*	*Stage 3* *Lifetime ECL credit-impaired*	*Total*
1 January 2020	1,358	982	2,683	5,023
Transfer:				
- to stage 1	316	(316)	-	-
- to stage 2	(7)	7	-	-
- to stage 3	(117)	-	117	-
Charge (reversal) for the year	346	(117)	(173)	56
Write-offs and transfer out	-	-	(1)	(1)
Recovery of writ-offs	-	-	181	181
Exchange difference and other movements	(2)	-	-	(2)
31 December 2020	1,894	556	2,807	5,257

(Expressed in millions of Renminbi, unless otherwise stated)

9. Long-term equity investments

The Group

Investee	Accounting method	1 January 2021	Changes	31 December 2021	Proportion of equity interest (%)	Proportion of voting power in the investee (%)	Explanation of inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
Bank of Jiujiang (1)	Equity method	3,227	181	3,408	12.23	12.23	not applicable	-	30
Others	Equity method	322	2	324			not applicable	-	-
Total		3,549	183	3,732				-	30

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

Investee	*Accounting method*	*1 January 2021*	*Changes*	*31 December 2021*	*Proportion of equity interest (%)*	*Proportion of voting power in the investee (%)*	*Explanation of inconsistency between the proportion of equity interest and the proportion of voting power in the investee*	*Provisions*	*Cash dividends for this year*
Bank of Jiujiang (1)	Equity method	3,227	181	3,408	12.23	12.23	not applicable	-	30
Industrial Bank Financial Leasing Co., Ltd. (Note. VI)	Cost method	7,000	-	7,000	100.00	100.00	not applicable	-	450
China Industrial International Trust Limited (Note. VI)	Cost method	6,395	-	6,395	73.00	73.00	not applicable	-	-
CIB Fund Management Co., Ltd. (Note. VI)	Cost method	900	-	900	90.00	90.00	not applicable	-	-
Industrial Consumer Finance Co., Ltd. (Note. VI)	Cost method	1,254	-	1,254	66.00	66.00	not applicable	-	125
CIB Wealth Management Co., Ltd. (Note. VI)	Cost method	5,000	-	5,000	100.00	100.00	not applicable	-	-
Total		23,776	181	23,957				-	605

(1) As the Bank held 12.23% shares and voting rights of Bank of Jiujiang and sent a director to the Bank of Jiujiang, the Bank has significant influence over the Bank of Jiujiang and the equity investment is accounted for using the equity method.

(2) There are no restrictions of the investees' capacities of capital transferring to the Group and the Bank on 31 December 2021.

(Expressed in millions of Renminbi, unless otherwise stated)

10. Fixed assets

The Group

	Buildings	*Fixed assets improvement*	*Office and machinery equipment*	*Transportation vehicles*	*Flight equipment*	*Total*
Cost						
At 1 January 2021	21,638	1,171	8,714	456	6,053	38,032
Purchase	485	53	2,527	50	-	3,115
Transfers from constructions in progress	254	28	-	-	-	282
Sales / disposals	(85)	(4)	(1,519)	(53)	-	(1,661)
At 31 December 2021	22,292	1,248	9,722	453	6,053	39,768
Accumulated depreciation						
At 1 January 2021	(4,168)	(545)	(6,277)	(328)	(858)	(12,176)
Depreciation for the year	(771)	(72)	(1,007)	(35)	(364)	(2,249)
Eliminated on sales / disposals	46	3	842	29	-	920
At 31 December 2021	(4,893)	(614)	(6,442)	(334)	(1,222)	(13,505)
Net value						
At 1 January 2021	17,470	626	2,437	128	5,195	25,856
At 31 December 2021	17,399	634	3,280	119	4,831	26,263
Allowance for impairment losses						
At 1 January 2021	(3)	-	-	-	(31)	(34)
Charge for the year	-	-	-	-	(169)	(169)
At 31 December 2021	(3)	-	-	-	(200)	(203)
Net carrying amount						
At 1 January 2021	17,467	626	2,437	128	5,164	25,822
At 31 December 2021	17,396	634	3,280	119	4,631	26,060

As at 31 December 2021, the cost of flight equipment leased out under operating lease business by the Group's subsidiary Industrial Bank Financial Leasing Co., Ltd. was RMB6,053 million (1 January 2021: RMB6,053 million).

As at 31 December 2021, buildings which cost RMB1,338 million are in use but the legal ownership registrations were still in process (31 December 2020: RMB2,100 million).

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

	Buildings	*Fixed assets improvement*	*Office and machinery equipment*	*Transportation vehicles*	*Total*
Cost					
At 1 January 2021	21,604	1,170	8,322	425	31,521
Purchase	71	5	1,723	42	1,841
Transfers from constructions in progress	254	28	-	-	282
Sales/disposals	(85)	(4)	(924)	(47)	(1,060)
At 31 December 2021	21,844	1,199	9,121	420	32,584
Accumulated depreciation					
At 1 January 2021	(4,155)	(545)	(6,039)	(308)	(11,047)
Depreciation for the year	(765)	(72)	(868)	(29)	(1,734)
Eliminated on sales/disposals	46	3	794	23	866
At 31 December 2021	(4,874)	(614)	(6,113)	(314)	(11,915)
Net value					
At 1 January 2021	17,449	625	2,283	117	20,474
At 31 December 2021	16,970	585	3,008	106	20,669
Allowance for impairment losses					
At 1 January 2021	(3)	-	-	-	(3)
At 31 December 2021	(3)	-	-	-	(3)
Net carrying amount					
At 1 January 2021	17,446	625	2,283	117	20,471
At 31 December 2021	16,967	585	3,008	106	20,666

As at 31 December 2021, buildings which cost RMB1,338 million are in use but the legal ownership registrations were still in process (31 December 2020: RMB2,100million).

11. Construction in progress

11.1 Details of construction in progress are as follows:

The Group

	2021			*2020*		
	Carrying amount	*Allowance for impairment loss*	*Net carry amount*	*Carrying amount*	*Allowance for impairment loss*	*Net carry amount*
Operating building, Nanchang	395	-	395	351	-	351
Operating building, Changsha	404	-	404	397	-	397
Operating building, Nanning	330	-	330	365	-	365
Operating building, Dongguan	293	-	293	-	-	-
Operating building, Hohhot	272	-	272	196	-	196
Operating building, Huizhou	271	-	271	-	-	-
Operating building, Putian	194	-	194	160	-	160
Operating building, Nanping	157	-	157	-	-	-
Others	459	-	459	466	-	466
Total	2,775	-	2,775	1,935	-	1,935

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

	2021			*2020*		
	Carrying amount	*Allowance for impairment loss*	*Net carry amount*	*Carrying amount*	*Allowance for impairment loss*	*Net carry amount*
Operating building, Nanchang	395	-	395	351	-	351
Operating building, Changsha	404	-	404	397	-	397
Operating building, Nanning	330	-	330	365	-	365
Operating building, Dongguan	293	-	293	-	-	-
Operating building, Hohhot	272	-	272	196	-	196
Operating building, Huizhou	271	-	271	-	-	-
Operating building, Putian	194	-	194	160	-	160
Operating building, Nanping	157	-	157	-	-	-
Others	454	-	454	462	-	462
Total	2,770	-	2,770	1,931	-	1,931

11.2 Significant changes in construction in progress are as follows:

The Group

	2021				
	At 1 January 2021	*Additions*	*Transfer to fixed assets*	*Transfer to long-term prepaid expenses*	*At 31 December 2021*
Operating building, Nanchang	351	44	-	-	395
Operating building, Changsha	397	7	-	-	404
Operating building, Nanning	365	7	-	(42)	330
Operating building, Dongguan	-	293	-	-	293
Operating building, Hohhot	196	76	-	-	272
Operating building, Huizhou	-	271	-	-	271
Operating building, Putian	160	34	-	-	194
Operating building, Nanping	-	157	-	-	157
Others	466	758	(282)	(483)	459
Total	1,935	1,647	(282)	(525)	2,775

The bank

	2021				
	At 1 January 2021	*Additions*	*Transfer to fixed assets*	*Transfer to long-term prepaid expenses*	*At 31 December 2021*
Operating building, Nanchang	351	44	-	-	395
Operating building, Changsha	397	7	-	-	404
Operating building, Nanning	365	7	-	(42)	330
Operating building, Dongguan	-	293	-	-	293
Operating building, Hohhot	196	76	-	-	272
Operating building, Huizhou	-	271	-	-	271
Operating building, Putian	160	34	-	-	194
Operating building, Nanping	-	157	-	-	157
Others	462	757	(282)	(483)	454
Total	1,931	1,646	(282)	(525)	2,770

(Expressed in millions of Renminbi, unless otherwise stated)

12. Right-of-use assets

The Group

	Buildings	*Flight equipment*	*Others*	*Total*
Cost				
At 1 January 2021	9,404	652	39	10,095
Additions for the year	2,502	-	22	2,524
Less for the year	(167)	-	(5)	(172)
At 31 December 2021	11,739	652	56	12,447
Accumulated depreciation				
At 1 January 2021	-	(55)	(11)	(66)
Depreciation for the year	(2,762)	(41)	(19)	(2,822)
Eliminated for the year	26	-	1	27
At 31 December 2021	(2,736)	(96)	(29)	(2,861)
Allowance for impairment losses				
At 1 January 2021	-	(5)	-	(5)
Charge for the year	-	-	-	-
Reversal for the year	-	-	-	-
At 31 December 2021	-	(5)	-	(5)
Net value				
At 1 January 2021	9,404	592	28	10,024
At 31 December 2021	9,003	551	27	9,581

The bank

	Buildings	*Others*	*Total*
Cost			
At 1 January 2021	9,198	20	9,218
Additions for the year	2,297	20	2,317
Less for the year	(154)	(5)	(159)
At 31 December 2021	11,341	35	11,376
Accumulated depreciation			
At 1 January 2021	-	-	-
Depreciation for the year	(2,577)	(15)	(2,592)
Eliminated for the year	21	1	22
At 31 December 2021	(2,556)	(14)	(2,570)
Allowance for impairment losses			
At 1 January 2021	-	-	-
Charge for the year	-	-	-
Reversal for the year	-	-	-
At 31 December 2021	-	-	-
Net value			
At 1 January 2021	9,198	20	9,218
At 31 December 2021	8,785	21	8,806

(Expressed in millions of Renminbi, unless otherwise stated)

13. Goodwill

The Group

	1 January 2021	*Additions*	*Deductions*	*31 December 2021*	*Provision at 31 December 2021*
China Industrial International Trust Limited	532	-	-	532	-

Goodwill arose from acquisition of China Industrial International Trust Limited in February 2011, and the overweight of China Industrial Future Limited by China Industrial International Trust Limited in March 2015.

At the end of the period, the Group performed impairment tests on goodwill based on expected future cash flow of the investee, meanwhile, calculated the expected present value of future cash flow of the investee by applying an appropriate discount rate to determine recoverable amount. No evidence shows that the recoverable amount of goodwill is less than the carrying amount and therefore no impairment is recognized.

(Expressed in millions of Renminbi, unless otherwise stated)

14. Deferred tax asset and deferred tax liability

14.1 Recognized deferred tax assets and liabilities

The Group

	2021		*2020*	
	Deductible (taxable) temporary differences	*Deferred tax assets (liabilities)*	*Deductible (taxable) temporary differences*	*Deferred tax assets (liabilities)*
Deferred tax assets				
Impairment losses on assets	172,648	43,162	152,748	38,187
Fair value changes of derivative financial instruments	2,356	589	2,496	624
Fair value changes of trading assets	1,588	397	6,020	1,505
Fair value changes of trading liabilities	276	69	-	-
Changes in fair value in other debt investments	1,800	450	7,148	1,787
Changes in fair value in other equity investments	28	7	284	71
Accrued but not paid employee benefits	19,864	4,966	15,548	3,887
Accounting and tax basis differences related to lease liabilities	8,488	2,122	N/A	N/A
Others	1,680	420	2,000	500
Subtotal	208,728	52,182	186,244	46,561
Offset	(12,144)	(3,036)	(4,192)	(1,048)
Deferred tax assets after offset	196,584	49,146	182,052	45,513
Deferred tax liabilities				
Accounting and tax basis differences related to right-of-use assets	(8,808)	(2,202)	N/A	N/A
Differences of fixed assets depreciation	(3,336)	(834)	(2,520)	(630)
Fair value changes of trading assets	(648)	(162)	-	-
Fair value changes of other debt investments	(4)	(1)	-	-
Fair value changes of derivative financial instruments	-	-	(32)	(8)
Fair value changes of trading liabilities	-	-	(228)	(57)
Fair value changes of precious metals	-	-	(136)	(34)
Others	-	-	(1,572)	(393)
Subtotal	(12,796)	(3,199)	(4,488)	(1,122)
Offset	12,144	3,036	4,192	1,048
Deferred tax liabilities after offset	(652)	(163)	(296)	(74)

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

	2021		*2020*	
	Deductible (taxable) temporary differences	*Deferred tax assets (liabilities)*	*Deductible (taxable) temporary differences*	*Deferred tax assets (liabilities)*
Deferred tax assets				
Impairment losses on assets	162,412	40,604	143,628	35,907
Fair value changes of derivative financial instruments	2,356	589	2,496	624
Fair value changes of trading assets	1,336	334	5,884	1,471
Fair value changes of trading liabilities	276	69	-	-
Fair value changes of other debt investments	1,749	436	7,053	1,763
Fair value changes of other equity investments	27	7	285	71
Accrued but not paid employee benefits	17,916	4,479	13,688	3,422
Accounting and tax basis differences related to lease liabilities	8,488	2,122	N/A	N/A
Others	240	60	276	69
Subtotal	194,800	48,700	173,310	43,327
Offset	(12,144)	(3,036)	(3,916)	(979)
Deferred tax assets after offset	182,656	45,664	169,394	42,348
Deferred tax liabilities				
Differences of fixed assets depreciation	(3,336)	(834)	(2,520)	(630)
Accounting and tax basis differences related to right-of-use assets	(8,808)	(2,202)	N/A	N/A
Fair value changes of trading liabilities	-	-	(24)	(6)
Fair value changes of precious metals	-	-	(136)	(34)
Others	-	-	(1,236)	(309)
Subtotal	(12,144)	(3,036)	(3,916)	(979)
Offset	12,144	3,036	3,916	979
Deferred tax liabilities after offset	-	-	-	-

The tax payment of domestic branches of the Bank can be aggregated in the way that the deferred tax assets and deferred tax liabilities are presented at the net amount after offset; overseas branches are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset. When there are net deferred tax assets/liabilities in overseas branches, they are not offset against those in domestic branches. The subsidiaries of the Bank are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset.

(Expressed in millions of Renminbi, unless otherwise stated)

14.2 Movements in deferred income tax assets and liabilities

	The Group	The Bank
31 December 2020	45,439	42,348
- Deferred tax assets	46,561	43,327
- Deferred tax liabilities	(1,122)	(979)
Net changes of deferred tax recognized in income tax expenses	4,946	4,707
Net changes of deferred tax recognized in other comprehensive income	(1,402)	(1,391)
31 December 2021	48,983	45,664
- Deferred tax assets	52,182	48,700
- Deferred tax liabilities	(3,199)	(3,036)

15. Other assets

	Note	The Group 2021	The Group 2020	The Bank 2021	The Bank 2020
Items in the process of clearance and settlement		20,905	29,324	17,304	26,067
Other receivables	15.1	14,588	18,125	10,582	15,409
Continuing involvement assets (Note XII, 3.1)		12,191	11,490	11,314	9,337
Prepaid purchase cost of lease assets		1,662	4,193	-	-
Interest receivable	15.2	2,882	1,909	2,626	1,788
Net assets of defined benefit plan (Note VII, 44.2)		2,167	1,763	2,167	1,763
Long-term prepaid expenses	15.3	1,382	1,357	1,316	1,290
Foreclosed assets	15.4	413	447	413	447
Total		56,190	68,608	45,722	56,101

15.1 Other receivables

Listed by aging:

Account age	The Group 2021	Proportion %	The Group 2020	Proportion %	The Bank 2021	Proportion %	The Bank 2020	Proportion %
Within 1 year	9,982	60.39	15,498	72.60	6,604	53.42	12,958	69.89
1-2 years	1,132	6.85	3,138	14.70	460	3.72	3,057	16.49
2-3 years	2,990	18.09	209	0.98	2,938	23.77	149	0.80
Over 3 years	2,425	14.67	2,502	11.72	2,360	19.09	2,377	12.82
Subtotal	16,529	100.00	21,347	100.00	12,362	100.00	18,541	100.00
Less: Allowance for impairment losses	(1,941)		(3,222)		(1,780)		(3,132)	
Net value	14,588		18,125		10,582		15,409	

(Expressed in millions of Renminbi, unless otherwise stated)

15.2 Interest receivable

	The Group		The Bank	
	2021	2020	2021	2020
Loans and advances to customers	2,139	1,141	2,109	1,117
Bonds and other investments	743	768	517	671
Total	2,882	1,909	2,626	1,788

15.3 Long-term prepaid expenses

The Group

	1 January 2021	Changes	Transferred from construction in progress	Amortization	31 December 2021
Leasehold improvements	1,255	41	525	(515)	1,306
Others	102	(12)	-	(14)	76
Total	1,357	29	525	(529)	1,382

The Bank

	1 January 2021	Changes	Transferred from construction in progress	Amortization	31 December 2021
Leasehold improvements	1,223	10	525	(497)	1,261
Others	67	(3)	-	(9)	55
Total	1,290	7	525	(506)	1,316

15.4 Foreclosed assets

Analysed by category of the foreclosed assets:

	The Group and the Bank	
	2021	2020
Buildings and land use rights	536	583
Others	1	1
Subtotal	537	584
Less: Allowance for impairment losses	(124)	(137)
Net value	413	447

(Expressed in millions of Renminbi, unless otherwise stated)

16. Deposits from banks and other financial institutions

	The Group		The Bank	
	2021	2020	2021	2020
Amount due to banks:				
Banks operating in Mainland China	287,186	317,622	287,186	317,622
Banks operating outside Mainland China	63,076	78,231	63,076	78,231
Deposits from other financial institutions:				
Other financial institutions operating in Mainland China	1,353,540	1,086,659	1,362,497	1,095,126
Other financial institutions operating outside Mainland China	-	-	-	-
Interest accrued	7,077	4,567	7,130	4,608
Total	1,710,879	1,487,079	1,719,889	1,495,587

17. Placements from banks and other financial institutions

	The Group		The Bank	
	2021	2020	2021	2020
Banks operating in Mainland China	106,969	126,590	9,687	19,556
Other financial institutions operating in Mainland China	29,809	2,098	7,481	1,398
Banks operating outside Mainland China	35,995	50,473	35,995	50,268
Interest accrued	1,005	1,010	76	226
Total	173,778	180,171	53,239	71,448

18. Trading liabilities

		The Group		The Bank	
	Note	2021	2020	2021	2020
Trading liabilities:					
Financial liabilities related to precious metals	(1)	29,896	13,789	29,896	13,789
Sold financing bonds		11,663	679	11,663	679
Others		348	253	348	253
Subtotal		41,907	14,721	41,907	14,721
Financial liabilities assigned as at fair value through profit or loss	(2)	5,923	1,341	-	-
Total		47,830	16,062	41,907	14,721

(1) The Group's financial liabilities related to the precious metals are matched with the precious metals or derivatives based on the risk management strategy and are included in the financial liabilities at fair value through profit or loss.

(2) The Group's other shareholder's equity that are included in the consolidated financial statements are designated as financial liabilities at fair value through profit or loss. No significant changes in fair value from changes in credit risk occurred on 31 December 2021 (31 December 2020: Nil).

(Expressed in millions of Renminbi, unless otherwise stated)

19. Financial assets sold under repurchase agreements

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Bonds	233,230	82,358	221,327	70,423
Bills	32,190	41,035	32,190	41,035
Interest accrued	156	174	152	172
Total	265,576	123,567	253,669	111,630

20. Deposits from customers

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Demand deposits				
- Corporate	1,434,288	1,290,261	1,435,197	1,291,198
- Personal	334,958	324,566	334,958	324,566
Subtotal	1,769,246	1,614,827	1,770,155	1,615,764
Term deposits (including call deposits)				
- Corporate	1,754,633	1,711,733	1,754,712	1,711,853
- Personal	458,205	401,882	458,205	401,882
Subtotal	2,212,838	2,113,615	2,212,917	2,113,735
Guaranteed and margin deposits	326,763	311,007	326,763	311,007
Others	2,194	3,445	2,195	3,445
Interest accrued	44,707	41,348	44,708	41,349
Total	4,355,748	4,084,242	4,356,738	4,085,300

The pledged deposits included in deposits from customers are analysed as follows:

	The Group and the Bank	
	2021	*2020*
Bank acceptances	212,736	197,853
Letters of credit	20,891	26,912
Guarantee	11,358	8,075
Others	81,778	78,167
Total	326,763	311,007

(Expressed in millions of Renminbi, unless otherwise stated)

21. Employee benefits payable

	The Group				The Bank			
	1 January 2021	Increase	Decrease	31 December 2021	1 January 2021	Increase	Decrease	31 December 2021
Salaries and bonus	17,594	26,777	(22,671)	21,700	15,310	24,117	(20,248)	19,179
Labor union expenditure and staff educational funds	2,448	1,076	(654)	2,870	2,366	995	(595)	2,766
Social insurance	33	2,577	(2,573)	37	29	2,270	(2,272)	27
Housing funds	45	1,370	(1,364)	51	38	1,214	(1,210)	42
Defined contribution plans	84	2,889	(2,848)	125	47	2,710	(2,668)	89
Total	20,204	34,689	(30,110)	24,783	17,790	31,306	(26,993)	22,103

The salaries, bonus, retirement benefits and other social insurance of employee benefits payable are granted or paid according to time limit set by relevant laws, regulations and the Group's policies. See defined contribution pension plans in Note VII, 44.1.

22. Tax payable

	The Group		The Bank	
	2021	2020	2021	2020
Corporate income tax	8,266	7,984	7,391	7,156
Value added tax	3,684	3,566	3,486	3,187
City maintenance and construction tax	293	288	269	259
Others	524	466	473	416
Total	12,767	12,304	11,619	11,018

23. Provisions

	The Group		The Bank	
	2021	2020	2021	2020
Credit loss of off-balance sheet assets	4,083	5,397	4,083	5,397
Litigation provisions	2	-	-	-
Total	4,085	5,397	4,083	5,397

As at 31 December 2021, movements of credit loss on off-balance sheet assets are as follows:

	The Group and the Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
1 January 2021	4,214	614	569	5,397
Transfer:				
- to stage 1	2	(1)	(1)	-
- to stage 2	(11)	11	-	-
- to stage 3	(4)	-	4	-
Reversal for the year	(249)	(498)	(562)	(1,309)
Exchange difference and other movements	(5)	-	-	(5)
31 December 2021	3,947	126	10	4,083

(Expressed in millions of Renminbi, unless otherwise stated)

	The Group and the Bank			
	Stage 1 *12-month ECL*	*Stage 2* *Lifetime ECL not credit-impaired*	*Stage 3* *Lifetime ECL credit-impaired*	*Total*
1 January 2020	4,818	148	1,287	6,253
Transfer:				
- to stage 1	2	(2)	-	-
- to stage 2	(3)	3	-	-
- to stage 3	(5)	(1)	6	-
(Reversal) charge for the year	(582)	466	(724)	(840)
Exchange difference and other movements	(16)	-	-	(16)
31 December 2020	4,214	614	569	5,397

24. Debt securities issued

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Financial bonds	132,901	224,170	117,436	206,436
Tier 2 capital bonds	127,987	83,442	125,956	81,411
Interbank certificates of deposit	788,094	612,210	788,094	612,210
Certificates of deposit	11,210	6,225	11,210	6,225
Convertible corporate bonds	46,784	-	46,784	-
Long-term subordinated bonds	-	10,278	-	10,278
Private placement note	1,026	2,027	-	-
Corporate bonds	10,300	9,041	-	-
Super short-term commercial paper	1,001	-	-	-
Mid-term note	813	-	-	-
Total	1,120,116	947,393	1,089,480	916,560

Note: Debt securities issued by the Group include financial bonds, tier 2 capital bonds, interbank certificates of deposit, certificates of deposit, asset-backed securities, convertible corporate bonds and long-term subordinated bonds. Tier 2 capital bonds are issued by commercial banks and their subsidiaries to supplement the secondary capital. Tier 2 capital bonds and the long-term subordinated bonds are in the same liquidation sequence.

(Expressed in millions of Renminbi, unless otherwise stated)

Details of debt securities issued are as follows:

Category of bonds	*Issuing date*	*Interest payment frequency*	*The Group* 2021	*The Bank* 2021
Financial bonds				
19 CIB green financial bond 01[(1)]	2019-07-16	Yearly	20,000	20,000
20 CIB small and micro enterprise bond 01[(2)]	2020-04-28	Yearly	23,000	23,000
20 CIB small and micro enterprise bond 02[(2)]	2020-04-28	Yearly	7,000	7,000
20 CIB small and micro enterprise bond 03[(2)]	2020-05-25	Yearly	22,000	22,000
20 CIB small and micro enterprise bond 04[(2)]	2020-05-25	Yearly	5,000	5,000
20 CIB small and micro enterprise bond 05[(2)]	2020-08-11	Yearly	23,000	23,000
USD medium-term notes [(3)]	2018-03-05	Semi-annually	1,594	1,594
USD medium-term notes [(3)]	2018-03-05	Quarterly	3,188	3,188
HKD Interbank certificates of deposit [(3)]	2020-11-06	Semi-annually	2,453	2,453
USD Interbank certificates of deposit [(3)]	2020-11-06	Semi-annually	2,869	2,869
USD green financial bond [(3)]	2021-06-10	Semi-annually	3,825	3,825
HKD green financial bond [(3)]	2021-06-10	Semi-annually	2,044	2,044
19 CIB leasing debt 01[(4)]	2019-03-04	Yearly	2,500	-
21 CIB leasing green debt 01[(5)]	2021-06-02	Yearly	3,500	-
21 CIB leasing green debt 02[(5)]	2021-06-16	Yearly	1,500	-
19 CIB consumer financial debt 01[(6)]	2019-08-15	Yearly	2,000	-
19 CIB consumer financial debt 02[(6)]	2019-11-20	Yearly	1,000	-
20 CIB consumer financial debt 01[(6)]	2020-08-18	Yearly	2,000	-
21 CIB consumer financial debt 01[(6)]	2021-03-02	Yearly	1,500	-
21 CIB consumer financial debt 02[(6)]	2021-10-12	Yearly	1,198	-
Interest accrued			1,810	1,524
Less: unamortised issuance cost			(80)	(61)
Subtotal			132,901	117,436
Tier 2 capital bonds				
19 CIB secondary 01[(7)]	2019-08-23	Yearly	30,000	30,000
19 CIB secondary 02[(7)]	2019-09-17	Yearly	20,000	20,000
21 CIB secondary 01[(7)]	2021-10-25	Yearly	30,000	30,000
21 CIB secondary 02[(7)]	2021-11-25	Yearly	40,000	40,000
21 CIB secondary 03[(7)]	2021-11-25	Yearly	5,000	5,000
17 CIB leasing secondary [(8)]	2017-09-14	Yearly	2,000	-
Interest accrued			1,079	1,048
Less: unamortised issuance cost			(92)	(92)
Subtotal			127,987	125,956

(Expressed in millions of Renminbi, unless otherwise stated)

Category of bonds	*Issuing date*	*Interest payment frequency*	*The Group 2021*	*The Bank 2021*
Interbank certificates of deposit				
Par value of interbank certificates of deposit (9)			796,339	796,339
Interest accrued			154	154
Less: unamortised issuance cost			(8,399)	(8,399)
Subtotal			788,094	788,094
Certificates of deposit				
Par value of certificates of deposit (10)			11,207	11,207
Interest accrued			10	10
Less: unamortised issuance cost			(7)	(7)
Subtotal			11,210	11,210
Convertible corporate bonds				
Convertible corporate bonds (11)	2021-12-27	Yearly	46,784	46,784
Private placement note				
20 CIAMC PPN001(12)	2020-03-09	Yearly	500	-
20 CIAMC PPN001(12)	2020-04-20	Yearly	500	-
Interest accrued			26	-
Subtotal			1,026	-
Corporate bonds				
19 CIAMC 02(13)	2019-11-19	Yearly	500	-
20 CIAMC 01(13)	2020-03-20	Yearly	320	-
20 CIAMC 02(13)	2020-03-20	Yearly	365	-
20 CIAMC 04(13)	2020-08-20	Yearly	600	-
21 CIAMC 01(13)	2021-08-13	Yearly	600	-
21 CIAMC 02(13)	2021-11-02	Yearly	500	-
19 CIIT 01(14)	2019-12-30	Yearly	1,456	-
20 CIIT 01(14)	2020-03-16	Yearly	1,379	-
20 CIIT 02(14)	2020-07-27	Yearly	2,999	-
21 CIIT 01(14)	2021-03-30	Yearly	1,398	-
Interest accrued			192	-
Less: unamortised issuance cost			(9)	-
Subtotal			10,300	-
Super short-term commercial paper				
21 CIAMC SCP002(15)	2021-12-15	Upon maturity	1,000	-
Interest accrued			1	-
Subtotal			1,001	-
Mid-term note				
21 CIAMC MTN001(16)	2021-07-07	Yearly	798	-
Interest accrued			15	-
Subtotal			813	-
Total			1,120,116	1,089,480

(1) In July 2019, the Group issued RMB20 billion 3-year fixed-rate green financial bond with annual interest rate of 3.55%.

(2) In April 2020, the Group issued RMB23 billion 3-year fixed-rate and RMB7 billion 5-year fixed-rate small and micro enterprise bonds, with annual interest rates of 2.17% and 2.67%, respectively. In May 2020, the Group issued RMB22 billion 3-year fixed-rate and RMB5 billion 5-year fixed-rate small and micro enterprise bonds, with annual interest rates of 2.58% and 2.95%, respectively. In August 2020, the Group issued RMB23 billion 3-year fixed-rate small and micro enterprise bond, with annual interest rate of 3.45%.

(3) In March 2018, the Hong Kong branch of the Bank issued USD250 million 5-year fixed-rate medium-term notes and USD500 million 5-year fixed-rate medium-term notes, with annual interest rate of 3.75% and 105 basis points over the 3-month LIBOR, respectively; in November 2020, the Hong Kong branch of the Bank issued HKD3 billion 2-year and USD450 million 3-year interbank certificates of deposit, with annual interest rates of 1.10% and 1.125%; in June 2021, the Hong Kong branch of the Bank issued USD600 million 3-year fixed-rate USD green financial bond and HKD2.5 billion 3-year fixed-rate HKD green financial bond, with annual interest rates of 0.875% and 0.75%, respectively.

(4) In March 2019, the Group's subsidiary Industrial Financial Leasing Co., Ltd. issued RMB2.5 billion 3-year fixed-rate RMB financial bonds with annual interest rate of 3.52%.

(5) In June 2021, the Group's subsidiary Industrial Financial Leasing Co., Ltd. issued RMB3.5 billion and RMB1.5 billion 3-year fixed-rate green financial bond with annual interest rates of 3.42% and 3.49%.

(6) In August 2019, November 2019, August 2020, March 2021 and October 2021, the Group's subsidiary Industrial Consumer Finance Co., Ltd. respectively issued 3-year fixed-rate RMB financial bonds amounting RMB2 billion, RMB1 billion, RMB2 billion, RMB1.5 billion and RMB1.5 billion with annual interest rates of 3.77%, 3.79%, 3.70%, 3.85% and 3.45%. As of 31 December 2021, the “21 CIB consumer financial debt 02” of RMB302 million issued by Industrial Consumer Finance Co., Ltd. was held by the Bank.

(7) In August 2019 and September 2019, the Group respectively issued RMB30 billion and RMB20 billion tier 2 capital bonds with a 10-year maturity, a fixed rate and a redemption right at the end of the fifth year. During the tenure of the bonds, the annual interest rates remain at 4.15% and 4.12%. In October 2021 and November 2021, the Group respectively issued RMB30 billion and RMB40 billion tier 2 capital bonds with a 10-year maturity, a fixed rate and a redemption right at the end of the fifth year. During the tenure of the bonds, the annual interest rates remain at 3.83% and 3.62%. In November 2021, the Group issued RMB5 billion tier 2 capital bond with a 15-year maturity, a fixed rate and a redemption right at the end of the tenth year. During the tenure of the bonds, the annual interest rates remain at 3.85%.

(8) In September 2017, the Group's subsidiary Industrial Financial Leasing Co., Ltd. issued RMB2 billion 10-year tier 2 capital bonds with fixed rate and issuer's redemption right at the end of the 5th year. During the tenure of the bonds, the annual interest rate remains at 5.15%.

(9) As at 31 December 2021, the Group had 277 unpaid interbank certificates of deposit with total amount of RMB796,339 million, including 10 USD interbank certificates of deposit, of which the issued par value was USD795 million (RMB5,069 million) and the terms are within 1 year; 2 HKD interbank certificates of deposit, of which the issued par value is HKD600 billion (RMB490 million) and the terms are within 1 year; and 265 RMB interbank certificates of deposit, of which the issued par value is RMB 790,780 million and the terms are within 1 year. The annual interest rate is 1.95% to 3.18%. Except for interest of 12 interest-bearing debts being paid quarterly, the interest of the rest is paid upon maturity.

(10) As at 31 December 2021, Hong Kong branch had 21 unpaid certificates of deposit, with a total amount of RMB11,207 million and the terms are within 1 year. The amount of 1 HKD certificates was HKD500 million (RMB409 million); the amount of 19 USD certificates was USD1,678 million (RMB10,698 million); the amount of 1 RMB certificates was RMB 100 million. The annual interest rate is between 0.28% to 0.42%. The interest of all certificates is paid upon maturity.

(11) Approved by relevant regulatory agencies, the Bank issued RMB50 billion of 500 million A-shares convertible corporate bonds publicly with face value of RMB100 per share (hereinafter referred to as “convertible bonds”) on 27 December 2021. The duration of this convertible bond is 6 years, which is from 27 December 2021 to 26 December 2027. The coupon rate of the convertible bond is 0.2% in the first year, 0.4% in the second year, 1.0% in the third year, 1.5% in the fourth year, 2.3% in the fifth year and 3.0% in the sixth year. Within five trading days after the expiration of the convertible bonds issued, the Bank will redeem all unconverted bonds at the price of 109% of the face value of the convertible bonds issued (including the last annual interest). Convertible bonds holders may, within the period from the first trading day subsequent to six months after the end of the issuance to the maturity date of the convertible bond (hereinafter referred to as the “conversion period”), which is 30 June 2022 to 26 December 2027 (in case of statutory holidays or weekends, the conversion period is extended to the next first weekday; interest paid during the deferred period will not be calculated separately), convert the convertible bonds held into ordinary shares of the Bank according to the agreed clauses.

The initial conversion price is RMB25.51 per share. After the issuance, if the Bank changes its shares and distributes cash dividends due to the issuance of share dividends, conversion of share capital, additional issuance of new shares or allotment of shares (excluding the increase of share capital resulting from the conversion of convertible bonds issued), the Bank will adjust the conversion price according to the terms of issue in accordance with the principles of equity, justice and fairness and the principle of fully protecting the rights and interests of the convertible bond holders.

(Expressed in millions of Renminbi, unless otherwise stated)

The convertible bonds include conditional redemption clauses: during the conversion period, if the closing price of the Bank's A-share stocks for at least 15 trading days in any 30 consecutive trading days is not less than 130% (including 130%) of the current conversion price, the Bank has the right to redeem all or part of the convertible bonds that have not been converted into shares at the price of the bond's face value plus current interest. If a conversion price adjustment occurs due to ex-rights or ex-dividends within the aforementioned 30 trading days, on trading days before adjustment, it is calculated according to the conversion price and the closing price before adjustment. On subsequent trading days, it is calculated based on the conversion price and the closing price after adjustment. In addition, when the total par value of the convertible bonds issued is less than RMB30 million, the Bank has the right to redeem all the convertible bonds at the face value plus the interest accrued in the current period.

As of December 31 2021, the convertible bonds have not entered the conversion period, and no equity conversion has occurred.

Equity and liability components of the convertible bonds issued by the Group and the Bank is allocated as follow:

	Liability components	*Equity compoents* (Note VII, 28)	*Total*
Issuing amounts of convertible corporate bonds	46,837	3,163	50,000
Direct trading fees	(75)	(5)	(80)
Balance at the issue date	46,762	3,158	49,920
Amortization	22	-	22
Conversion amounts	-	-	-
As of December 31 2021	46,784	3,158	49,942

(12) In March 2020 and April 2020, China Industrial Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB500 million 3-year fixed-rate placement note with annual interest rate of 3.59% and RMB500 million 3-year fixed-rate placement note with annual interest rate of 3.19% respectively.

(13) In November 2019, China Industrial Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB500 million 3+2-year fixed-rate corporate bond with annual interest rate of 4.25%.

(Expressed in millions of Renminbi, unless otherwise stated)

In March 2020, China Industrial Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB400 million 2-year fixed-rate corporate bond with annual interest rate of 3.40% and RMB450 million 3-year fixed-rate corporate bond with annual interest rate of 3.65% respectively. In August 2020, it issued RMB600 million 3-year fixed-rate corporate bond with annual interest rate of 4.00%. In August 2021 and November 2021, it issued RMB600 million 3-year fixed-rate corporate bond with annual interest rate of 3.40% and RMB500 million 3-year fixed-rate corporate bond with annual interest rate of 3.60% respectively.
As at 31 December 2021, the Bank holds “20 CIAMC 01” and “20 CIAMC 02” of RMB165 million respectively issued by China Industrial Asset Management Co., Ltd..

(14) In December 2019, March 2020 and July 2020, CIIT Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB1,900 million 3+2-year fixed-rate corporate bond with annual interest rate of 4.40%, RMB1,500 million 3+2-year fixed-rate corporate bond with annual interest rate of 3.50% and RMB3,100 million 3+2-year fixed-rate corporate bond with annual interest rate of 4.38% respectively. In March 2021, it issued RMB1,500 million 3+2-year fixed-rate corporate bond with annual interest rate of 4.60%. As at 31 December 2021, the Bank holds “19 CIIT 01” of RMB444 million issued by CIIT Asset Management Co., Ltd., “20 CIIT 01” of RMB121 million issued by CIIT Asset Management Co., Ltd., “20 CIIT 02” of RMB101 million issued by CIIT Asset Management Co., Ltd., and “21 CIIT 01” of RMB102 million issued by CIIT Asset Management Co., Ltd..

(15) In Decemer 2021, China Industrial Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB1 billion 3-month fixed-rate super short-term commercial paper with annual interest rate of 2.85%.

(16) In July 2021, China Industrial Asset Management Co., Ltd., a subsidiary of China Industrial International Trust Limited, the Group's subsidiary, issued RMB 1 billion 3-year fixed-rate medium-term note with annual interest rate of 3.82%. As at 31 December 2021, the Bank holds “21 CIAMC MTN001” of RMB 202 million issued by China Industrial Asset Management Co., Ltd..

25. Lease liabilites

	31 December 2021	
	The Group	*The Bank*
Due within 1 year	2,477	2,408
1 - 5 years	6,011	5,637
Not yet due in 5 years	1,296	1,161
Closing balance of undiscounted lease liabilities	9,784	9,206
Lease liabilities	9,053	8,488

(Expressed in millions of Renminbi, unless otherwise stated)

26. Other liabilites

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Continuing involvement liabilities (Note XII, 3.1)	12,191	11,490	11,314	9,337
Items in the process of clearance and settlement	13,842	11,457	1,854	1,703
Other accounts payable	13,777	8,894	11,207	6,286
Advance collection of financial leasing funds	1,596	2,860	-	-
Notes payable	4,423	2,844	-	-
Contract liabilities	931	734	931	734
Deferred income	1,224	1,721	379	549
Others	1,340	793	483	347
Total	49,324	40,793	26,168	18,956

27. Share capital

	The Group and the Bank		
	1 January 2021	*Change for the period*	*31 December 2021*
Shares without limited sales restrictions RMB ordinary shares (A shares)	19,615	-	19,615
Shares with limited sales restrictions RMB ordinary shares (A shares)	1,159	-	1,159
Total shares	20,774	-	20,774

As at 31 December 2021, the share capital of the Bank is RMB20,774 million (31 December 2020: RMB20,774 million) with par value of RMB 1 per share.

28. Other equity instruments

The Group and the Bank

	Note	*31 December 2021*	*31 December 2020*
Equity components of convertible corporate bonds	28.1	3,158	-
Preference shares	28.2	55,842	55,842
Perpetual bonds	28.3	29,960	29,960
Total		88,960	85,802

28.1 As of 31 December 2021, the equity components of convertible corporate bonds issued by the Bank are RMB3,158 million (as of 31 December 2020: Nil), and detail refers to Note VII, 24 (11) .

28.2 Preference shares

The Group and the Bank

Outstanding financial instrument	*Issue Date*	*Classification*	*Rate*	*Issue price* RMB / share	*Quantity* million share	*Amount* in millions of Renminbi	*Maturity date*	*Conversion condition*	*Conversion*
Outstanding preference shares									
Preference shares	December 2014	Equity instrument	Note 1	100	130	13,000	N/A	Note 4	N/A
Preference shares	June 2015	Equity instrument	Note 2	100	130	13,000	N/A	Note 4	N/A
Preference shares	April 2019	Equity instrument	Note 3	100	300	30,000	N/A	Note 4	N/A

Note 1: For the initial issuance of the preference shares ("Xing Ye You 1"), every five year was an interest-bearing cycle starting from the payment deadline (i.e. 8 December 2014). The dividend rate was the same in every interest-bearing cycle. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.55%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread. the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 8 December). If the YTM regarding treasury bonds, with 5-year remaining terms is not available on the benchmark interest adjustment date, the Bank and investors will negotiate with the investor to determine the subsequent benchmark interest rate or its determining principles at the request of the regulatory authorities.

In December 2019, the dividend yield ratio of the "Xing Ye You 1" preferred stock for the second dividend period was adjusted in accordance with relevant provisions in the Prospectus. The current benchmark interest rate was the arithmetic mean (i.e. 3.00% rounded to 0.01%) of the yield to maturity of the 5-year treasury bond within the ChinaBond treasury bond yield curve (previously known as the ChinaBond interbank fixed interest rate treasury bond yield curve) in the 20 trading days (excluding the benchmark interest rate adjustment date) prior to the current benchmark interest rate adjustment date (8 December 2019) published on www.chinabond.com.cn or other websites recognised by China Central Depository & Clearing Co., Ltd., and the basic spread was 2.55%. Therefore, the dividend yield ratio of "Xing Ye You 1" for the second dividend period was changed to 5.55% from 8 December 2019.

Note 2: For the second issuance of the preference shares (“Xing Ye You 2”), every five year was an interest-bearing cycle starting from the payment deadline (i.e. 24 June 2015). The dividend rate was the same in every interest-bearing cycle. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.15%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 24 June). If the YTM regarding treasury bonds, with 5-year remaining terms is not available on the benchmark interest adjustment date, the Bank and investors will negotiate with the investor to determine the subsequent benchmark interest rate or its determining principles at the request of the regulatory authorities.

In June 2020, the dividend yield ratio of the “Xing Ye You 2” preferred stock for the second dividend period was adjusted in accordance with relevant provisions in the Prospectus. The current benchmark interest rate was the arithmetic mean (i.e. 2.48% rounded to 0.01%) of the yield to maturity of the 5-year treasury bond within the ChinaBond treasury bond yield curve (previously known as the ChinaBond interbank fixed interest rate treasury bond yield curve) in the 20 trading days (excluding the benchmark interest rate adjustment date) prior to the current benchmark interest rate adjustment date (24 June 2020) published on www.chinabond.com.cn or other websites recognised by China Central Depository & Clearing Co., Ltd., and the basic spread was 2.15%. Therefore, the dividend yield ratio of “Xing Ye You 2” for the second dividend period was changed to 4.63% from 24 June 2020.

Note 3: For the the preference shares ("Xing Ye You 3") issued in 2019, every five year was an interest-bearing cycle starting from the payment deadline (i.e. 10 April 2019). The dividend rate was the same in every interest-bearing cycle. The dividend rate of first cycle was determined as 4.9% through inquiry by the Board of Directors authorized by shareholders' meeting and was in accordance with factors such as national policy, market conditions, specific circumstances of the Bank and requirements from investors at that time. The dividend rate of preference shares of this issuance was not higher than the annual weighted average ROE of ordinary shareholders over the last two fiscal years. The dividend rate of preference shares of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate of the first interest-bearing cycle (i.e. 3.06%, rounded to 0.01%) was determined by calculating the arithmetic mean of 20 trading days (before 10 April 2019) of the YTM regarding treasury bonds, with 5-year remaining terms. The data was obtained from the interbank fixed-rate treasury bond yield curve published by ChinaBond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited). The benchmark interest rate was adjusted every 5 years from the deadline for payment of preference shares issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 1.84%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread. The benchmark interest rate of current interest-bearing cycle was determined by calculating the arithmetic mean of 20 trading days (before the benchmark interest adjustment date) of the YTM regarding treasury bonds, with 5-year remaining terms (rounded to 0.01%). If the YTM of 5-year treasury bonds is not available on the benchmark interest adjustment day, the benchmark interest rate or its principle will be determined under negotiations between the Bank and investors required by the regulator.

Note 4: When the Bank's core tier 1 capital adequacy ratio falls to 5.125%, the preference shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBIRC in accordance with the relevant requirements of CBIRC. The conversion is irrevocable.

When triggered events of the secondary capital instruments issued by the Bank occur, the preference shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBIRC in accordance with the relevant requirements of CBIRC. The conversion is irrevocable. The secondary capital instruments triggering event is the earlier of the following two situations: 1) CBIRC considers the Bank unable to survive without conversion or written off; 2) Relevant departments considers the Bank unable to survive without the contribution from public departments or the same effect of support provided.

(i) The principal terms of disclosure

The Bank will pay preference shares dividends in cash. The preference shares of this issuance uses a non-cumulative dividend payment, which means dividend that is not paid in full to preference shareholders will not accumulate to the next interest-bearing year. After the preference shareholders obtain distribution in accordance with the agreed dividend rate, they can no longer participate in the distribution of remaining profits with ordinary shareholders.

Under the premise of ensuring the capital adequacy ratio to satisfy the regulatory requirements, if there still is retained earnings in the Bank's financial statements caliber after covering losses, extracting statutory reserve and general reserve, the Bank could allocate dividends to preference shareholders. The priority of preference shareholders is higher than ordinary shareholders in dividend distribution. Payment of preference shares dividends is neither linked to ratings of the Bank, nor adjusted with the rating changes. The Bank can cancel payment of preference shares dividends in any case, which does not constitute an event of default. The Bank is entitled to arrange cancelled payment of preference shares dividends as repayment of other matured debts. Cancelling payment of dividends shall not constitute any further restrictions on the Bank except restrictions on profit distribution of ordinary shares. When the Bank exercises the aforesaid rights, it will take full account of the interests of preference shareholders. If payment of preference shares dividend is wholly or partly cancelled, the Bank shall not pay ordinary share dividend for the fiscal year.

The right of redemption for preference shares of this issuance belongs to the Bank. The Bank may exercise the right of redemption under the premise of obtaining CBIRC's approval. The Bank's preference shareholders do not have the right to request redemption of preference shares and should not expect that the preference shares will be redeemed.

The initial mandatory conversion price of the preference shares of this issuance is the arithmetic mean of 20 trading days of the Bank's A shares of ordinary shares before issuance of Board resolution which passed the issuance of the preference shares. Since the issuance plan of the preference shares is passed by the Bank's Board of Directors, when the Bank's shares change with the delivery of stock dividend, transferring of reserve to share capital, issuance of new shares (not including any share capital from conversion of financing instruments with terms that they could be converted to ordinary shares) or the allotment of shares, the mandatory conversion price of the preference shares will be accumulatively adjusted in turn in accordance with the established formula, and disclose relevant information in accordance with the provisions.

The Bank's preference shareholders are entitled with priority over ordinary shareholders of the remaining property distribution. The amount paid off is the sum of the neither cancelled nor paid dividends and the nominal amount of the preference shares; if it can not be paid in full, the remaining property will be distributed in proportion to preference shares.

(ii) Changes of outstanding preference shares are as follows:

The preferred shares issued by the Group and the Bank remained unchanged during the period.

	1 January 2021		*Additional/Less*		*31 December 2021*	
	Quantity Million	*Book value* in millions of Renminbi	*Quantity* Million	*Book value* in millions of Renminbi	*Quantity* Million	*Book value* in millions of Renminbi
Issuing Preference Shares						
Preference shares	560	56,000	-	-	560	56,000
Fees	-	(158)	-	-	-	(158)
Total	560	55,842	-	-	560	55,842

28.3 Perpetual Bonds

The Group and the Bank

Outstanding financial instrument	*Issue Date*	*Classification*	*Rate*	*Issue price*	*Quantity*	*Amount*	*Maturity date*	*Conversion condition*	*Conversion*
				RMB/share	million share	in millions of Renminbi			
Issuing Perpetual Bonds									
Perpetual Bonds	October 2020	Equity instrument	Note 1	100	300	30,000	N/A	N/A	N/A

Note 1: Approved by the relevant regulators, the Bank issued the Non-fixed-term Capital Bonds of Industrial Bank Co., Ltd. (Perpetual Bonds or "the Bonds") in the national inter-bank bond market on 13 October 2020. The Bank completed book building and the issuance of the Bonds on 13 October 2020 and 15 October 2020, respectively. The Bonds have a par value of RMB100 per unit and a coupon rate of 4.73% for the first five years. The coupon rate will be adjusted every five years, and the issuer shall have a conditional redemption right on every dividend payment date from the fifth year onwards. Proceeds from the issuance of the Bonds will be used to replenish Additional tier 1 capital of the Bank in accordance with the applicable laws and the approval of the competent authorities.

(i) The principal terms of disclosure

The Bonds will keep continuing so long as the Bank's business continues operating. The Bonds sets conditional redemption rights for the issuer. Specifically, from the fifth anniversary since the issuance, the Bank can redeem the Bonds, in whole or in part, on each dividend payment date (including the fifth dividend payment date since the issuance).

The coupon rate of the Bonds will be adjusted at defined intervals, with an adjustment period every five years from the payment due date. The dividend shall be paid at the same agreed rate in each adjustment period of coupon rate. The coupon rate at the time of issuance is determined by book building and centralized allotment.

The claims in respect of the Bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the Bonds; and will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

If a Non-Viability Trigger Event occurs (see Note IV, 28.2.4), the Bank has the right to write off, in whole or in part, the principal amount of the Bonds without the need for the consent of the Bondholders. The amount of the write-off shall be determined by the ratio of the outstanding principal amount of the Bonds to the aggregate outstanding principal amount of all additional tier 1 capital instruments under the identical trigger event.

The dividends on the Bonds are non-cumulative, any dividends unpaid to the Bondholders in full by the Bank will not accumulate or compound to the subsequent distribution period. The Bank have the right to cancel, in whole or in part, dividends on the Bonds and any such cancellation shall not constitute an event of default.

According to the applicable laws and approval of the competent authorities, the net proceeds from the issuance of the Bonds after deducting issuance costs will to be used to replenish the additional tier 1 capital of the Bank.

(ii) Changes of outstanding perpetual bonds are as follows:

The perpetual bonds issued by the Group and the Bank remained unchanged during the period.

	1 January 2021		*Additional/Less*		*31 December 2021*	
	Quantity Million	*Book value* in millions of Renminbi	*Quantity* Million	*Book value* in millions of Renminbi	*Quantity* Million	*Book value* in millions of Renminbi
Issuing Perpetual Bonds						
Perpetual Bonds	300	30,000	-	-	300	30,000
Fees	-	(40)	-	-	-	(40)
Total	300	29,960	-	-	300	29,960

As at 31 December 2021, the Bank issued the above-mentioned other equity instruments to supplement tier 1 capital of RMB88,960 million.

28.4 Attribution to holders of equity instrument:

The Group

	31 December 2021	*31 December 2020*
Equities attributable to shareholders of the Bank	684,111	615,586
Equities attributable to ordinary shareholders of the Bank	*598,309*	*529,784*
Equities attributable to preference shareholders of the Bank	*85,802*	*85,802*
Equity attributable to non-controlling shareholders	10,187	9,217
Equity attributable to non-controlling ordinary shareholders	*8,297*	*7,223*
Equity attributable to non-controlling shareholders of other equity instruments	*1,890*	*1,994*

29. Capital reserve

	The Group				*The Bank*			
	1 January 2021	*Increase*	*Decrease*	*31 December 2021*	*1 January 2021*	*Increase*	*Decrease*	*31 December 2021*
Share premium	74,881	-	-	74,881	75,227	-	-	75,227
Others	33	-	-	33	33	-	-	33
Total	74,914	-	-	74,914	75,260	-	-	75,260

(Expressed in millions of Renminbi, unless otherwise stated)

30. Surplus reserve

	The Group and the Bank	
	2021	*2020*
Statutory surplus reserve	10,387	10,387
Discretionary surplus reserve	297	297
Total	10,684	10,684

Under relevant PRC law, the Bank is required to transfer 10% of its net profit to a nondistributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. As of 31 December 2021, the Bank ceased to make appropriations to the statutory surplus reserves since the balance of them have reached 50% of the share capital of the Bank.

31. General reserve

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
General reserve	97,944	87,535	91,176	83,382

Pursuant to (CJ [2012] No.20) Measures on General Provision for Bad and Doubtful Debts for Financial Institutions promulgated by the MOF, the Bank is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. In principle, the general reserve, accounted as profit distribution, should not be lower than 1.5% of the closing balance of gross risk-bearing assets since it is a part of shareholders' equity. Gross risk-bearing assets include Loans and advances to customers, Debt investments, Other debt investments, Other equity investments, Long-term equity investments, Deposits with banks and other financial institutions, Placements with banks and other financial institutions, Foreclosed assets and Other receivables and so forth. The subsidiaries of the Bank determine the general reserve according to the regulation.

32. Retained earnings

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Opening balance	336,626	297,389	315,799	281,875
Net profit	82,680	66,626	75,781	60,856
Appropriations to general reserve	(10,409)	(9,010)	(7,794)	(8,553)
Dividends distribution of ordinary shares	(16,661)	(15,830)	(16,661)	(15,830)
Dividends distribution of preference shares	(2,841)	(2,549)	(2,841)	(2,549)
Dividends distribution of perpetual bonds	(1,419)	-	(1,419)	-
Closing balance	387,976	336,626	362,865	315,799

32.1 "2021 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 24 March 2022 and will be submitted for approval by the annual general meeting is as follows :

(i) Appropriation of RMB7,794 million to general reserve. As at 31 December 2021, the proposed appropriation of general reserve has been included in the general reserve.

(ii) Distribute cash dividends of RMB10.35 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at the issuance date of the financial statements for the year ended 31 December 2021.

(iii) The divided period of preference shares issued in 2014 is from 1 January 2021 to 31 December 2021 (the annual dividend rate is 5.55%), the divided period of preference shares issued in 2015 is from 1 January 2021 to 31 December 2021 (the annual dividend rate is 4.63%), the divided period of preference shares issued in 2019 is from 1 January 2021 to 31 December 2021 (the annual dividend rate is 4.9%), the dividends payable of preference shares are RMB2,793 million in total.

The above profit distribution plan has not been approved by the Annual General Meeting of the Bank. The accounting treatment of dividend distribution scheme before the approval is not carried out.

32.2 "2020 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 30 March 2021 and approved by the Annual General Meeting is as follows :

(i) Appropriate RMB8,553 million to general reserve. As at 31 December 2020, the proposed appropriation of general reserve has been included in the general reserve.

(ii) Distribute cash dividends of RMB8.02 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at the issuance date of the financial statements for the year ended 31 December 2020.

(iii) The divided period of preference shares issued in 2014 is from 1 January 2020 to 31 December 2020 (the annual dividend rate is 5.55%). The divided period of preference shares issued in 2015 is from 1 January 2020 to 31 December 2020 (the nominal dividend yield of the first dividend period was 5.4%, and was adjusted to 4.63% for the second dividend period since 24 June 2020). The divided period of preference shares issued in 2019 is from 1 January 2020 to 31 December 2020 (the annual dividend rate is 4.9%), the dividends payable of preference shares are RMB2,841 million in total.

As at 31 December 2021, the above-mentioned dividend distribution has been completed.

32.3 Surplus reserve appropriated by subsidiaries

As at 31 December 2021, the balance of the Group's retained earnings include surplus reserve appropriated by subsidiaries amounting to RMB3,217 million (31 December 2020: RMB2,487 million).

(Expressed in millions of Renminbi, unless otherwise stated)

33. Net interest income

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Interest income				
Balances with Central Bank	5,641	5,731	5,640	5,731
Deposits with banks and other financial institutions	1,762	1,659	1,528	1,568
Placements with banks and other financial institutions	8,722	6,849	9,075	7,073
Financial assets purchased under resale agreements	2,475	2,712	2,455	2,642
Loans and advances to customers	211,807	198,197	202,244	191,119
Including: Corporate	96,106	90,510	96,304	90,664
Personal	109,891	101,714	100,130	94,482
Discounted bills	5,810	5,973	5,810	5,973
Bonds and other investment	79,370	82,999	77,052	80,299
Finance lease receivables	5,274	5,159	-	-
Others	107	172	19	15
Subtotal	315,158	303,478	298,013	288,447
Interest expense:				
Borrowing from Central Bank	(7,133)	(5,485)	(7,133)	(5,485)
Deposits from banks and other financial institutions	(33,873)	(30,631)	(34,010)	(30,831)
Placements from banks and other financial institutions	(4,230)	(4,463)	(463)	(1,357)
Financial assets sold under repurchase agreements	(2,278)	(2,843)	(1,913)	(2,528)
Deposits from customers	(90,866)	(88,617)	(90,882)	(88,645)
Debt securities issued	(30,783)	(27,757)	(29,424)	(26,494)
Others	(316)	(167)	(133)	(50)
Subtotal	(169,479)	(159,963)	(163,958)	(155,390)
Net interest income	145,679	143,515	134,055	133,057

34. Net fee and commission income

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Fee and commission income				
Bank card fee	13,182	11,678	13,182	11,678
Consultancy and advisory fee	14,668	13,369	11,641	12,049
Agency fee	7,153	4,948	7,100	4,897
Custodian fee	3,553	2,969	3,553	2,969
Settlement and clearing fee	2,268	1,730	2,268	1,730
Credit commitment fee	1,544	1,612	1,544	1,612
Transactional service fee	1,235	1,326	1,235	1,326
Trust service fee	1,099	1,914	-	-
Lease service fee	560	701	-	-
Others	2,305	2,230	1,857	1,696
Subtotal	47,567	42,477	42,380	37,957
Fee and commission expense	(4,887)	(4,767)	(6,369)	(5,642)
Net fee and commission income	42,680	37,710	36,011	32,315

(Expressed in millions of Renminbi, unless otherwise stated)

35. Investment income

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Trading assets	26,691	20,254	26,536	20,049
Debt investments	1,360	716	1,355	688
Other debt investments	943	4,440	943	4,440
Gains from long-term equity investments under the equity method	213	154	211	210
Trading liabilities	47	1,174	(60)	1,174
Other equity investments	16	12	16	12
Dividends declared by subsidiaries	-	-	575	90
Precious metal	(84)	(832)	(84)	(832)
Derivative financial instruments	(1,990)	(871)	(2,004)	(821)
Others	1,282	1,107	1,296	1,070
Total	28,478	26,154	28,784	26,080

36. Gains (losses) from changes in fair values

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Trading assets	4,422	(4,929)	3,312	(5,098)
Precious metals	(133)	118	(133)	119
Trading liabilities	(298)	(7)	(297)	42
Derivative financial instruments and others	(1,813)	(1,449)	(1,897)	(1,476)
Total	2,178	(6,267)	985	(6,413)

37. Taxes and surcharges

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
City maintenance and construction tax	1,075	1,008	984	931
Education surcharge	739	693	679	640
Others	393	385	353	345
Total	2,207	2,086	2,016	1,916

38. General and administrative expenses

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Employee benefits	34,689	29,071	31,306	26,094
Lease expenses	430	3,134	415	2,972
Depreciation and amortization	5,551	2,433	5,288	2,330
Others	14,798	13,624	14,624	12,960
Total	55,468	48,262	51,633	44,356

(Expressed in millions of Renminbi, unless otherwise stated)

39. Credit impairment losses

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Loans and advances to customers	45,484	49,220	42,246	46,838
Debt investments	20,931	19,886	19,808	19,094
Other debt investments	356	2,483	410	2,418
Finance lease receivables	(154)	56	-	-
Credit loss of off-balance sheet assets	(1,309)	(840)	(1,309)	(840)
Others	1,533	4,496	1,460	4,377
Total	66,841	75,301	62,615	71,887

40. Income tax expenses

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Current income tax	16,610	15,036	13,535	12,506
Deferred income tax	(5,324)	(6,064)	(5,085)	(5,799)
Adjustment for prior years	208	(16)	177	(12)
Total	11,494	8,956	8,627	6,695

The tax charges can be reconciled to the profit as follows:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Accounting profit	95,310	76,637	84,408	67,551
Tax calculated at applicable statutory tax rate of 25%	23,828	19,159	21,102	16,888
Adjustments on income tax:				
Income not taxable for tax purpose	(15,077)	(12,661)	(14,892)	(12,561)
Expenses not deductible for tax purpose	2,535	2,474	2,240	2,380
Adjustment for prior years	208	(16)	177	(12)
Total	11,494	8,956	8,627	6,695

(Expressed in millions of Renminbi, unless otherwise stated)

41. Other comprehensive income

The Group

	1 January 2021	Year ended 31 December 2021: Amount incurred before income tax	Other comprehensive income transferred to profit and loss	Income tax expense	Attributable to shareholders of the Bank after tax	Non-controlling interests after tax	31 December 2021
Other comprehensive income that will not be subsequently classified to profit and loss							
Including: Actuarial profits/losses on defined benefit plans	1,388	418	-	-	418	-	1,806
Fair value changes of other equity investments	(214)	258	-	(64)	194	-	(20)
Subtotal	1,174	676	-	(64)	612	-	1,786
Other comprehensive income that may be subsequently classified to profit and loss							
Including: Fair value changes of other debt investments (Note 1)	(5,421)	1,571	3,797	(1,338)	4,016	14	(1,405)
Credit losses on other debt investments (Note 2)	3,489	2,338	(3,706)	342	(1,015)	(11)	2,474
Translation differences of financial statements denominated in foreign currencies	9	(5)	-	-	(5)	-	4
Subtotal	(1,923)	3,904	91	(996)	2,996	3	1,073
Total	(749)	4,580	91	(1,060)	3,608	3	2,859

(Expressed in millions of Renminbi, unless otherwise stated)

The Bank

	1 January 2021	*Year ended 31 December 2021* Amount incurred before income tax	*Other comprehensive income transferred to profit and loss*	*Income tax expense*	*31 December 2021*
Other comprehensive income that will not be subsequently classified to profit and loss					
Including: Actuarial profits/losses on defined benefit plans	1,388	418	-	-	1,806
Fair value changes of other equity investments	(214)	258	-	(64)	(20)
Subtotal	1,174	676	-	(64)	1,786
Other comprehensive income that may be subsequently classified to profit and loss					
Including: Fai2r value changes of other debt investments (Note 1)	(5,290)	1,421	3,883	(1,327)	(1,313)
Credit losses on other debt investments (Note 2)	3,365	2,313	(3,627)	328	2,379
Subtotal	(1,925)	3,734	256	(999)	1,066
Total	(751)	4,410	256	(1,063)	2,852

Note 1: Fair value changes of other debt investments include changes in fair value of issued loans and advances measured at fair value through other comprehensive income.

Note 2: Provision for credit impairments of other debt investments include provision for impairments of issued loans and advances measured at fair value through other comprehensive income.

42. Earnings per share

The Group

	2021	*2020*
Current net profit attributable to ordinary shareholders of the Bank (in millions of Renminbi)	78,420	64,077
Weighted average ordinary shares issued by the Bank (shares in million)	20,774	20,774
Basic and diluted earnings per share (RMB)	3.77	3.08

When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends and perpetual bonds interests announced of insurance during the year ended 31 December 2021 and 31 December 2020. The conversion characteristic of preference shares enables the existence or ownership of ordinary shares to be issued. As at 31 December 2021 and 31 December 2020, there was no triggering event for the conversion of shares, and the conversion characteristics of preference shares had no impact on the calculation of the basic and diluted earnings per share for the above period.

On 27 December 2021, the Group issued convertible bonds, the convertible characteristics of which resulted in the contingent existence of convertible ordinary shares of the Group. The convertible bond was issued on 27 December 2021, so the issue of the convertible bond is non-dilutive to earnings per share (2020: Nil).

(Expressed in millions of Renminbi, unless otherwise stated)

43. Supplementary information to the cash flow statement

43.1 Reconciliation of net profit to cash flows from operating activities

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Reconciliation of net profit to cash flows from operating activities				
Net profit	83,816	67,681	75,781	60,856
Add: Allowance for impairment losses on assets	67,010	75,427	62,615	71,980
Depreciation of fixed assets	2,249	1,967	1,734	1,666
Amortization of intangible assets	218	148	150	131
Depreciation of right-of-use assets	2,822	-	2,592	-
Amortization of unrecognised financing fee	539	-	324	-
Amortization of long-term deferred expenses	529	560	506	533
Gains from disposal of fixed assets, intangible assets and other long-term assets	20	(7)	20	(7)
Interest income of bonds and other investments	(79,370)	(82,999)	(77,052)	(80,299)
Interest income of impaired financial assets	(1,747)	(1,289)	(1,747)	(1,289)
(Gains) losses from changes in fair value	(2,178)	6,267	(985)	6,413
Investment income	(28,478)	(26,154)	(28,784)	(26,080)
Interest expense for debt securities issued	30,783	27,757	29,424	26,494
Increase in deferred tax assets	(3,633)	(4,814)	(3,316)	(4,443)
Decrease in deferred tax liabilities	89	174	-	79
Increase in receivables of operating activities	(912,241)	(671,038)	(873,248)	(668,632)
Increase in payables of operating activities	449,801	572,092	437,640	546,807
Net cash flow from operating activities	(389,771)	(34,228)	(374,346)	(65,791)
Net changes in cash and cash equivalents				
Closing balance of cash and cash equivalents	768,908	956,795	760,083	933,105
Less: opening balance of cash and cash equivalents	956,795	731,730	933,105	775,679
Net increase of cash and cash equivalents	(187,887)	225,065	(173,022)	157,426

(Expressed in millions of Renminbi, unless otherwise stated)

43.2 Composition of cash and cash equivalents

Cash and cash equivalents stated in consolidated cash flow statement and cash flow statement comprise:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Cash on hand	5,026	4,956	5,026	4,956
Balances with Central Bank that can be withdrawn on demand	97,031	55,289	97,027	55,285
Original maturity less than three months:				
Deposits with banks and other financial institutions	53,014	79,864	47,470	67,649
Placements with banks and other financial institutions	109,759	60,504	108,959	59,004
Financial assets purchased under resale agreements	138,370	120,668	137,470	115,528
Bonds investment	365,708	635,514	364,131	630,683
Closing balance of cash and cash equivalents	768,908	956,795	760,083	933,105

44. Post-employment compensation

44.1 Defined contribution plans

The Group participates in the endowment insurance, unemployment insurance plans established by the government and the annuity plan established by the Group. According to these plans, the employees' salaries are paid to the plans proportionally each month. Except the expenses above, the Group undertakes no further payment duties. Certain expenses are charged in profit or loss of the period.

Expense recognized in profit or loss for the period:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Defined contribution plans	2,889	1,955	2,710	1,800

Amount of payable at the period-end:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Defined contribution plans	125	84	89	47

44.2 Defined benefit plans

The Group offers complementary retiring benefit plans to employees who start their service before 31 December 2007 and core personnel of grade 13 or above who join the Group after 31 December 2007 and are not due to retire for 10 or more years. The Group estimates the present value by actuary means based on expected cumulative benefits unit method. The project estimates the future cash outflow based on rate of inflation and rate of death, and recognizes its present value by discount rate. Discount rate is measured by the corresponding yield of the treasury bond which matches the period of defined benefit plans and currency on balance sheet date. The Group recognizes assets of this plan based on actuary results, related actuarial gains or losses recognized into other comprehensive income. Past service costs will be charged in profit or loss in the period of revising the plans. The interest net value is recognized by the defined benefit plans net liabilities or assets multiplying by appropriate discount rate.

The profit or loss charged by related influence from defined benefit plans is RMB14 million. Actuary gains charging to other comprehensive income are RMB418 million. Net assets of defined benefit plans are decreased by RMB404 million for the period, and the balance at the end of the period is RMB2,167 million, which is the net value of present value of defined benefit plans duties and fair value of defined benefit plans assets, and should be charged to other assets (Note VII, 15).

As at 31 December 2021, the Group’s defined benefit plans' average benefit obligation period was about 5 to 7 years (31 December 2020: about 6 to 8 years).

Defined benefit plan makes the Group face the actuarial risks that include interest rate risk and longevity risk. The decrease of the yield of government bond will lead to an increase in the present value of defined benefit plan obligations. The present value of defined benefit plan obligations is calculated based on the best estimate of the mortality rate of the employees participating in the scheme, and the increase in life expectancy will lead to an increase in plan liabilities.

Discount rate and mortality rate are the key actuarial factors in determining the present value of the defined benefit plan obligations. The discount rate is 2.75% as at 31 December 2021 (31 December 2020: 3.25%). Mortality assumptions are based on Male Pension Service Form and Female Pension Service Form of China Experience Life Table of Life Insurance (2010-2013) released by Chinese Insurance Regulatory Commission. The male workers retired at the age of 60 and female workers retired at the age of 55 are expected to have an average residual life of 25.34 years and 34.03 years respectively.

The following sensitivity analysis is based on the corresponding hypothesis with reasonable possible changes occurred at the end of the reporting period (assuming all other assumptions remain unchanged):

If the discount rate increases (decreases) by 25 basis points, then the present value of defined benefit plan obligations will be decreased by RMB35 million (increased by RMB38 million).

As part of hypothesis may have correlation and a hypothesis cannot be changed in an isolate way, the sensitivity analysis may not reflect the actual changes in the fair value of the defined benefit plan obligations.

In the aforesaid sensitivity analysis, the calculation method in determining the defined benefit plan obligations is the same as the recognition of the relevant liabilities in the balance sheet at the end of the reporting period.

Compared with the previous year, the method for sensitivity analysis and the hypothesis didn’t change.

45. Structured entities

Consolidated structured entities

The consolidated structured entities of the Group are fund products, asset-backed securities, trust plans and asset management plans. As the manager/initiator of the fund products, asset-backed securities, trust plans and asset management plans, the Group considers whether it has control over the structured entities, and determine whether the consolidation is necessary based on the scope of asset manager’s decision, power of trust holder, reward from management service offering and the risk exposure of variable profit. In 2021, the Group didn't offer financial support to the consolidated structured entities (2020: Nil).

Unconsolidated structured entities

45.1 Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include funds, trust plans, asset management plans, asset-backed financings and wealth management products and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors including the Group and are financed through the issue of investment products to investors.

(Expressed in millions of Renminbi, unless otherwise stated)

The following table sets out an analysis of the carrying amounts and the maximum risk exposure of interests held by the Group as at 31 December 2021 and 31 December 2020 in the structured entities sponsored by third party institutions:

The Group

	2021					
	Trading assets	*Debt investments*	*Other debt investments*	*Carrying amount*	*Maximum risk exposure (note)*	*Type of income*
Funds	425,492	-	-	425,492	425,492	Investment income
Trust plans	4,389	285,907	461	290,757	290,757	Investment income, interest income
Asset management plans	59,607	222,556	1,508	283,671	283,671	Investment income, interest income
Asset-backed securities	12,346	33,013	105,315	150,674	150,674	Investment income, interest income
Wealth management products	5,089	-	-	5,089	5,089	Investment income
Total	506,923	541,476	107,284	1,155,683	1,155,683	

	2020					
	Trading assets	*Debt investments*	*Other debt investments*	*Carrying amount*	*Maximum risk exposure (note)*	*Type of income*
Funds	529,381	-	-	529,381	529,381	Investment income
Trust plans	9,082	318,692	1,628	329,402	329,402	Investment income, interest income
Asset management plans	50,657	158,600	1,425	210,682	210,682	Investment income, interest income
Asset-backed securities	6,306	24,663	82,913	113,882	113,882	Investment income, interest income
Wealth management products	350	-	-	350	350	Investment income
Total	595,776	501,955	85,966	1,183,697	1,183,697	

Note: Maximum risk exposure to funds, trust plans, asset management plans, asset-backed securities and wealth management products is the amortised cost or fair value at the reporting date as recognized in the balance sheet.

(Expressed in millions of Renminbi, unless otherwise stated)

45.2 Structured entities sponsored by the Group which the Group did not consolidate but held an interest

The structured entities which are not consolidated set up by the Group consist primarily of wealth management products, trust plans, funds, asset management plans and asset-backed securities. The nature and purpose of these structured entities is to manage investors' assets and collect management fees. These structured entities generally finance the purchase of assets by issuing units of the products. Interest held by the Group includes direct investments in these structured entities and fees charged by providing management services.

As at 31 December 2021 and 31 December 2020, unconsolidated structured entities sponsored by the Group are set out as below:

<u>The Group</u>

	2021	*2020*
Wealth management products	1,746,548	1,447,569
Trust plans	220,021	306,340
Funds	218,518	227,115
Asset management plans	77,392	95,062
Asset-backed securities	53,500	57,774
Total	2,315,979	2,133,860

As at 31 December 2021, the commission income earned from offering management service to the investors of these structured entities by the Group is RMB14,263 million (As at 31 December 2020: RMB12,545 million).

45.3 Unconsolidated structured entities sponsored by the Group during the year in which the Group does not have an interest at 31 December 2021

Unconsolidated structured entities sponsored after 1 January 2020 but matured before 31 December 2021 by the Group in which the Group does not have an interest at were mainly the non-principal-guaranteed wealth management products.

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 2021 was RMB69,263 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 RMB155,012 million). As at 31 December 2021, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group was RMB197 million (As at 31 December 2020: RMB406 million).

(Expressed in millions of Renminbi, unless otherwise stated)

VIII. Segment reporting

Senior management of the Group evaluates the operations of the Group in accordance with their economic areas of the respective branches and subsidiaries. Each branch serves its local customers and few customers in other regions. The Group does not deeply depend on one single external customer. Through the review of internal reports, the management of the Group conducts performance evaluation and determines the allocation of resources. Segment reporting is presented in a manner consistent with the Group's internal management and reports.

Segment accounting policies are consistent with the accounting policies of the consolidated financial statements. Inter-segment transfer transactions are measured at the actual transaction prices.

The Group includes the head office (including the head office and the operating institutions of the head office), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu, northeast and other regions, western region, central region, a total of ten segments, of which branches within the northeast and other regions, western region, central region are presented in a consolidated manner.

Among them, the northeast and other regions includes: Harbin branch, Changchun branch, Shenyang branch, Dalian branch, Tianjin branch, Jinan branch, Qingdao branch, Haikou branch, Hong Kong branch and Industrial Bank Financial Leasing Co., Ltd.;

Western region includes: Chengdu branch, Chongqing branch, Guiyang branch, Xi'an branch, Kunming branch, Nanning branch, Urumqi branch, Lanzhou branch, Yinchuan branch, Xining branch and Lasa branch;

Central region includes: Hohhot branch, Shijiazhuang branch, Zhengzhou branch, Taiyuan branch, Hefei branch, Changsha branch, Wuhan branch and Nanchang branch.

The Group

	2021											
	Head office	*Fujian*	*Beijing*	*Shanghai*	*Guangdong*	*Zhejiang*	*Jiangsu*	*Northeast and other regions*	*Western region*	*Central region*	*Eliminations*	*Total*
Operating income	94,075	28,320	6,504	6,836	12,615	9,188	12,338	17,963	14,212	19,185	-	221,236
Net interest income	37,964	19,206	5,778	5,796	11,525	9,599	11,233	15,082	12,545	16,951	-	145,679
Including: Net inter-segment interest income	(47,147)	5,444	13,298	9,559	7,496	(681)	182	4,721	1,623	5,505	-	-
Net fee and commission income	29,604	5,504	676	902	894	(537)	917	1,803	1,279	1,638	-	42,680
Other income	26,507	3,610	50	138	196	126	188	1,078	388	596	-	32,877
Operating expenses	(68,960)	(14,746)	(2,207)	(3,142)	(6,227)	(4,066)	(5,167)	(6,970)	(7,172)	(7,380)	-	(126,037)
Operating profit	25,115	13,574	4,297	3,694	6,388	5,122	7,171	10,993	7,040	11,805	-	95,199
Add: Non-operating income	56	98	6	6	23	9	15	17	31	25	-	286
Less: Non-operating expenses	(47)	(32)	(29)	(5)	(4)	(19)	(7)	(8)	(15)	(9)	-	(175)
Total profit	25,124	13,640	4,274	3,695	6,407	5,112	7,179	11,002	7,056	11,821	-	95,310
Less: Income tax expenses												(11,494)
Net profit												83,816
Segment assets	4,260,140	768,503	655,073	596,296	878,928	436,206	485,282	932,076	575,262	875,650	(1,909,538)	8,553,878
Including: Investment in an associate												3,732
Undistributed assets												49,146
Total assets												8,603,024
Segment liabilities	3,741,575	715,857	650,705	592,123	872,461	430,628	478,035	903,882	569,475	863,360	(1,909,538)	7,908,563
Undistributed liabilities												163
Total liabilities												7,908,726
Supplemental information												
Credit commitments	466,625	98,151	15,534	26,990	127,669	99,277	112,331	237,678	163,155	241,611	-	1,589,021
Depreciation and amortization	617	654	339	401	470	251	350	832	754	883	-	5,551
Capital expenditures	1,052	438	38	107	716	184	347	390	493	637	-	4,402

(Expressed in millions of Renminbi, unless otherwise stated)

	2020											
	Head office	*Fujian*	*Beijing*	*Shanghai*	*Guangdong*	*Zhejiang*	*Jiangsu*	*Northeast and other regions*	*Western region*	*Central region*	*Eliminations*	*Total*
Operating income	86,810	24,475	6,561	5,493	11,814	7,817	11,466	16,807	13,944	17,950	-	203,137
Net interest income	44,777	17,048	5,793	4,576	10,935	7,896	10,523	14,447	12,099	15,421	-	143,515
Including: Net inter-segment interest income	(50,726)	5,047	12,400	8,556	9,078	(534)	860	5,066	4,315	5,938	-	-
Net fee and commission income	24,835	4,762	720	776	746	(173)	788	1,783	1,492	1,981	-	37,710
Other income	17,198	2,665	48	141	133	94	155	577	353	548	-	21,912
Operating expenses	(62,135)	(13,535)	(5,224)	(1,621)	(3,966)	(4,181)	(3,699)	(15,262)	(7,373)	(9,594)	-	(126,590)
Operating profit	24,675	10,940	1,337	3,872	7,848	3,636	7,767	1,545	6,571	8,356	-	76,547
Add: Non-operating income	76	88	4	13	26	18	8	24	15	23	-	295
Less: Non-operating expenses	(62)	(28)	(24)	(9)	(28)	(10)	(8)	(12)	(17)	(7)	-	(205)
Total profit	24,689	11,000	1,317	3,876	7,846	3,644	7,767	1,557	6,569	8,372	-	76,637
Less：Income tax expenses												(8,956)
Net profit												67,681
Segment assets	4,008,433	676,075	662,730	473,182	800,186	358,129	464,891	876,124	603,146	747,166	(1,821,575)	7,848,487
Including: Investment in an associate												3,549
Undistributed assets												45,513
Total assets												7,894,000
Segment liabilities	3,540,677	626,039	660,546	467,383	792,306	354,430	456,860	856,987	596,766	738,704	(1,821,575)	7,269,123
Undistributed liabilities												74
Total liabilities												7,269,197
Supplemental information												
Credit commitments	444,176	74,318	19,363	38,775	127,444	78,953	131,018	241,753	158,872	236,008	-	1,550,680
Depreciation and amortization	604	288	91	206	155	98	152	309	230	300	-	2,433
Capital expenditures	712	318	44	102	139	161	220	1,369	387	303	-	3,755

IX. Related party relationship and transactions

1. Related Party Relationship

The Group

Related parties with no controlling interest

1.1 Shareholders holding more than 5% (inclusive) of the Bank’s shares

Name	*Economic nature*	*Place of registration*	*Registered capital* RMB hundred million	*Principal activities*	*Legal representative*
The Finance Bureau of Fujian Province	Legal entity of government agencies	Fuzhou	-	Administration of Fujian provincial fiscal and tax policy	Yu Jun
People's Insurance Company of China (1)	Incorporated Company	Beijing	222.43	Insurance services	Liao Jianmin
China Life Insurance Company (1)	Incorporated Company	Beijing	257.61	Insurance services	Xiao Jianyou
China National Tobacco Corporation (1)	Owned by the whole people	Beijing	570.00	Production, and sales of tobacco products	Zhang Jianmin
Haisheng Investment Management Company of Fujian Tobacco (1)	Limited Company	Xiamen	26.47	Investment management	Lin Shixun
China Tobacco Hunan Investment Management Company (1)	Limited Company	Changsha	2.00	Investment management	Xiao Bing
The People’s Insurance Company (Group) of China Limited (1)	Incorporated Company	Beijing	442.24	Investment management and insurance services	Luo Xi
China National Tobacco Fujian Corporation (1)	Owned by the whole people	Fuzhou	1.37	Sales of tobacco products	LI Mindeng
China National Tobacco Guangdong Corporation (1)	Owned by the whole people	Guanghzou	1.40	Production, and sales of tobacco products	Wang Deyuan
Fujian Sanhua Color Printing Co., Ltd. (1)	Limited Company	Longyan	0.12	Trademark, advertisement and other printed matter production	Lu Dongfen

(Expressed in millions of Renminbi, unless otherwise stated)

Number of shares held by Shareholders holding more than 5% (inclusive) of the Bank's shares:

Name	*2021*		*2020*	
	Shares Million shares	*Proportion* (%)	*Shares* Million shares	*Proportion* (%)
The Finance Bureau of Fujian Province	3,915	18.85	3,902	18.78
China Life Insurance Company (1)	1,276	6.14	1,276	6.14
People's Insurance Company of China (1)	1,229	5.91	1,229	5.91
China National Tobacco Corporation (1)	1,110	5.34	1,110	5.34
Haisheng Investment Management Company of Fujian Tobacco (1)	441	2.13	441	2.13
China Tobacco Hunan Investment Management Company (1)	226	1.09	226	1.09
The People's Insurance Company (Group) of China Limited (1)	174	0.84	174	0.84
China National Tobacco Fujian Corporation (1)	132	0.64	132	0.64
China National Tobacco Guangdong Corporation (1)	99	0.48	99	0.48
Fujian Sanhua Color Printing Co., Ltd. (1)	46	0.22	46	0.22
Total	8,648	41.64	8,635	41.57

Note: (1) Relationship between related parties: People's Insurance Company of China and China Life Insurance Company are both subsidiaries of The People's Insurance Company (Group) of China Limited. The aggregate proportion is 12.89%. Haisheng Investment Management Company of Fujian Tobacco, China Tobacco Hunan Investment Management Company, China National Tobacco Fujian Corporation, China National Tobacco Guangdong Corporation and Fujian Sanhua Color Printing Co., Ltd. are subsidiaries of China National Tobacco Corporation. The aggregate proportion is 9.90%.

1.2 Associates

Details of general information and related information of associates are set out in Note VII, 9.

1.3 Other related parties

Other related parties include key management personnel (director, supervisor, senior management of head office) and their close families, as well as other enterprises over which the key management personnel or their close families have control, common control or act as board of directors or senior management.

2. Related party transactions

The conditions and prices of related party transactions between the Group and the Bank are determined according to the Group's contract, and are examined and approved in accordance with the transaction type and content of transaction by corresponding decision-making authority.

(Expressed in millions of Renminbi, unless otherwise stated)

2.1 Interest income

Related party	*2021*	*2020*
Fujian Yango Holdings Group and its related parties	372	434
Associates	280	274
Longyan Huijin Development Group Co., Ltd. and its related parties	43	42
Zhejiang Energy Group Co., Ltd. and its related parties	17	6
China Tobacco and its related parties	14	19
Other related parties	1	12
Total	727	787

2.2 Interest expense

Related party	*2021*	*2020*
China Tobacco and its related parties	3,275	1,130
The People's Insurance Company (Group) of China Limited and its related parties	926	870
Fujian Yango Holdings Group and its related parties	128	15
Associates	74	2
Zhejiang Energy Group Co., Ltd. and its related parties	71	21
The Finance Bureau of Fujian Province and its subsidiaries	19	20
Longyan Huijin Development Group Co., Ltd. and its related parties	10	1
Total	4,503	2,059

2.3 Investment income

Related party	*2021*	*2020*
Zhejiang Energy Group Co., Ltd. and its related parties	2	-
Longyan Huijin Development Group Co., Ltd. and its related parties	-	2
Total	2	2

(Expressed in millions of Renminbi, unless otherwise stated)

2.4 Fee and commission income

Related party	*2021*	*2020*
The People's Insurance Company (Group) of China Limited and its related parties	153	59
Huaxia Life Insurance Co.,Ltd. and its related parties	13	17
China Tobacco and its related parties	13	-
Associates	9	-
Fujian Yango Holdings Group and its related parties	8	24
The Finance Bureau of Fujian Province and its subsidiaries	1	2
Longyan Huijin Development Group Co., Ltd. and its related parties	1	-
Zhejiang Energy Group Co., Ltd. and its related parties	-	10
Total	198	112

2.5 Fees and commission expense

Related party	*2021*	*2020*
The People's Insurance Company (Group) of China Limited and its related parties	6	5
Longyan Huijin Development Group Co., Ltd. and its related parties	-	2
Others	12	1
Total	18	8

2.6 General and administrative expenses-insurance

Related party	*2021*	*2020*
The People's Insurance Company (Group) of China Limited and its related parties	521	377

In 2021, the Bank was paid RMB1 million in compensation from People's Insurance Company of China (2020: RMB1 million).

2.7 General and administrative expenses-others

Related party	*2021*	*2020*
China Tobacco and its related parties	28	21
Others	2	20
Total	30	41

(Expressed in millions of Renminbi, unless otherwise stated)

3. Unsettled amount of related party transactions

3.1 Deposits with banks and other financial institutions

Related party	*2021*	*2020*
Associates	9	14

3.2 Placements with banks and other financial institutions

Related party	*2021*	*2020*
Associates	1,415	2,949

3.3 Loans and advances to customers

Related party	*2021*	*2020*
Fujian Yango Holdings Group and its related parties	7,417	6,592
Associates	2,260	2,543
Zhejiang Energy Group Co., Ltd. and its related parties	726	522
Longyan Huijin Development Group Co., Ltd. and its related parties	534	867
China Tobacco and its related parties	293	197
Others	13	9
Total	11,243	10,730

3.4 Other debt investments

Related party	*2021*	*2020*
Zhejiang Energy Group Co., Ltd. and its related parties	191	-
Longyan Huijin Development Group Co., Ltd. and its related parties	-	100
Total	191	100

3.5 Debt investments

Related party	*2021*	*2020*
Associates	3,609	7,009
Fujian Yango Holdings Group and its related parties	912	1,215
Total	4,521	8,224

(Expressed in millions of Renminbi, unless otherwise stated)

3.6 Deposits from banks and other financial institution

Related party	*2021*	*2020*
Associates	1,232	851
Zhejiang Energy Group Co., Ltd. and its related parties	500	3,000
China Tobacco and its related parties	339	54
The People's Insurance Company (Group) of China Limited and its related parties	256	38
Fujian Yango Holdings Group and its related parties	10	367
Total	2,337	4,310

3.7 Deposits from customers

Related party	*2021*	*2020*
China Tobacco and its related parties	90,333	82,535
The People's Insurance Company (Group) of China Limited and its related parties	24,357	24,063
Fujian Yango Holdings Group and its related parties	4,173	6,138
The Finance Bureau of Fujian Province and its subsidiaries	3,087	1,955
Associates	1,240	1,267
Longyan Huijin Development Group Co., Ltd. and its related parties	1,140	512
Zhejiang Energy Group Co., Ltd. and its related parties	16	36
Others	59	409
Total	124,405	116,915

3.8 Right-of-use assets

Related party	*2021*	*2020*
China Tobacco and its related parties	23	N/A

3.9 Lease liabilities

Related party	*2021*	*2020*
China Tobacco and its related parties	24	N/A

(Expressed in millions of Renminbi, unless otherwise stated)

3.10 Credit line

Related party	*2021*	*2020*
The People's Insurance Company (Group) of China Limited and its related parties	54,000	54,000
Fujian Yango Holdings Group and its related parties	18,500	22,000
China Tobacco and its related parties	17,000	15,000
Zhejiang Energy Group Co., Ltd. and its related parties	8,100	8,100
Longyan Huijin Development Group Co., Ltd. and its related parties	4,000	4,000
Total(i)	101,600	103,100

Note (i): Based on the principle of materiality, the above table only disclosed the credit lines of material related party annouced by the Group.

3.11 Off-balance sheet items

Bank acceptances

Related party	*2021*	*2020*
Fujian Yango Holdings Group and its related parties	1,705	1,641
Associates	1,421	1,237
Longyan Huijin Development Group Co., Ltd. and its related parties	67	30
China Tobacco and its related parties	40	68
Zhejiang Energy Group Co., Ltd. and its related parties	-	113
The People's Insurance Company (Group) of China Limited and its related parties	-	294
Total	3,233	3,383

Letters of guarantee

Related party	*2021*	*2020*
Fujian Yango Holdings Group and its related parties	283	304
China Tobacco and its related parties	56	54
The People's Insurance Company (Group) of China Limited and its related parties	-	470
Total	339	828

(Expressed in millions of Renminbi, unless otherwise stated)

Letters of credit

Related party	*2021*	*2020*
Associates	492	560
Zhejiang Energy Group Co., Ltd. and its related parties	140	-
Longyan Huijin Development Group Co., Ltd. and its related parties	47	-
China Tobacco and its related parties	1	-
Total	680	560

4. Key management personnel remuneration

	2021	*2020*
Salary and welfare	14	14

X. Contingencies and commitments

1. Pending litigations

As of the balance sheet date, the Group's management considers that there is no pending litigation which has a significant impact on the financial statements that needs to be disclosed.

2. Off-balance sheet items

Contractual amount

	The Group and the Bank	
	2021	*2020*
Credit card commitments	466,625	444,176
Letters of credit	158,352	148,465
Letters of guarantee	106,912	108,561
Bank acceptances	835,418	822,341
Irrevocable loan commitments	21,714	27,137
Total	1,589,021	1,550,680

3. Capital commitments

	Contractual amount of the Group		*Contractual amount of the Bank*	
	2021	*2020*	*2021*	*2020*
Authorized but not contracted for	107	156	103	155
Contracted but not paid for	602	406	588	388
	709	562	691	543

(Expressed in millions of Renminbi, unless otherwise stated)

4. Collateral

Assets pledged

4.1 The carrying amount of assets pledged as collateral under repurchase agreements is as follows:

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Bonds	237,375	85,015	225,472	73,080
Bills	32,416	41,035	32,416	41,330
Total	269,791	126,050	257,888	114,410

4.2 As at 31 December 2021, the Group and the Bank have no pledged bonds to credit derivative transaction (31 December 2020: Nil) .

Collateral accepted

In the resale agreement, the Group can sell pledged assets or transfer them in other transactions when the counterparty is not in breach of the contract. As at 31 December 2021, the fair value of pledged assets available for sale or convertible is RMB9,254 million (31 December 2020: RMB1,976 million).

5. Redemption commitment of certificate treasury bonds and saving treasury bonds

The Group entrusted by the MOF as its agent issues certificate treasury bonds and saving treasury bonds. Holders of certificate treasury bonds and saving treasury bonds can require advance redemption, and the Group has the obligation to execute the redemption responsibility. Redemption amount for the certificate treasury bonds and saving treasury bonds includes principal and interest payable till redemption date.

As of 31 December 2021 and 31 December 2020, the cumulative principal balances of the certificate treasury bonds and saving treasury bonds which are issued by the Group under trust prior to maturity and not been paid are as follows:

	The Group and the Bank	
	2021	*2020*
Certificate treasury bonds and saving treasury bonds	2,532	2,682

The Group believes the Group’s redemption amount of these certificate treasury bonds and saving treasury bonds is not significant before their maturity.

(Expressed in millions of Renminbi, unless otherwise stated)

6. Fiduciary Business

	The Group		*The Bank*	
	2021	*2020*	*2021*	*2020*
Fiduciary loans	181,653	223,035	181,653	223,035
Fiduciary wealth management products	1,746,548	1,447,569	429,831	777,775
Fiduciary investments	-	73	-	73

Fiduciary loans are loans that depositor designated specific third party as the loan party, and related credit risk of the loan is borne by depositors who designated borrowers.

Fiduciary wealth management products refer to a kind of service that the entrusted Group is responsible for the operation and management of customer assets. The investment risk of fiduciary wealth management products is borne by the trustor.

Fiduciary investments refers to a kind of service that the entrusted Group engaged in capital operation, investment management, investment advisory and other investment services based on the principal-agent relationship. The investment risk of fiduciary investment is borne by the trustor.

XI. Financial risk management

1. Overview

The Group is exposed to various types of risks due to its financing businesses including banking business. The Group identifies, assesses and monitors various risks on an on-going basis. The most significant types of risk to which the Group is exposed are credit risk, market risk, liquidity risk and operation risk, country risk, bank account interest rate risk, reputation risk, strategic risk, information technology risk.

The Group's risk management objectives are to achieve a proper balance between risks and benefits and run business safely and prudently under reasonable level of risk.

2. Risk management framework

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focus on business operation as well as risk management, established pre-during-post events risk control system with a core of risk asset management, and improved the risk management and operation instructions for various businesses; completed the mechanism of risk responsibilities and punishment, implemented credit business operation responsibilities, established risk fund for credit post personnel, enhanced risk constraints; including credit risk, market risk, liquidity risk, operational risk and other risks into the scope of risk management and continuously improve the risk management mechanism to wholly-owned and holding subsidiaries; Further defined the specific responsibilities of board of directors, board of supervisors, senior management and operation executives in respect of risk management, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group's business sector, risk management department and internal audit department build up the "three defences"; they perform their respective functions and work together to achieve the objective of risk management. Among them, operation institutions and business sector form the first line of defences to conduct risk management according to the risk management rules and policies. Operation institutions take precautions against all the business and operating risk, while business sector is in-charge of making its risk management policy, evaluating the effectiveness of risk management regularly and taking corrective actions if necessary. The risk management department is the second line of defences, which is responsible for the constitution of the Group's risk management strategy, policy, regulations and process, and supervision of the execution. Meanwhile, the risk management department is responsible for the identification, evaluation and supervision of the risk that the Group faces, assessing the Group's risk condition periodically, taking measures for continuously improvement, pushing forward the outspread of overall risk management work. The internal audit department is the third line of defences. It is responsible for all process audits, continuously providing independent and prospective audit and supervision with emphasis.

3. Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks come from loans and receivables (enterprises and personal credit loans), treasury operations (including debt investment) and off-balance sheet related credit risk exposures. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, credit review and approval and post-disbursement loan monitoring and collection.

The Group establish the risk management department, which is responsible for organizing, implementing the credit risk management strategies and policies of the Group, it is also responsible for making basic rules for the Group risk management affairs, in addition, it is also professionally managing, evaluating, guiding the general operation of the Group risk management together with inspecting and supervising the activities mentioned above. As the leading party, the risk management department formulates unified standards, responsible for the credit management on the whole. All the actions taken are to ensure the overall credit risk under control. The Group set up risk management department and professional risk management desk in all the three major lines called enterprise financial line, retail financial line and investment banking and financial markets line. Each of the risk departments is responsible for the credit management in its own line or professional operating department, and it is also responsible for making detailed regulation and operating rules and approving projects within the approving authority. The Group also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post disbursement monitoring and recovery process. In addition, the Group issued Due Diligence of Credit approval to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

In accordance with the discriminative credit policy of "protecting, controlling, and compressing", the Group set up detailed rules for the implementation of credit policy, which has intensified the credit support for the real economy and optimized credit resources allocation. The Group preferentially develops credit businesses for industries which comply with national policy orientation, develop rapidly and have broad market prospects (including infrastructures, people's livelihood, strategic emerging industries and modern agriculture); actively practices green credit principle, preferentially supports green and environment friendly industry with obvious social benefits, mature technology application and commercial operation; supports short-term cycle and people's livelihood consumption industry like medical care, education, tourism and communication.

The Group has established a customer credit rating system which comprehensively and systematically investigated various factors and variation trends that influence customer solvency in future; disclosed and evaluated customers’ credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become an important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. According to new Basel Capital Accord and relevant guides of CBRC, the Group developed and established customer internal rating system and has been continuously optimizing the model and system. Meanwhile, the related results of internal rating has continuously entered into various risk management areas including authorization management, industry access, limit management, economic capital measurement and asset impairment calculation. Since the credit risk weighted assets ("CRWA") measurement system was completed and launched, the Group had the capacity to measure CRWA using internal rating method. As the new capital accords related projects were completed successively, the Group got promoted in capacity of identification, measurement and control of credit risk.

The Group developed risk warning system, applying big data technology to fully integrate both internal and external risk information and analysing as per certain rules so as to form a warning indicator. With customers' potential risks disclosed in time by monitoring the indicator, the active push, tracking, feedback and report generating by level of warning indicator can be achieved and the timeliness and accuracy of risk warning can be improved effectively. The risk warning system realized the online posting of warning information and carried out system hard control over processes including warning adjustment, cancellation etc. and provided basic guarantee for credit management.

The Group accurately identified risks conditions of credit asset, reasonably reflected the income after risk adjustment to guide capital allocation optimization in operation institutions and allocation of credit resources to strengthen risk awareness in operation institutions. Therefore, Credit Asset Risks Classification Implementation Method and Credit Asset Risks Classification Implementation Standards and others have been established to make sure branches adjust credit asset risks classification according to real conditions of projects. Based on 5 levels classified by CBRC, the Group has classified its credit asset risks into 9 levels as level 1(normal), level 2(normal), level 3(normal), level 1(attention), level 2(attention), level 3(attention), sublevel, doubtful and loss. The Group has various management policies to each level.

In 2020, the COVID-19 pandemic has caused a certain impact on China's overall economic operation and affected enterprises' normal operation differently, which has in turn affected the asset quality of the Group's credit assets to a certain extent. Despite the situation caused by the pandemic, the Group provided relief support for customers affected by the epidemic in accordance with government regulations. The Group has also further strengthened risk monitoring, increased the frequency of risk inspections, and performed risk tracking in respect of customers affected by the pandemic. Based on the intelligent risk control platform, the Group enhances the application of big data analysis in its risk management to proactively respond to changes in the external environment, and takes forward-looking risk control measures to effectively resolve hidden risks and prevent the accumulation of non-performing loans.

Risks arising from credit commitments are similar to risks of loans and advances to customers in substance. Therefore, requirements for application, post-loan management and pledge and guarantees are the same with those in loans and advances to customers. According to substanceover-form principle, the Group includes the non-standard credit loans in the comprehensive risk management system and manages them by comparing to traditional loans. The Group provides uniform credit, carries out general control on risks, executes uniform credit policy in nationwide, carries out whole-process responsibilities management by comparing to traditional loans, implements risk classification and provides risk reserves.

ECL measurement

Stage of financial asset risks

The Group adopted a three-stage ECL model for the impairment of financial assets. The model is summarised as follows:

- Financial assets that have not increased significantly since the initial recognition or have a low credit risk at the reporting date are included in stage 1, and the Group continuously monitors its credit risk;

- Financial assets that have a significant increase (excluding the low credit risk of such financial instruments at the reporting date), but without objective impairment evidence are included in stage 2. Criteria of the Group's significant increase in credit risk, see *Significant increase in credit risk*;

- Financial assets with objective evidence of impairment at the reporting date are included in stage 3. The Group's definition of credit impairment and default, see *Definition of asset defaulted and credit-impaired*.

- Financial assets classified in stage 1 make provisions for ECL caused by defaults that may occur within 12 months after the reporting date, and the financial assets classified in the stage 2 and 3 make provisions for the entire lifetime ECL; calculation of the interest income of financial assets classified in stage 1 and 2 is based on the total carrying value of the assets, and interest income of the financial assets classified in stage 3 is calculated based on the net amount after deducting provisions for credit losses. Inputs, assumptions and estimation techniques utilised in ECL measurement, see *Measurement of ECL – Explanation of inputs, assumptions and estimation techniques*.

- The Group takes into account forward-looking information when measuring ECLs. For a description of how the Group considers forward-looking information into the ECL model, please refer to *Forward-looking information incorporated in the ECL model*;

- Purchased or originated credit-impaired (POCI) financial assets refer to financial assets with credit impairment at initial recognition. Loss provision of these assets are lifetime ECLs.

The key judgements and assumptions adopted by the Group when measuring the are as follows:

Significant increase in credit risk

The Group identifies whether the credit risk has increased significantly by comparing default risk at the reporting date with the risk of default on the day of initial recognition. Main factors include: 1. The PD of impairment losses, e.g. the internal credit rating of corporate loans declined by 3 levels or more, and the external credit rating of bond investment declined by 3 levels or more in principle. 2. Other significant increase in credit risk. Generally, if the credit business is overdue for over 30 days, it should be considered a significant increase in credit risk. The Group reviews whether the evaluation criteria are applicable to the current situation on a regular basis.

After the outbreak of the COVID-19 pandemic, the Group provided relief support for customers affected by the pandemic in accordance with government regulations. For customers who apply for loan relief, the Group strictly follows policy requirements related to deferred payment of principal and interest and regulates customers' eligibility. For customers who are eligible for loan relief, the Group provides support measures such as loan extensions, deferred interest payment, and adjustments to the repayment plans. The Group also evaluates whether the credit risk of such customers has increased significantly based on actual circumstances.

Definition of asset defaulted and credit-impaired

The Group carefully considers whether different standards represent client defaults. When a financial asset meets one or more of the following conditions, the Group recognizes the financial asset as defaulted, and the standard is consistent with the definition of the credit-impaired:

(1) Quantitative criteria:

- Payment overdue for more than 90 days. If the borrower violates the prescribed overdraft limit or the re-approved overdraft limit is less than the current balance, the overdraft will be deemed to be overdue.

(2) Qualitative criteria:

- Any loan to the debtor ceases to bear interest or accrue interest is included in the off-balance sheet accounting;
- After the occurrence of the credit relationship, due to the deterioration of the financial situation of the debtor, the Group wrote off the loan or has made a certain proportion of loan loss provisions;
- The Group sells the loan and assumes a certain percentage of the book loss;
- Due to the deterioration of the financial situation of the debtor, the Group agreed to restructure and make non-commercial adjustments to the terms of the loan contract, including but not limited to the following: (a) The contract term changes lead to a decline in the scale of the debt; (b) the debtor is unable to repay the loan; (c) extension due to the debtor's inability to repay;
- The Group classifies the debtor as a bankrupt enterprise or a similar status;
- The debtor filed for bankruptcy, or has gone bankrupt, or is in a similar state of protection, and thus will not perform or postpone the settlement of the debts of the Group;
- Other circumstances identified by the Group that may result in the debtor not being able to fully repay the debt.

The above criteria apply to all financial instruments of the Group and are consistent with the definition of default used in internal credit risk management. The definition of default has been consistently applied to the model of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the Group's ECL calculation process.

Measurement of ECL – Explanation of inputs, assumptions and estimation techniques

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 financial assets according to its current risk stage with ECL of 12 months or the entire lifetime respectively. The expected credit losses taken by the Group are obtained by Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), and discounted by discount factors. Definitions are as follows:

- PD refers to the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- The exposure to default risk refers to the amount that the Group should be repaid in the event of default in the next 12 months or throughout the remaining period;

- LGD is the Group's estimation regarding the extent of the EAD.

The estimates for each risk parameter are as follows:

- Estimation of PD: For non-retail credit assets, the PD is obtained through the main benchmark mapping of internal rating and the macroeconomic forward-looking adjustment is applied to obtain the applicable PD; for retail credit assets, it is based on PD of division of pool, and the macroeconomic forward-looking adjustment is conducted to obtain the applicable PD; for bond assets, the PD is mapped to the main benchmark mainly through external rating, and the applicable PD is obtained through macroeconomic forward-looking adjustment; PD for the entire lifetime of more than 12 months is estimated by a 12M PD and a forward-looking adjustment factor;

- Estimation of EAD: The EAD of financial assets in the first and third stages is the amortised cost; the EAD of financial assets in the second stage is the amortised cost and the cash discount of capital recovered in the following years;

- Estimation of LGD: For non-retail credit assets, it uses the LGD after mitigation, and a macroeconomic forward-looking adjustment is made to obtain the LGD applicable under the new standard; for retail credit assets, it is based on LGD of division of pool, and a macroeconomic forward-looking adjustment is conducted to obtain the LGD applicable under the new standard; for the loss without historical data collection and write-off of data assets, it is based on peer experience and regulatory factors, combined with expert's judgement.

The ECL is multiplied by the above estimated PD, EAD and LGD, and discounted to the reporting date. The discount rate used in the ECL calculation is the initial actual effective interest rate.

The Group monitors and reviews assumptions related to the calculation of ECL on a regular basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL model

Risk parameters related to the calculation of ECL incorporates forward-looking information. The macroeconomic indicators considered by the Group include GDP growth rate, year-on-year growth of CPI , year-on-year growth of M2 monetary supply, cumulative year-on-year growth of fixed asset investment completion value, year-on-year growth of total cumulative value of retail sales of social consumer goods, year-on-year growth of cumulative value of real estate development investment, and the year-on-year growth of per capita disposable income of urban residents. The macroeconomic forward-looking adjustment factors are determined based on the historical situation of these macroeconomic indicators and the predicted values for the coming year. Considering that the changes in the future macro economy may differ from the estimations, the Group reviews and monitors the appropriateness of the estimation on a regular basis. In 2021, the Group maintains a conservative approach towards future economic forecasts when evaluating expected credit losses. The forward-looking information used has taken full account of the impact of COVID-19 on the macro economy and the banking sector.

3.1 Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group mainly operates the lending and guarantee business in the PRC mainland only. Since there are different economic development characteristics in the different regions in China, the characteristics of credit risks are also different.

For the geographical and industrial concentration of the loans and advances to customers please refer to Note VII, 6.

3.2 Maximum exposure to credit risk

Despite any usable collateral, and other credit enhancement measures, the maximum credit risk exposure that the Group and the Bank can afford on balance sheet date is the related financial assets (including derivative instruments and deducted equity instruments) plus the amount of off-balance sheet book value in Note X, 2. As at 31 December 2021, the maximum credit risk exposure of the Group amounted to RMB9,464,758 million (31 December 2020: RMB8,791,696 million); the maximum credit risk exposure of the Bank amounted to RMB9,206,278 million (31 December 2020: RMB8,556,258 million).

(Expressed in millions of Renminbi, unless otherwise stated)

Credit exposure

Loans and advances to customers

The Group

	2021				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	4,285,080	34,070	1,180	-	4,320,330
Medium risk	-	60,128	7,857	-	67,985
High risk	-	-	49,017	-	49,017
Total carrying amount	4,285,080	94,198	58,054	-	4,437,332
Allowance for impairment losses	(81,935)	(14,080)	(33,862)	-	(129,877)
Total	4,203,145	80,118	24,192	-	4,307,455

The Group

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	3,861,722	6,903	821	-	3,869,446
Medium risk	-	45,350	9,455	-	54,805
High risk	-	-	49,774	-	49,774
Total carrying amount	3,861,722	52,253	60,050	-	3,974,025
Allowance for impairment losses	(68,662)	(7,485)	(31,921)	-	(108,068)
Total	3,793,060	44,768	28,129	-	3,865,957

The Group classifies asset risk characteristics according to the quality of assets. “Low risk” means that the borrower can fulfill the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; “Medium risk” means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; “High risk” means that the borrower’s repayment ability has obvious problems and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred. The above maximum credit risk exposure information for loans and advances does not include loans and advances that are measured at fair value through profit or loss.

(Expressed in millions of Renminbi, unless otherwise stated)

Off-Balance Sheet Items

The Group

	2021				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	1,581,783	3,305	638	-	1,585,726
Medium risk	-	3,273	-	-	3,273
High risk	-	-	22	-	22
Total carrying amount	1,581,783	6,578	660	-	1,589,021
Allowance for impairment losses	(3,947)	(126)	(10)	-	(4,083)
Total	1,577,836	6,452	650	-	1,584,938

The Group

	2020				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	1,542,315	4,177	1,252	-	1,547,744
Medium risk	-	1,892	-	-	1,892
High risk	-	-	1,044	-	1,044
Total carrying amount	1,542,315	6,069	2,296	-	1,550,680
Allowance for impairment losses	(4,214)	(614)	(569)	-	(5,397)
Total	1,538,101	5,455	1,727	-	1,545,283

Financial investments

The Group

	2021				
	Stage 1	Stage 2	Stage 3	Purchased financial assets that have already been impaired	Total
Low risk	2,056,871	10,226	-	-	2,067,097
Medium risk	-	18,353	2,018	-	20,371
High risk	-	-	40,503	-	40,503
Total carrying amount	2,056,871	28,579	42,521	-	2,127,971
Allowance for impairment losses	(8,390)	(6,671)	(27,256)	-	(42,317)
Total	2,048,481	21,908	15,265	-	2,085,654

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	2,036,218	9,442	-	-	2,045,660
Medium risk	-	22,059	12,371	-	34,430
High risk	-	-	17,911	-	17,911
Total carrying amount	2,036,218	31,501	30,282	-	2,098,001
Allowance for impairment losses	(14,162)	(3,420)	(13,920)	-	(31,502)
Total	2,022,056	28,081	16,362	-	2,066,499

The Group classifies the credit ratings of financial assets included in the ECL measurement as “low risk”, “medium risk” and “high risk” according to the characteristics of risk levels. “Low risk” means that the assets are of good quality, the possibility of future default is low, and it is less affected by external unfavourable factors; “medium risk” means the asset has certain solvency, but the persistent significant instability or poor commercial, financial or economic conditions may reduce its solvency; and “high risk” means the existence of unfavourable factors that have a material impact on solvency, a higher risk of default or assets that meet the definition of default by the Group.

Deposits with banks and other financial institutions

The Group

	2021				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	562,275	-	-	-	562,275
Medium risk	-	-	-	-	-
High risk	-	-	9	-	9
Total carrying amount	562,275	-	9	-	562,284
Allowance for impairment losses	(3,071)	-	(9)	-	(3,080)
Total	559,204	-	-	-	559,204

(Expressed in millions of Renminbi, unless otherwise stated)

The Group

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*Purchased financial assets that have already been impaired*	*Total*
Low risk	412,419	-	-	-	412,419
Medium risk	-	-	-	-	-
High risk	-	-	25	-	25
Total carrying amount	412,419	-	25	-	412,444
Allowance for impairment losses	(1,923)	-	(25)	-	(1,948)
Total	410,496	-	-	-	410,496

The Group classifies risk characteristics of deposits with banks and other financial institutions based on asset entry and internal rating changes. “low risk” means that the issuer’s initial internal rating is above the entry level, there are no reasons to suspect that the financial investment is expected to default; “medium risk” means that although the issuer’s internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to default; “high risk” means that there are obvious problems may cause a default, or the financial investment indeed is defaulted.

(Expressed in millions of Renminbi, unless otherwise stated)

3.3 Analysis of exposure to credit risk of the Group about loans and advances to customers, inter-bank placements, investments and finance lease receivables

As at 31 December 2021, the credit risk stages of financial instruments are as follows:

	The Group							
	Gross carrying amount				*Allowance for impairment losses*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Measured at amortised cost:								
Cash and balances with Central Bank	447,446	-	-	447,446	-	-	-	-
Deposits with banks and other financial institutions	66,649	-	9	66,658	(398)	-	(9)	(407)
Placements with banks and other financial institutions	353,248	-	-	353,248	(1,426)	-	-	(1,426)
Financial assets purchased under resale agreements	142,378	-	-	142,378	(1,247)	-	-	(1,247)
Loans and advances to customers								
- Corporate loans and advances	2,112,243	76,080	38,600	2,226,923	(72,114)	(11,259)	(17,806)	(101,179)
- Personal loans and advances	1,849,111	17,529	19,413	1,886,053	(9,821)	(2,821)	(16,056)	(28,698)
Financial investments	1,574,039	27,154	42,154	1,643,347	(8,390)	(6,671)	(27,256)	(42,317)
Finance lease receivables	103,709	742	4,411	108,862	(1,461)	(201)	(3,243)	(4,905)
Financial assets, Others	38,739	20	538	39,297	(1,406)	(2)	(533)	(1,941)
Total	6,687,562	121,525	105,125	6,914,212	(96,263)	(20,954)	(64,903)	(182,120)

	The Group							
	Gross carrying amount				*Provision for expected credit losses*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Fair value through other comprehensive income:								
Loans and advances to customers								
- Corporate loans and advances	323,726	589	41	324,356	(1,008)	(3)	(21)	(1,032)
Other debt investments	482,832	1,425	367	484,624	(752)	(233)	(1,313)	(2,298)
Total	806,558	2,014	408	808,980	(1,760)	(236)	(1,334)	(3,330)
Credit commitments	1,581,783	6,578	660	1,589,021	(3,947)	(126)	(10)	(4,083)

(Expressed in millions of Renminbi, unless otherwise stated)

As at 31 December 2020, the credit risk stages of financial instruments are as follows:

	The Group							
	Gross carrying amount				Allowance for impairment losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Measured at amortised cost:								
Cash and balances with Central Bank	411,147	-	-	411,147	-	-	-	-
Deposits with banks and other financial institutions	95,528	-	16	95,544	(321)	-	(16)	(337)
Placements with banks and other financial institutions	192,561	-	9	192,570	(622)	-	(9)	(631)
Financial assets purchased under resale agreements	124,330	-	-	124,330	(980)	-	-	(980)
Loans and advances to customers								
- Corporate loans and advances	1,963,313	42,567	41,751	2,047,631	(60,239)	(6,171)	(19,037)	(85,447)
- Personal loans and advances	1,690,748	9,672	18,271	1,718,691	(8,423)	(1,314)	(12,884)	(22,621)
Financial investments	1,524,446	28,497	28,690	1,581,633	(14,162)	(3,420)	(13,920)	(31,502)
Finance lease receivables	100,583	1,845	3,445	105,873	(1,894)	(556)	(2,807)	(5,257)
Financial assets, Others	54,466	287	2,020	56,773	(1,452)	(41)	(1,729)	(3,222)
Total	6,157,122	82,868	94,202	6,334,192	(88,093)	(11,502)	(50,402)	(149,997)

	The Group							
	Gross carrying amount				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Fair value through other comprehensive income:								
Loans and advances to customers								
- Corporate loans and advances	207,661	14	28	207,703	(576)	-	(17)	(593)
Other debt investments	511,772	3,004	1,592	516,368	(593)	(591)	(2,904)	(4,088)
Total	719,433	3,018	1,620	724,071	(1,169)	(591)	(2,921)	(4,681)
Credit commitments	1,542,315	6,069	2,296	1,550,680	(4,214)	(614)	(569)	(5,397)

(Expressed in millions of Renminbi, unless otherwise stated)

3.3.1 Loans and advances to customers

As at 31 Dememeber 2021, loans and advances to customers were analysed by types of security as follows, excluding loans and advances measured at fair value through profit or loss:

	31 December 2021		*31 December 2020*	
	The Group	*The Bank*	*The Group*	*The Bank*
Stage 1				
Unsecured loans	1,166,567	1,116,826	1,040,036	1,006,540
Guaranteed loans	821,906	821,906	772,877	772,877
Collateralised loans	2,296,607	2,296,607	2,048,809	2,048,809
- Secured by mortgage	1,669,855	1,669,855	1,528,590	1,528,590
- Secured by collaterals	626,752	626,752	520,219	520,219
Subtotal	4,285,080	4,235,339	3,861,722	3,828,226
Stage 2				
Unsecured loans	16,175	15,432	10,895	10,493
Guaranteed loans	37,747	37,747	14,297	14,297
Collateralised loans	40,276	40,276	27,061	27,061
- Secured by mortgage	30,318	30,318	24,639	24,639
- Secured by collaterals	9,958	9,958	2,422	2,422
Subtotal	94,198	93,455	52,253	51,851
Stage 3				
Unsecured loans	13,675	12,547	13,615	12,659
Guaranteed loans	18,436	18,436	25,448	25,448
Collateralised loans	25,943	24,543	20,987	20,539
- Secured by mortgage	25,096	23,696	20,123	19,675
- Secured by collaterals	847	847	864	864
Subtotal	58,054	55,526	60,050	58,646
Total	4,437,332	4,384,320	3,974,025	3,938,723
Fair value of collateral held against credit-impaired loans	12,622	12,622	10,377	10,377

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(Expressed in millions of Renminbi, unless otherwise stated)

3.3.2 Deposits with banks and other financial institutions

Deposits with banks and other financial institutions include balances with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements of which counterparties are banks and non-bank financial institutions.

	2021		2020	
	The Group	The Bank	The Group	The Bank
Occurred credit impaired	9	9	25	25
Less: allowances for impairment losses	(9)	(9)	(25)	(25)
Subtotal	-	-	-	-
Neither past due nor credit-impaired				
- Grade A to AAA	309,623	313,179	264,654	263,630
- Grade B to BBB	1,282	1,282	609	609
- Unrated	250,591	250,592	146,108	146,108
Total	561,496	565,053	411,371	410,347
Interest accrued	779	890	1,048	1,148
Less: allowances for impairment losses	(3,071)	(3,067)	(1,923)	(1,912)
Subtotal	559,204	562,876	410,496	409,583
Total	559,204	562,876	410,496	409,583

Deposits with banks and other financial institutions are analysed above according to the Group and the Bank's internal credit rating. Exposure limits are set for trading counterparties of banks and non-bank financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

3.3.3 Distribution of investments analysed by rating

The ratings are obtained from Standard & Poor's ratings, or major rating agencies where the issuers of the debt securities are located. The investments include debt investments in Financial investments.

The Group

	2021					
	Unrated	*AAA*	*AA*	*A*	*Lower than A*	*Total*
Occurred credit impaired						
- Other corporates	25,716	-	2,436	227	13,264	41,643
- Banks and non-bank financial institutions.	21	857	-	-	-	878
Total	25,737	857	2,436	227	13,264	42,521
Allowance for impairment losses						(27,256)
Subtotal						15,265
Overdue nor credit impaired						
- Other corporates	8,689	-	178	-	-	8,867
Allowance for impairment losses						(961)
Subtotal						7,906
Neither overdue nor credit impaired						
- Government	890,965	216,165	-	-	-	1,107,130
- Policy banks	42,625	-	-	325	-	42,950
- Banking and non-banking financial institution	88,478	123,624	20,962	6,648	1,189	240,901
- Other corporates	303,447	411,515	232,381	6,876	22,059	976,278
Total	1,325,515	751,304	253,343	13,849	23,248	2,367,259
Allowance for impairment losses						(14,100)
Subtotal						2,353,159
Total						2,376,330

	2020					
	Unrated	*AAA*	*AA*	*A*	*Lower than A*	*Total*
Occurred credit impaired						
- Other corporates	21,223	643	1,676	-	5,032	28,574
- Banks and non-bank financial institutions.	940	857	-	-	-	1,797
Total	22,163	1,500	1,676	-	5,032	30,371
Allowance for impairment losses						(13,920)
Subtotal						16,451
Overdue nor credit impaired						
- Other corporates	8,114	-	-	-	-	8,114
Allowance for impairment losses						(1,031)
Subtotal						7,083
Neither overdue nor credit impaired						
- Government	801,859	174,206	-	687	-	976,752
- Policy banks	22,844	-	-	916	-	23,760
- Banking and non-banking financial institution	125,360	115,865	13,220	8,244	1,665	264,354
- Other corporates	396,654	398,871	203,734	13,252	40,080	1,052,591
Total	1,346,717	688,942	216,954	23,099	41,745	2,317,457
Allowance for impairment losses						(16,551)
Subtotal						2,300,906
Total						2,324,440

3.4 Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgers, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Group set an upper limit of the pledged rate. Furthermore, the Group classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral. Following are the main types of collateral:

- For reverse repurchase agreements, collateral mainly includes bills, loans and securities;
- For commercial loans, collateral mainly includes land, properties, equipment and shares, etc;
- For retail loans, collateral mainly includes properties.

The management will monitor the market value of the collateral, ask the borrowers to increase collateral if necessary according to the agreements and monitor the changes in the market value of the collateral when reviewing the adequacy of impairment.

3.5 Rescheduled loans

Rescheduled loans refer to the loan projects generated by the the Group to re-determine the terms of the loan at the discretion of the borrower who is unable to repay the loan according to the original loan terms. If conditions permit, the Group will seek to reschedule the loan instead of obtaining ownership of the collateral. The Group assessed the rescheduled loans as impaired loans manner when rescheduling. As at 31 December 2021, the carrying amount of the Group's rescheduled loans was RMB5,823 million. (As at 31 December 2020, the amount is RMB3,840 million.)

4. Market risk

Market risk is the risk of loss, in respect of the Group’s on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group’s proprietary and customer driven business. The Group’s market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted benefit.

According to the Group’s market risk management structure, market risk management is critical for the management of the Group’s assets and liabilities. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by President of the Bank. The planning and financial department is responsible for implementing the Group’s asset and liability management policy, analysing and monitoring the implementation status of each type of indicators.

For daily control and management of treasury business, the risk management department of the treasure center built up mid-stage risk control system to carry out an implanting risk management and report to the risk management department of the Group.

4.1 Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, benchmark risk and optional risk, among which repricing risk is the main risk. It is the risk arising from the mismatch between the agreed maturity date (fixed interest rate day) and the repricing date (floating interest rate) of interest bearing assets and interest payment liabilities. Currently, the Group has fully carried out the internal capital transfer pricing. The Group determined the transfer pricing by different products and terms, and gradually centralized the interest rate risk to the Head Office, so as to improve the efficiency of management and control the interest rate risk.

For the interest risk management of bank accounts, the Group mainly evaluates the interest rate risk of balance sheet through gap analysis. The Group dynamically monitors and controls the interest rate sensitive gap of balance sheet through information systems like assets-liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation on short-term income, while the economic value analysis emphasizes on the effect of the interest rate fluctuation on present value of net cash flow.

For the interest risk management of transaction accounts, the Group mainly achieves the real-time monitoring of the interest rate risk of the trading accounts through the quota system, the use of financial transactions and analysis system and the scientific exposure measurement models. According to regulatory requirement, the Group has strengthened the management of market risk measurement models, standardized the developing, testing and commissioning process, and built on regular evaluation mechanisms to ensure the accuracy of measurement models. The Group applies the on-line trading and analysis system to timely measure and control the interest rate risk exposure of transaction accounts, which provides effective technical support to control the interest rate risk of transaction accounts.

(Expressed in millions of Renminbi, unless otherwise stated)

At the balance sheet date, an analysis of contractual reprising date or maturity date, whichever is earlier, of the financial assets and financial liabilities are as follows:

The Group

	2021					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets:						
Cash and balances with Central Bank	430,986	-	-	-	16,460	447,446
Deposits with banks and other financial institutions	57,789	8,096	366	-	-	66,251
Placements with banks and other financial institutions	162,124	174,634	15,064	-	-	351,822
Derivative financial assets	-	-	-	-	34,460	34,460
Financial assets purchased under resale agreements	141,131	-	-	-	-	141,131
Loans and advances to customers	2,795,661	1,261,348	188,032	65,265	-	4,310,306
Financial investments:						
Trading assets	47,426	39,284	117,633	77,651	627,800	909,794
Debt investments	127,006	259,953	669,580	544,491	-	1,601,030
Other debt investments	80,257	67,030	250,482	86,855	-	484,624
Other equity investments	-	-	-	-	3,148	3,148
Finance lease receivables	40,130	48,580	13,965	1,282	-	103,957
Other assets	-	1,692	1,025	-	34,639	37,356
Total financial assets	3,882,510	1,860,617	1,256,147	775,544	716,507	8,491,325
Financial liabilities:						
Borrowing from Central Bank	18,805	76,972	-	-	-	95,777
Deposits from banks and other financial institutions	1,394,768	316,111	-	-	-	1,710,879
Placements from banks and other financial institutions	81,226	71,699	19,658	1,195	-	173,778
Trading liabilities	12,011	-	-	-	35,819	47,830
Derivative financial liabilities	-	-	-	-	38,847	38,847
Financial assets sold under repurchase agreements	244,010	21,566	-	-	-	265,576
Deposits from customers	2,738,365	731,617	884,823	200	743	4,355,748
Debt securities issued	339,504	494,153	237,666	48,793	-	1,120,116
Lease liabilities	606	1,729	5,573	1,145	-	9,053
Other liabilities	-	-	-	-	35,907	35,907
Total financial liabilities	4,829,295	1,713,847	1,147,720	51,333	111,316	7,853,511
Net position	(946,785)	146,770	108,427	724,211	605,191	637,814

(Expressed in millions of Renminbi, unless otherwise stated)

	2020					
	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*Non-interest bearing*	*Total*
Financial assets:						
Cash and balances with Central Bank	406,191	-	-	-	4,956	411,147
Deposits with banks and other financial institutions	80,966	14,039	202	-	-	95,207
Placements with banks and other financial institutions	101,230	89,558	1,151	-	-	191,939
Derivative financial assets	-	-	-	-	59,396	59,396
Financial assets purchased under resale agreements	122,357	993	-	-	-	123,350
Loans and advances to customers	2,688,978	978,655	134,731	64,957	-	3,867,321
Financial investments:						
Trading assets	50,666	48,489	117,020	25,072	582,680	823,927
Debt investments	161,696	173,957	758,727	455,751	-	1,550,131
Other debt investments	108,938	63,264	235,320	108,846	-	516,368
Other equity investments	-	-	-	-	2,388	2,388
Finance lease receivables	15,443	54,777	29,533	863	-	100,616
Other assets	373	3,505	315	-	46,719	50,912
Total financial assets	3,736,838	1,427,237	1,276,999	655,489	696,139	7,792,702
Financial liabilities:						
Borrowing from Central Bank	36,655	253,743	-	-	-	290,398
Deposits from banks and other financial institutions	1,163,967	323,112	-	-	-	1,487,079
Placements from banks and other financial institutions	88,602	72,865	14,675	4,029	-	180,171
Trading liabilities	932	-	-	-	15,130	16,062
Derivative financial liabilities	-	-	-	-	61,513	61,513
Financial assets sold under repurchase agreements	99,358	24,209	-	-	-	123,567
Deposits from customers	2,576,935	535,237	969,812	-	2,258	4,084,242
Debt securities issued	227,918	537,319	180,126	2,030	-	947,393
Other liabilities	-	-	-	-	26,848	26,848
Total financial liabilities	4,194,367	1,746,485	1,164,613	6,059	105,749	7,217,273
Net position	(457,529)	(319,248)	112,386	649,430	590,390	575,429

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the Group's net interest income and other comprehensive income, based on the Group's positions of financial assets and financial liabilities at the balance sheet date.

The Group

	2021		*2020*	
	Net interest income (decrease) increase	*Other comprehensive income (decrease) increase*	*Net interest income (decrease) increase*	*Other comprehensive income (decrease) increase*
+100 basis points	(9,953)	(11,765)	(7,019)	(12,288)
- 100 basis points	9,953	12,389	7,019	13,146

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on other comprehensive income is the effect on changes of fixed rate debt instruments at fair value through other comprehensive income at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The above prediction assumes that all yield curves of assets and liabilities, except demand deposit, shift upward or downward parallel. Therefore, it does not reflect the potential impact of non-parallel shift in yield curves. The prediction also assumes that all positions are held to maturity. The Group anticipates that the amount of sensitivity analysis is insignificant if a position is not held to maturity.

The assumption does not represent the Group's capital and interest rate risk management policy. Therefore, the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated net interest income and other comprehensive income of the Group under the current interest rate risk situation, and such impact has not taken into account the potential interest rate risk control activities carried out by the management.

4.2 Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain businesses denominated in USD or other currencies. RMB is the functional currency. The exchange rate for RMB converting to USD or other foreign currencies is regulated by the PBOC.

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The capital operation department of the Bank centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralized to head office to manage the risk exposure and squares positions through the core business system.

The currency risk exposure between foreign currencies is managed on the basis of "overnight position limit" and "day time self-trading positions". The positions are centralized to the capital operation department in a timely way and managed centrally. This kind of position is relatively small compared to the Group's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Group is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Group controls the position limit properly. The comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level.

(Expressed in millions of Renminbi, unless otherwise stated)

The following tables are the structure analysis of the relevant financial assets and financial liabilities by currency.

The Group

	2021			
	RMB	*USD equivalent to RMB*	*Other currencies equivalent to RMB*	*Total*
Financial assets:				
Cash and balances with Central Bank	437,742	9,553	151	447,446
Deposits with banks and other financial institutions	34,123	19,856	12,272	66,251
Placements with banks and other financial institutions	261,467	83,078	7,277	351,822
Derivative financial assets	30,570	3,770	120	34,460
Financial assets purchased under resale agreements	137,070	4,061	-	141,131
Loans and advances to customers	4,155,647	105,695	48,964	4,310,306
Financial investments:				
Trading assets	893,608	16,083	103	909,794
Debt investments	1,560,783	37,724	2,523	1,601,030
Other debt investments	425,810	57,858	956	484,624
Other equity investments	3,087	61	-	3,148
Finance lease receivables	103,506	451	-	103,957
Other assets	36,605	352	399	37,356
Total financial assets	8,080,018	338,542	72,765	8,491,325
Financial liabilities:				
Borrowing from Central Bank	95,777	-	-	95,777
Deposits from banks and other financial institutions	1,595,969	109,891	5,019	1,710,879
Placements from banks and other financial institutions	127,632	38,726	7,420	173,778
Trading liabilities	47,830	-	-	47,830
Derivative financial liabilities	35,425	3,017	405	38,847
Financial assets sold under repurchase agreements	258,893	6,683	-	265,576
Deposits from customers	4,177,900	163,840	14,008	4,355,748
Debt securities issued	1,087,451	27,265	5,400	1,120,116
Leasing liabilities	8,449	377	227	9,053
Other liabilities	35,772	84	51	35,907
Total financial liabilities	7,471,098	349,883	32,530	7,853,511
Net position	608,920	(11,341)	40,235	637,814

(Expressed in millions of Renminbi, unless otherwise stated)

	2020			
	RMB	*USD equivalent to RMB*	*Other currencies equivalent to RMB*	*Total*
Financial assets:				
Cash and balances with Central Bank	402,618	8,378	151	411,147
Deposits with banks and other financial institutions	38,056	56,913	238	95,207
Placements with banks and other financial institutions	158,942	32,741	256	191,939
Derivative financial assets	51,471	7,911	14	59,396
Financial assets purchased under resale agreements	122,646	704	-	123,350
Loans and advances to customers	3,721,039	86,496	59,786	3,867,321
Financial investments:				
Trading assets	797,980	25,854	93	823,927
Debt investments	1,506,665	40,018	3,448	1,550,131
Other debt investments	440,906	74,701	761	516,368
Other equity investments	2,327	61	-	2,388
Finance lease receivables	99,680	936	-	100,616
Other assets	49,811	1,005	96	50,912
Total financial assets	7,392,141	335,718	64,843	7,792,702
Financial liabilities:				
Borrowing from Central Bank	290,398	-	-	290,398
Deposits from banks and other financial institutions	1,374,364	107,331	5,384	1,487,079
Placements from banks and other financial institutions	111,375	65,456	3,340	180,171
Trading liabilities	16,062	-	-	16,062
Derivative financial liabilities	52,383	9,084	46	61,513
Financial assets sold under repurchase agreements	111,348	12,211	8	123,567
Deposits from customers	3,900,364	154,772	29,106	4,084,242
Debt securities issued	911,145	21,354	14,894	947,393
Other liabilities	26,675	86	87	26,848
Total financial liabilities	6,794,114	370,294	52,865	7,217,273
Net position	598,027	(34,576)	11,978	575,429

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the foreign exchange gains or losses:

The Group

	2021 Foreign exchange increase (decrease)	*2020 Foreign exchange increase (decrease)*
5% appreciation	1,131	1,231
5% depreciation	(1,131)	(1,231)

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are:

(1) The exchange rate sensitivity represents the exchange gains or losses arisen from a 5% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date;

(2) The exchange rate changes of different foreign currencies against RMB move in the same direction simultaneously.

The aforesaid effect on foreign exchange gains or loss is based on the assumption that the Group's net positions of foreign exchange sensitivity and foreign exchange derivative instruments at the end of the reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

4.3 Other price risk

Other price risk mainly derives from equity investment, held-for-trading precious metals investment and other bonds and derivatives linked to commodity price.

The Group considers that the market risk of commodity price or stock price from portfolio is insignificant.

5. Liquidity risk

Liquidity risk refers to the risk of being unable to acquire sufficient funds in time or failing to acquire sufficient funds at a reasonable cost to meet repayment obligations for asset growth or other business. The Group's liquidity risk mainly derives from advanced or concertrated withdrawal, principal-guaranteed wealth management products redemption, deferred loan repayment and mismatches of assets and liabilities.

The assets and liabilities management committee of the Group monitors and manages the liquidity risk of the Group, ensuring effective liquidity management. The committee will determine the liquidity risk management strategy, the monitoring indicators and the alarming index, regularly analyse and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management measures.

The financial planning department is responsible for: drafting liquidity risk management policies and measures; monitoring different types of liquidity ratios and exposure indicators. The planning and financial department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the department has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; analysing the liquidity risk and reporting to the assets and liabilities management committee regularly; and daily operation of liquidity management, establishment of a cash position forecast system at the Bank level in order to meet the cash payment needs and assure the liquidity for the business development requirements.

(Expressed in millions of Renminbi, unless otherwise stated)

The Group regularly monitors the surplus reserve ratio, liquidity ratio, liquidity coverage ratio, net stable fund ratio, ratio of dependence on interbank liabilities and sets alarming and tolerance limits for each ratio. The Group also prepares general liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities, incorporating the consideration of macro economy and interbank liquidity status. The report is submitted to the assets and liabilities management committee for assessment. The assessment report will be submitted together with credit risk, liquidity risk and market risk to the risk management committee for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

5.1 Undiscounted contractual cash flows classified by the maturity date of contracts

The following tables are the structure analysis of non-derivative financial assets and financial liabilities by contractual maturities at the balance sheet date. The amounts disclosed in each term are the undiscounted contractual cash flows.

The Group

	2021							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due/undated*	*Total*
Non-derivative financial assets:								
Cash and balances with Central Bank	447,446	-	-	-	-	-	-	447,446
Deposits with banks and other financial institutions	50,597	2,055	5,238	8,272	366	-	-	66,528
Placements with banks and other financial institutions	-	116,023	48,837	178,771	15,670	-	-	359,301
Financial assets purchased under resale agreements	-	141,956	513	-	-	-	-	142,469
Loans and advances to customers	-	606,703	337,844	1,184,665	1,327,719	2,242,833	66,476	5,766,240
Financial investments:								
Trading assets	589,920	4,268	14,574	48,094	147,537	57,571	98,845	960,809
Debt investments	-	12,516	54,241	285,198	746,133	892,603	19,147	2,009,838
Other debt investments	-	7,903	28,284	73,652	294,363	141,213	6,493	551,908
Other equity investments	-	-	-	-	-	-	3,148	3,148
Financial lease receivables	-	3,543	10,442	34,803	61,534	7,226	2,498	120,046
Other non-derivative financial assets	29,545	80	628	2,936	1,756	2,159	252	37,356
Total non-derivative financial assets:	1,117,508	895,047	500,601	1,816,391	2,595,078	3,343,605	196,859	10,465,089
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	12,354	6,486	78,664	-	-	-	97,504
Deposits from banks and other financial institutions	932,457	188,868	273,769	318,605	-	-	-	1,713,699
Placements from banks and other financial institutions		61,401	27,731	69,137	20,692	1,226	-	180,187
Trading liabilities	36,320	11,663	14	97	2	-	186	48,282
Financial assets sold under repurchase agreements	-	231,451	12,609	21,566	-	-	-	265,626
Deposits from customers	753	2,499,998	244,141	737,207	982,867	231	-	4,465,197
Debt securities issued	-	180,488	152,868	502,086	283,732	66,993	-	1,186,167
Lease liabilities	-	212	421	1,844	6,011	1,296	-	9,784
Other non-derivative financial liabilities	23,715	214	2,129	5,552	3,804	1,035	265	36,714
Total non-derivative financial liabilities	993,245	3,186,649	720,168	1,734,758	1,297,108	70,781	451	8,003,160
Net position	124,263	(2,291,602)	(219,567)	81,633	1,297,970	3,272,824	196,408	2,461,929

(Expressed in millions of Renminbi, unless otherwise stated)

	2020							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due/undated*	*Total*
Non-derivative financial assets:								
Cash and balances with Central Bank	411,147	-	-	-	-	-	-	411,147
Deposits with banks and other financial institutions	73,603	4,114	3,272	14,363	202	-	-	95,554
Placements with banks and other financial institutions	53	69,316	32,040	91,354	1,252	-	-	194,015
Financial assets purchased under resale agreements	-	121,913	506	1,001	-	-	-	123,420
Loans and advances to customers	-	561,675	256,378	1,027,759	1,222,118	2,086,767	55,793	5,210,490
Financial investments:								
Trading assets	541,907	14,090	14,945	53,185	142,582	18,792	85,975	871,476
Debt investments	-	26,142	74,679	201,903	846,133	693,967	35,058	1,877,882
Other debt investments	-	24,044	45,234	67,664	282,187	161,225	1,247	581,601
Other equity investments	-	-	-	-	-	-	2,388	2,388
Financial lease receivables	-	3,240	9,088	30,561	64,575	6,751	2,504	116,719
Other non-derivative financial assets	41,449	159	724	5,176	3,383	220	5	51,116
Total non-derivative financial assets:	1,068,159	824,693	436,866	1,492,966	2,562,432	2,967,722	182,970	9,535,808
Non-derivative financial liabilities:								
Borrowing from Central Bank	-	30,065	5,627	258,139	-	-	-	293,831
Deposits from banks and other financial institutions	734,981	241,543	188,486	327,354	-	-	-	1,492,364
Placements from banks and other financial institutions	-	51,964	36,677	72,923	14,732	4,029	-	180,325
Trading liabilities	16,195	682	12	50	-	-	304	17,243
Financial assets sold under repurchase agreements	-	79,595	19,789	24,215	-	-	-	123,599
Deposits from customers	2,258	316,356	2,240,041	576,311	1,052,113	-	-	4,187,079
Debt securities issued	-	113,770	114,789	504,988	138,909	121,630	-	994,086
Other non-derivative financial liabilities	5,553	766	1,217	2,836	6,704	543	10,399	28,018
Total non-derivative financial liabilities	758,987	834,741	2,606,638	1,766,816	1,212,458	126,202	10,703	7,316,545
Net position	309,172	(10,048)	(2,169,772)	(273,850)	1,349,974	2,841,520	172,267	2,219,263

5.2 Liquidity risk analysis of derivative instruments

(1) Derivatives settled on a net basis

Derivatives that were settled on a net basis by the Group include: interest rate derivatives, exchange rate derivatives, credit derivatives and precious metal derivatives, etc. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

The Group

	2021					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest rate derivatives	(25)	(72)	(280)	(2,034)	(68)	(2,479)
Exchange rate derivatives	(100)	(233)	(234)	-	-	(567)
Other derivatives	(285)	(110)	12	(18)	-	(401)
Total	(410)	(415)	(502)	(2,052)	(68)	(3,447)

	2020					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest rate derivatives	20	42	24	(84)	(287)	(285)
Exchange rate derivatives	(265)	183	(1,593)	38	-	(1,637)
Other derivatives	(198)	(12)	(172)	(66)	-	(448)
Total	(443)	213	(1,741)	(112)	(287)	(2,370)

(Expressed in millions of Renminbi, unless otherwise stated)

(2) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives. The tables below set forth the Group's positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

The Group

	2021					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Exchange rate derivatives						
- Cash inflow	237,055	165,529	377,976	92,439	-	872,999
- Cash outflow	(237,804)	(165,732)	(374,900)	(91,677)	-	(870,113)
Total	(749)	(203)	3,076	762	-	2,886

	2020					
	Less than 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Exchange rate derivatives						
- Cash inflow	489,362	493,225	896,814	75,483	476	1,955,360
- Cash outflow	(490,163)	(493,305)	(900,205)	(76,009)	(558)	(1,960,240)
Total	(801)	(80)	(3,391)	(526)	(82)	(4,880)

5.3 Liquidity risk analysis of off-balance sheet items

The Group's off-balance sheet items mainly include credit card commitments, letters of credit, letters of guarantee and bank acceptances. The tables below set forth the liquidity of the off-balance sheet items:

The Group

	2021				*2020*			
	Less than 1 year	*1-5 years*	*Over 5 years*	*Total*	*Less than 1 year*	*1-5 years*	*Over 5 years*	*Total*
Credit card commitments	466,625	-	-	466,625	444,176	-	-	444,176
Letters of credit	157,505	847	-	158,352	148,217	248	-	148,465
Letters of guarantee	66,624	38,254	2,034	106,912	74,225	32,234	2,102	108,561
Bank acceptances	835,418	-	-	835,418	822,341	-	-	822,341
Irrevocable loan commitments	11,236	5,383	5,095	21,714	6,271	12,766	8,100	27,137
Total	1,537,408	44,484	7,129	1,589,021	1,495,230	45,248	10,202	1,550,680

6. Capital management

During the reporting period, the Group had conscientiously implemented the capital management policy according to the regulations of China Banking Regulatory Commission *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*. The Group will ensure capital adequacy ratio and the overall strategic development match with risk preference and risk management capabilities, in order to achieve healthy, sustainable and rapid development.

In 2021, the Group implemented capital intensive operation and management to continuously improve and optimize risk-weighted asset amount allocation and governing system: oriented by risk-weighted asset yields, the Group makes overall arrangements in operation institutions, risk-weighted assets scale of business lines to reasonably adjust industry structure and promote capital allocation.

(Expressed in millions of Renminbi, unless otherwise stated)

According to related guidelines of CBRC, "*Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*" and other regulations, the Group and the Bank monitor the capital adequacy and capital application in real time.

	The Group	
	2021	*2020*
Net core tier 1 capital	598,556	528,452
Net tier 1 capital	684,555	614,394
Net capital	878,172	762,803
Total risk weighted assets	6,102,620	5,663,756
Core tier 1 capital adequacy ratio	9.81%	9.33%
Tier 1 capital adequacy ratio	11.22%	10.85%
Capital adequacy ratio	14.39%	13.47%

(1) The scope of consolidation for the purpose of calculating the Group’s Capital Adequacy Ratio includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

(2) The Group’s core tier 1 capital includes ordinary shares, equity components of convertible bonds, the capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the core tier 1 capital under the Regulation), and other qualified capital instruments.

(3) The Group's core tier 1 capital supervision deductions include the net amount of goodwill after deduction of related deferred tax liabilities and the net amount of other intangible assets (excluding land use rights) after deduction of related net deferred tax liabilities.

(4) The Group’s other tier 1 capital includes preference shares and non-controlling interests to the extent permitted by the capital rules.

(5) The Group’s tier 2 capital includes: tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and non-controlling interests to the extent permitted by the capital rules.

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardized approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets respectively.

7. Fair value of financial instruments

7.1 Method of fair value recognition

Part of the financial assets and financial liabilities of the Group is measured at fair value. Fair value are measured through appropriate method and parameters, and regularly reviewed by the Board of Directors to keep its applicability. The Group determined and disclosed the fair value of financial instruments based on:

Level 1 inputs: Unadjusted public quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: All parameters that have a significant impact on the valuation results are market information that can be directly or indirectly observable with the utilisation of valuation techniques; and

Level 3 inputs: Part of the parameters that have a significant impact on the valuation results are market information that are not observable with the utilisation of valuation techniques.

When recognizing the fair value of the financial instrument, to those financial instruments which can obtain unadjusted price of same assets and liabilities in the active market, the Group regards the unadjusted price in the active market as the best evidence of fair value. And then the Group recognizes the fair value and classifies it to level 1. The financial instruments of the Group divided into the first level include equity securities and public funds listed on the exchange.

If the parameters of the estimation are observable and acquirable in the active market, such financial instruments (including equity instrument and derivative financial instrument) should be classified to level 2. Financial instruments classified as level 2 by the Group were mainly bond investment, bill business, foreign exchange forwards and swaps, interest rate swaps, foreign exchange options and precious metal contracts, etc. In terms of the fair value of RMB bonds, the Group mainly adopted the valuation results issued by China Central Depository & Clearing Co., Ltd. or China Securities Depository and Clearing Corporation Limited according to the different bond exchange markets; the fair value of foreign currency bonds was based on the valuation results published by Bloomberg; bill business was discounted by a discounted cash flow model which uses the interbank lending rate as a benchmark to adjust the spread based on credit risk and liquidity to build an interest rate curve; non-derivative financial instruments and some derivative financial instruments (including interest rate swaps, foreign exchange forwards, etc.) that cannot obtain quotes from active markets were valued using a cash flow discount model which includes main parameters such as recent transaction price, relevant yield curve, exchange rate, early compensation rate and counterparty credit spread; and option derivative valuation valued using the Black-Scholes option pricing model which includes the relevant yield curve, exchange rate, volatility, and counterparty credit spread etc.. All significant valuation parameters are based on observable market information.

(Expressed in millions of Renminbi, unless otherwise stated)

7.2 Financial assets and financial liabilities at fair value on recurring basis

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows:

The Group

	2021				*2020*			
	Level 1	*Level 2*	*Level 3*	*Total*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets:								
Trading assets	247,695	630,332	31,767	909,794	281,048	510,036	32,843	823,927
Other debt investments	-	479,850	4,774	484,624	-	513,762	2,606	516,368
Other equity investments	853	-	2,295	3,148	595	-	1,793	2,388
Loans and advances to customers								
At fair value through profit or loss	-	2,851	-	2,851	-	1,364	-	1,364
At fair value through other comprehensive income	-	324,356	-	324,356	-	207,703	-	207,703
Derivative financial assets	-	34,460	-	34,460	-	59,396	-	59,396
Total	248,548	1,471,849	38,836	1,759,233	281,643	1,292,261	37,242	1,611,146
Financial liabilities:								
Trading liabilities	5,616	42,026	188	47,830	972	14,786	304	16,062
Derivative financial liabilities	-	38,847	-	38,847	-	61,513	-	61,513
Total	5,616	80,873	188	86,677	972	76,299	304	77,575

In 2021 and 2020, the Group did not transfer the fair value of financial instruments from level 1 and level 2 to level 3, nor did it transfer the fair value of financial instruments from level 1 to level 2.

Movement in level 3 financial instruments measured at fair value:

The Group

	Trading assets	*Other debt investment*	Other equity investment	Trading liabilities	Tatal
At 1 January 2021	32,843	2,606	1,793	(304)	36,938
Gains or losses					
- in profit or loss	(1,619)	356	-	-	(1,263)
- in other comprehensive income	-	(860)	-	-	(860)
Purchase	12,708	3,270	502	-	16,480
Sold and settle	(12,165)	(598)	-	116	(12,647)
At 31 December 2021	31,767	4,774	2,295	(188)	38,648
Unrealized gains or losses as at 31 December 2021 included in profit or loss for assets held at 31 December 2021	(366)	-	-	-	(366)

	Trading assets	*Other debt investment*	Other equity investment	Trading liabilities	Tatal
At 1 January 2020	21,908	5,638	1,213	-	28,759
Gains or losses					
- in profit or loss	(76)	(345)	-	-	(421)
- in other comprehensive income	-	232	-	-	232
Purchase	18,306	556	580	(304)	19,138
Sold and settle	(7,295)	(3,475)	-	-	(10,770)
At 31 December 2020	32,843	2,606	1,793	(304)	36,938
Unrealized gains or losses as at 31 December 2020 included in profit or loss for assets held at 31 December 2020	(53)	-	-	-	(53)

(Expressed in millions of Renminbi, unless otherwise stated)

Information of Level 3 financial instruments:

The Group

Items	*Fair value on 31 December 2021*	*Value Tech*
Trading assets		
- Equity investments	17,553	Net asset value method
- Trust beneficiary rights and asset management plans	7,126	Discounted cash flow method
- Debt	2,123	Discounted cash flow method
- Others	4,965	Discounted cash flow method
Other debt investments		
- Trust beneficiary rights and asset management plans	2,580	Discounted cash flow method
- Debt	2,194	Discounted cash flow method
Other equity investments	2,295	Net asset value method
Trading liabilities	(188)	Note
Total	38,648	

Items	*Fair value on 31 December 2020*	*Value Tech*
Trading assets		
- Trust beneficiary rights and asset management plans	11,215	Discounted cash flow method
- Equity investments	11,089	Net asset value method
- Debt	1,741	Discounted cash flow method
- Others	8,798	Discounted cash flow method
Other debt investments		
- Trust beneficiary rights and asset management plans	2,556	Discounted cash flow method
- Debt	50	Discounted cash flow method
Other equity investments	1,793	Net asset value method
Trading liabilities	(304)	Note
Total	36,938	

Note: Trading liabilities are the equity of other share holders in the consolidated structured entity, and the fair value is the amount attributable to the investors of the structured entity calculated based on the net value of the structured entity.

(Expressed in millions of Renminbi, unless otherwise stated)

7.3 Financial assets and liabilities measured not by fair value

All financial instruments are carried at amounts not materially different from their fair value not measured at fair value except as follows:

The Group

	2021				
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
Financial assets:					
Debt investments	1,601,030	1,619,389	-	986,451	632,938
Total	1,601,030	1,619,389	-	986,451	632,938
Financial liabilities:					
Debt securities issued	1,120,116	1,132,713	-	1,132,713	-
Total	1,120,116	1,132,713	-	1,132,713	-

	2020				
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
Financial assets:					
Debt investments	1,550,131	1,563,127	-	904,055	659,072
Total	1,550,131	1,563,127	-	904,055	659,072
Financial liabilities:					
Debt securities issued	947,393	949,491	-	949,491	-
Total	947,393	949,491	-	949,491	-

Quantitative information of level 2, 3 at fair value:

The Group

Items	*Fair value at 31 December 2021*	*Fair value at 31 December 2020*	*Valuation Technique*	*Inputs*
Debt investments	1,619,389	1,563,127	Discounted cash flow method	Yield rate of bonds,default rate, loss given default, discount rate
Debt securities issued	1,132,713	949,491	Discounted cash flow method	Yield rate of bonds

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

(Expressed in millions of Renminbi, unless otherwise stated)

XII. Other significant events

1. Financial assets and financial liabilities measured at fair value

The Group

	2021				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*Provision for impairment losses for the year*	*Closing balance*
Financial assets:					
Derivative financial assets	59,396	(24,936)	-	-	34,460
Loans and advances to customers measured at fair value through profit or loss	1,364	1	-	-	2,851
Loans and advances to customers measured at fair value through other comprehensive income	207,703	-	9	(439)	324,356
Trading assets	823,927	4,422	-	-	909,794
Other debt investments	516,368	(255)	(1,231)	(356)	484,624
Other equity investments	2,388	-	(27)	-	3,148
Total financial assets	1,611,146	(20,768)	(1,249)	(795)	1,759,233
Financial liabilities (1)	(77,575)	22,368	-	-	(86,677)

The Bank

	2021				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*Provision for impairment losses for the year*	*Closing balance*
Financial assets:					
Derivative financial assets	59,387	(24,927)	-	-	34,460
Loans and advances to customers measured at fair value through profit or loss	1,364	1	-	-	2,851
Loans and advances to customers measured at fair value through other comprehensive income	207,703	-	9	(439)	324,356
Trading assets	773,552	3,312	-	-	847,457
Other debt investments	514,919	(255)	(1,093)	(410)	484,758
Other equity investments	2,308	-	(27)	-	3,068
Total financial assets	1,559,233	(21,869)	(1,111)	(849)	1,696,950
Financial liabilities (1)	(76,226)	22,361	-	-	(80,754)

(1) Financial liabilities include trading liabilities and derivative financial liabilities.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

(Expressed in millions of Renminbi, unless otherwise stated)

2. Financial assets and financial liabilities denominated in foreign currencies

The Group

	2021				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*(Charge) reversal for impairment losses for the year*	*Closing balance*
Cash and balances with Central Bank	8,529	-	-	-	9,704
Deposits with banks and other financial institutions	57,151	-	-	-	32,128
Placements with banks and other financial institutions	32,997	-	-	-	90,355
Derivative financial assets	7,925	(4,035)	-	-	3,890
Financial assets purchased under resale agreement	704	-	-	-	4,061
Loans and advances to customers	146,282	-	-	1,007	154,659
Financial investments:					
Trading assets	25,947	(554)	-	-	16,186
Debt investments	43,466	-	-	44	40,247
Other debt investments	75,462	-	(829)	(215)	58,814
Other equity investments	61	-	57	-	61
Finance lease receivables	936	-	-	125	451
Other financial assets	1,101	-	-	-	751
Total of financial assets	400,561	(4,589)	(772)	961	411,307
Financial liabilities (1)	(423,159)	5,780	-	-	(382,413)

The Bank

	2021				
	Opening balance	*Profit or loss arising from changes in fair value for the year*	*Accumulated changes in fair value included in other comprehensive income*	*(Charge) reversal for impairment losses for the year*	*Closing balance*
Cash and balances with Central Bank	8,529	-	-	-	9,704
Deposits with banks and other financial institutions	57,151	-	-	-	31,419
Placements with banks and other financial institutions	32,997	-	-	-	90,355
Derivative financial assets	7,925	(4,035)	-	-	3,890
Financial assets purchased under resale agreement	704	-	-	-	4,061
Loans and advances to customers	146,282	-	-	1,007	154,659
Financial investments:					
Trading assets	25,947	(554)	-	-	16,186
Debt investments	43,466	-	-	44	40,247
Other debt investments	75,462	-	(829)	(215)	58,814
Other equity investments	61	-	57	-	61
Other financial assets	1,101	-	-	-	751
Total of financial assets	399,625	(4,589)	(772)	836	410,147
Financial liabilities (1)	(417,775)	-	-	-	(376,250)

(1) Financial liabilities include Borrowing from Central Bank, Deposits from banks and other financial institutions, Placements from banks and other financial institutions, Trading liabilities, Derivative financial liabilities, Financial assets sold under repurchase agreements, Deposits from customers and Debt securities issued, etc.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

3. Transfer of financial assets

3.1 Assets-securitized

The Group conducts asset-backed securities transactions during normal operations. The Group sells part of its financial assets to the special purpose trust established by the Group as an originating institution and then the special purpose trust issues asset-backed securities to investors. The Group determines whether it combines the special purpose trust based on whether it has power over such special purpose trust and whether it is involved in related activities of the special purpose trust to enjoy variable returns, and whether the Group has the ability to use its power over the special purpose trust to affect its returns.

Once a special purpose trust is established, it shall be distinguished from other property for which the Group has not set up a trust. When the Group is dissolved according to law, revoked according to law, and declared bankrupt, if the Group is the sole beneficiary, the special purpose trust shall be terminated and the trust property shall be deemed as the liquidation property; if the Group is not the sole beneficiary, the special purpose trust shall survive and the trust property shall not be deemed as the liquidation property; however, the trust beneficial rights held by the Group is its liquidation property.

In the course of the transfer of the aforesaid financial assets, the Group has not recognized the gains or losses since the transferring consideration is same as the book value of the transferred financial assets. Subsequently, the Group as a financial asset service institution will charge a certain service fee.

The Group analyses and judges if the relevant financial assets transferred to be derecognized based on the degree of transfer of risk and return:

- When the Group transfers substantially all the risks (mainly include credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors in the course of the transfer of the underlying financial assets, the Group derecognizes the transferred financial assets. The Group has RMB71,856 million securitized financial assets in 2021 (2020: RMB30,151 million). Meanwhile, the Group subscribed for a certain percentage of asset-backed securities. As at 31 December 2021, the above asset-backed securities held by the Group amounted to RMB448 million (31 December 2020: RMB4,447 million).

- In 2021, the Group's transferred assets include financial assets with carrying amount of RMB21,457 million (2020: RMB17,344 million), where the Group neither transferred nor retained substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership, and retained the control and has continuing involvement in these financial assets. As at 31 December 2021, the Group continued to recognize the financial assets with carrying amount of RMB12,191 million (31 December 2020: RMB11,490 million) based on its extent of continuing involvement in the assets, and recognized assets and liabilities with continuing involvement as other assets and other liabilities.

(Expressed in millions of Renminbi, unless otherwise stated)

3.2 Repurchase agreements

Repurchase agreements refer to agreements made by the Group and the counter-parities that financial assets (or financial assets that share the same substance) are settled a fixed price of repurchasing when they are sold at a fixed date. Due to the fixed repurchasing price, the Group shoulders almost all the credit and market risks and benefit of the assets. The sold financial assets (cannot be used within the period) should not be recognized in the financial statement, but should be regarded as guarantees because the Group retains all the risks and returns. Besides, the Group recognizes the financial liabilities by the price received. In these trading, the counter-parties' right to the Group is not limited within the transferred financial assets.

As at 31 December 2021 and 31 December 2020, the Group conducted trading of bonds and bills under repurchase agreements. The price of selling these financial assets is called financial assets sold under repurchase agreements price (Note VII, 19).

Included in the repurchase agreement, the book value of the financial assets which had been transferred but continued to be recognized by the Group and relevant liabilities are as follows:

The Group

Item	*2021*		*2020*	
	Bond	*Bill*	*Bond*	*Bill*
Assets book value	237,375	32,416	85,015	41,330
Liabilities book value	233,230	32,190	82,358	41,035

XIII. Comparative figures

Certain comparative figures have been re-presented by the Group to meet the presentation of the financial reporting.

XIV. Non-adjusting events after balance sheet date

In January 2022, with the approval of China Banking and Insurance Regulatory Commission and the People's Bank of China, the Bank issued a total of RMB25 billion of tier 2 capital bonds in the National inter-bank bond market. The maturity of the bonds is 10 years, and the issuer is entitled to redemption at the end of the fifth year with a coupon rate of 3.45%.

In March 2022, with the approval of China Banking and Insurance Regulatory Commission and the People's Bank of China, the Bank issued a total of RMB40 billion of financial bonds in the National inter-bank bond market with a maturity of 3 years, among which: the issue size of variety one is 10 billion with a coupon rate of 3.00%, while the issue size of variety two is RMB30 billion with a coupon rate of 2.96%.

As at the approval date of the financial statements, there is no material post balance sheet date events which should be disclosed by the Group, except for the above contents and dividend distribution. For details of dividend distribution, see Note VII, 32.

XV. Financial statements approved

The financial statements were approved by the Board of Directors of the Bank on 24 March 2022.

INDUSTRIAL BANK CO., LTD.
Supplementary Financial Information
(Expressed in millions of Renminbi, unless otherwise stated)

I Breakdown of non-recurring profit or loss

The following table is in accordance with the requirement of Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No.1 - Non-recurring Profit or Loss (2008) (ZJHGG [2008] No.43) issued by China Securities Regulatory Commission.

The Group

	2021	*2020*
Gains and losses on the disposal of non-current assets	(6)	3
Government grants recognized in profit or loss	613	510
Net non-operating income and expenses in addition to the above	107	89
Subtotal	714	602
Impact on income tax expenses	(210)	(168)
Total	504	434
Total non-recurring profit or loss attributable to ordinary shareholders of the Bank	474	408
Total non-recurring profit or loss attributable to non-controlling interests	30	26
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	77,946	63,669

Non-recurring profit or loss refers to the profit or loss not related to normal business or the profit or loss which is related to normal business but affects the user of financial statements to make correct judgement for the Bank's financial position and financial performance because of its distinctiveness and non-recurring. Considering the nature of its normal business, Industrial Bank Co., Ltd. (hereinafter referred to as "the Group") does not include "Trading assets, Debt investments, Other debt investments and Other equity investments" in non-recurring profit or loss.

II Return on net assets (“ROE”) and earnings per share ("EPS")

The related data is calculated in accordance with the provisions in the Rule No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010). In the related period, basic EPS is calculated by dividing net profit by weighted average ordinary shares issued.

The Group

2021

	Weighted average ROE (%)	*Basic EPS* *(RMB)*
Net profit attributable to ordinary shareholders of the Bank	13.94	3.77
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	13.86	3.75

2020

	Weighted average ROE (%)	*Basic EPS* *(RMB)*
Net profit attributable to ordinary shareholders of the Bank	12.62	3.08
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	12.54	3.06

When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends and perpetual bonds interests announced of insurance during the year ended 31 December 2021 and 31 December 2020. The conversion characteristic of preference shares enables the existence or ownership of ordinary shares to be issued. As at 31 December 2021 and 31 December 2020, there was no trigger event for the conversion of shares, and the conversion characteristics of preference shares had no impact on the calculation of the basic and diluted earnings per share for the above period.

On 27 December 2021, the Group issued convertible bonds, the convertible characteristics of which resulted in the contingent existence of convertible ordinary shares of the Group. The convertible bond was issued on 27 December 2021, so the issue of the convertible bond is non-dilutive to earnings per share (2020: Nil).